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The Effect of Regional Original Revenue (PAD), General Allocation Fund (DAU), Specific Allocation Fund (DAK) and Capital Expenditure on the Level of Financial Independence of Regions with Economic Growth as a Moderating Variable in Regency/City Governments of Special and Exclusive Administrative Areas in 2018-2022

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ABSTRACT

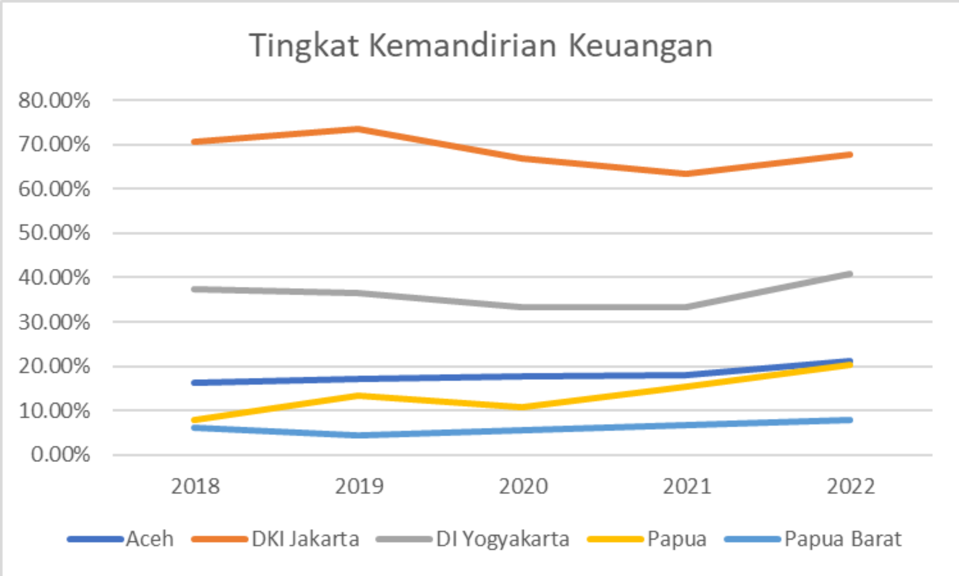
This study was conducted to examine and analyze the effect of local revenue, general allocation funds, specific allocation funds, and capital expenditures on the level of regional financial independence with economic growth as a moderating variable. The research method used is quantitative research with a causality approach. The data used are secondary data from budget realization reports sourced from the DJPK and BPS portals. The sampling technique in the study was purposive sampling with a sample size of 44 districts/cities in 2018-2022. The data analysis technique used was panel data regression analysis using Eviews software. The results of the study indicate that local revenue has a positive effect on the level of regional financial independence. General allocation funds, Specific allocation funds and capital expenditures have a negative effect on the level of regional financial independence. Economic growth is able to moderate the effect of local revenue and general allocation funds on the level of regional financial independence. Meanwhile, economic growth is unable to moderate the effect of Specific allocation funds and capital expenditures on the level of regional financial independence.

Keywords: Level of regional financial independence, Regional Original Income, General Allocation Fund, Special Allocation Fund, Capital Expenditure, Economic Growth.

INTRODUCTION

The government has a duty to develop and supervise regions effectively to account for the authority given. Good regional financial management is needed for the sustainability of regional development. Thus, regional governments must have the ability to manage regional finances properly in a transparent, accountable, efficient and effective manner (Mardiasmo, 2018). The efficiency of regional financing shows the ability of regional governments to implement regional autonomy (Poyoh, Murni & Tulung, 2017). The ability of regional governments to carry out regional autonomy can be seen from how regional governments are able to manage their own regional finances. Measurement of regional government performance is needed to meet the high demands for regional accountability and performance. In addition, regional government performance reflects how regional governments manage financial flows in implementing regional autonomy. In implementing regional autonomy, each district/city is required to have the ability to finance all regional activities independently. The more financially independent a region is, the dependence on external assistance, especially from the central government, decreases. The following is the level of financial independence of the Special and Special Provinces in 2018-2022:

Figure 1. Graph of Financial Independence Level



From the graph, it is known that in the provinces of Aceh, Papua and West Papua, the level of regional financial independence is very low, as evidenced by the graph showing an independence ratio of below 25%. Meanwhile, in the province of DI Yogyakarta, the average financial independence is relatively low because it is between > 25-50%. In the province of DKI Jakarta, the level of regional financial independence is relatively moderate, as evidenced by the graph showing an independence ratio of between > 50-75%. This inequality occurs due to differences in regional original income (PAD) in each province where several provinces have not been able to optimize their own PAD. In addition to the low potential of the region, the large central government budget not only weakens PAD but also weakens the ability of regions to implement fiscal decentralization, because financing tends to rely on DAU rather than PAD (Riskiyani & Nasir, 2021).

Financial independence has a strong relationship with the ability of regions to manage PAD. The high realization of regional potential increases the ability of a region to meet financing needs independently (Andjarwati et al., 2018). This is in line with research (Bella, Sari, & Aswin, 2022; Handayani & Erinos 2018; Heryanti, Wahidahwati & Suryono, 2019) that PAD has a positive and significant effect on the level of regional financial independence. This is different from the results of research (Adhim et al., 2023; Andjarwati et al., 2021) that PAD has no effect on the level of regional financial independence.

Transfer funds (DAU, DAK, DBH) are part of regional income that provides a significant contribution to the APBD report (Halim & Kusufi, 2018). The transfer fund system to regions by the center is designed to ensure objective, accountable, and productive financial equality to support the implementation of autonomy while still adjusting the opportunities, circumstances and needs of each regional government (Andriani & Wahid, 2018). However, it is attempted that regional governments do not rely on transfer funds as their main income, but rather as an additional source of income to support the implementation and sustainability of regional governments. This is expected to reduce the dependence of regional governments on the central government including funding (Kustianingsih, Muslimin & Kahar, 2018). By reducing dependence, regions are considered independent regions (Sanga, Hermanto & Handayani, 2018). DAU can reduce the level of regional financial independence and make regional governments dependent on transfer funds (Sulangi, Anwar & Ulupui, 2022). This is in line with research (Musfirawati & Sugiyanto 2021; Machfud, Asnawi & Naz'aina, 2020; Sulistyawati, Ilyasa, Santoso, Dwi & Gusma, 2024) that DAU has a negative effect on regional financial independence. Meanwhile, based on research (Riyadi, 2022; Nindita & Rahayu, 2019; Puspitasari & Salisa 2017) DAU has no effect on the level of regional financial independence. Likewise, DAK, DAK can reduce the level of regional financial independence and make local governments dependent on transfer funds. This is in line with research (Nurkhayati, 2022; Parapat, Hutagalung & Malau, 2022; Puspita & Budiwitjaksono, 2023). Meanwhile, based on research (Setiawan, Widiyati, Siregar, Nurhaida & Oktavia, 2020) DAK has no effect on the level of regional financial independence.

In realizing the independence of a region, one thing that the regional government needs to pay attention to is the allocation of capital expenditure. The high budget for capital expenditure in the form of fixed assets includes infrastructure, equipment, and facilities that contribute to driving increased economic growth. The more capital expenditure is spent, the more economic growth will be achieved (Irfan, Arifati & Oemar, 2015). Thus, regional autonomy has a major impact on improving the regional government's economy because it provides space for regional governments to compile independent financial management and determine strategic plans in terms of driving the progress of the region (Syukri & Hinaya, 2019). According to Marselina and Herianti (2022), increasing capital expenditure can reduce financial independence, and vice versa. If the capital expenditure budget is high but not balanced by high PAD, capital expenditure is funded by funds from the central government. This is in line with research (Oktavia & Handayani, 2021; Marselina & Hevianti, 2022; Parapat et al., 2021; Nindita & Rahayu, 2019) that capital expenditure has a negative effect on the level of regional financial independence. Meanwhile, based on research (Amalia & Haryanto, 2019; Akbar 2021; Yusiawati & Marhaeni) capital expenditure does not affect the level of regional financial independence.

Increasing economic growth in a region can increase PAD, which means that people's income also increases. This shows that the capacity of residents to pay taxes and levies determined by the local government has also increased. With the increase in the economy and the increase in PAD along with the implementation of regional autonomy, local governments are increasingly independent and dependence on transfer funds decreases (Handayani & Erinos, 2020). From the background description and previous research, the researcher is interested in researching "The Influence of Regional Original Income, General Allocation Fund, Special Allocation Fund and Capital Expenditure on the Level of Regional Financial Independence with Economic Growth as a Moderating Variable in Regency/City Governments in Special And

Exclusive Administrative Areas in 2018-2022."

LITERATURE REVIEW

Agency Theory

Contracts between two or more people, groups, or organizations are known as Agency Theory. An implicit or explicit contract between the principal and the agent is made with the understanding that the agent will act and perform work under the Direction of the principal (Jensen & Meckling, 1976). Agency theory applies to public organizations, according to Bergman and Lane (1990) modern democracy is built on a principal-agent relationship. The same thing was stated by Moe (1984) who explained the concept of the economics of the public organization sector using agency theory. Agency theory has been used in the public sector, especially in local and central governments. Mardiasmo (2018) defines accountability as the government's duty to be responsible, convey, inform and explain all activities and activities as accountability to the community as the authority holder. Mardiasmo also refers to agency theory, which views the local government as an agent and the community as a principal in local government administration. Local governments fight in managing regional results and implementing public policies and considering the interests of the community whose representatives they are.

Stewardship Theory

Stewardship theory (Donaldson and Davis, 1991) reflects a condition where management is focused on their primary achievement for the benefit of the organization rather than driven by personal goals. According to the principle of stewardship, there is a relationship between government institutions and the desired outcome, namely the welfare of the community. Government organizations are recognized entities in society that are trusted to carry out their functions and duties based on regulations. Stewardship theory assumes that local governments prioritize public interests over personal interests. In the context of regional financial independence, stewardship theory states that local governments will use financial resources, including PAD and transfer funds wisely to improve financial independence and community welfare, not only for short-term or political interests. With the principle of stewardship, agents focus more on responsible and efficient management.

Level of Regional Financial Independence

Regional financial independence is guided by the capacity of the regional government to finance regional government operations, accountability, sustainability, and provide public services to residents as payers of levies and taxes, which are the main income for the regional government (Halim & Kusufi, 2018). In assessing the capacity of the regional government to manage the region and the extent of its dependence on the central government can be seen from the regional financial independence ratio. When managing a region, the regional government is expected to have the ability to finance its regional activities independently. This also reflects the increasing support of residents for paying taxes and regional levies as the main source of PAD (Ernawati & Riharjo, 2017). Several previous studies have stated that the factors that determine the level of regional financial independence include capital expenditure and employee expenditure (Darwis, 2015), PAD, Balancing Funds, Special Autonomy Funds and Poverty Level (Machfud et al., 2020), Size of Regional Government, Age of Regional Government, Population, Number of SKPD, Employee Expenditure and Leverage (Rofiq & Arza, 2021), PAD, DBH, DAU, and DAK (Sanga et al., 2018), economic growth and PAD (Tolosang, 2018)

Locally-Generated Revenue

According to Halim and Kusufi (2018), PAD is income generated from various local economic potentials of a region. Meanwhile, according to Andjarwati et al., (2021), PAD includes income from taxes, levies, separate asset management and other PAD sources in accordance with regulations.

Agency theory describes the relationship between the central government, local governments and the community. Based on agency theory, high PAD has a positive and significant impact on the level of regional financial independence, because large PAD allows local governments to act more independently, increase accountability, and reduce dependence on the central government. Thus, regions with high PAD tend to have greater ability to design autonomous, transparent and efficient financial policies, according to the needs of the local community. Based on the research results of g and Suwarno (2021), PAD has a positive impact on the level of regional financial independence. An increase in PAD will increase regional financial independence. These results are consistent with the findings (Amalia & Haryanto, 2019; Heryanti et al., 2019; Kustianingsih et al., 2018; Machfud et al., 2020; Nindita & Rahayu; 2019).

H1: PAD has a positive effect on the Level of Regional Financial Independence.

General Allocation Fund

Halim and Kusufi (2018) define DAU as transfer funding that is considered a "block grant" meaning that when these funds are handed over to regional governments by the central government, regional governments have the freedom to allocate and use these funds according to the focus and demands of the region. According to Sulistyawati et al., (2024) the purpose of DAU is to equalize financial capacity between regions in order to meet their respective needs, while reducing existing disparities. These funds are allocated based on the potential and needs of the region while still referring to the principle of justice. Regional governments are expected to be able to manage and utilize DAU appropriately.

According to agency theory, agents can be trusted to act as optimally as possible in the interests of the principal. DAU, which is a transfer from the central government, is one of the main sources of income for regional governments, especially less developed regions. High dependence on DAU tends to reduce regional financial independence. According to Amalia and Haryanto (2019) DAU has a negative and significant effect on the level of regional financial independence. The results are in line with (Andjarwati et al., (2021); Heryanti et al., 2019; Sulistyawati et al., 2024).

H2: DAU has a negative effect on the level of regional financial independence

Specific Allocation Fund

According to Halim and Kusufi (2018) DAK is a transfer income obtained from the APBN which is given to local governments to support financing for certain needs. According to Mujiwardhani et al., (2022) DAK is focused on assisting the implementation of the delegation of authority and ensuring the achievement of the results needed to achieve national priorities. Actions taken by the government include: 1) Optimizing DAK so that there is an increase in the quality of regional competitive human resources through strategic sectors such as education, health, infrastructure, public services and tourism. 2) Refocusing on the fields, sub-fields and physical DAK programs. 3) Allocating or distributing physical and non-physical DAK based on implementation performance and achievement of results. 4) Increasing the determination of target data and unit costs of non-physical DAK to improve management. 5) Strengthening affirmative policies to reduce gaps in the quantity and quality of public services in the regions. Local governments, as agents, still manage their government by relying on balancing funds, which results in a lack of independence.

Agency theory assumes that agents will act in the interests of their principals as much as

possible. DAK is financial assistance from the central government that is intended to fund specific projects in the region, such as infrastructure, education, or health. High dependence on DAK can reduce the level of regional financial independence and become more dependent on central funds than developing their own sources of income. According to Parapat et al., (2021) DAK has a negative impact on the level of regional financial independence. The results of this study are in line with research (Heryanti et al., 2019; Puspita & Budiwitjaksono, 2023).
H3: DAK has a negative effect on the level of regional financial independence.

Capital Expenditure

Halim and Kusufi (2018) define capital expenditure as the use of funds to acquire fixed assets or other assets that generate long-term benefits, namely more than one fiscal period. The high realization of capital expenditure indicates that the infrastructure, both to support the effectiveness of government and public services, is adequate. So that it can attract investors to invest capital which ultimately helps increase regional income. The greater income can then be used to support financing for capital expenditure in the future (Kasdy, Nadirsyah, & Fahlevi, 2018).
Agency theory explains the relationship between the government and regional governments, as well as the relationship between the community and regional governments. Regional governments are responsible for optimizing the use of capital expenditures to the central government. Capital expenditures funded by transfer funds cause high dependence on central funds. When capital expenditures are more focused on projects financed by transfer funds, regional governments are not encouraged to optimize PAD. As a result, even though capital expenditures increase, the ability of regional governments to be financially independent decreases, because dependence on transfer funds is increasing. This is in line with research by Marselina and Herianti (2022) that capital expenditure has a negative and significant impact on the level of financial independence of local governments. This means that if there is an increase in capital expenditure, it will result in a decrease in the level of regional financial independence and vice versa. This result is in line with research (Manik, 2023; Parapat et al., 2021).
H4: Capital expenditure has a negative effect on the level of regional financial independence

Economic Growth

According to Wulandari and Zuhri (2019), economic growth is understood as the process of improving the economic conditions of a country or region towards better economic conditions within a predetermined time period. Economists say that economic growth reflects an increase in gross domestic product (GDP) without considering whether the increase is higher or lower in a country's economic structure (Hasan & Azis, 2018). In the regional economy, the main indicator of development success can be seen from the level of economic growth. The magnitude of the changes that occur in growth influenced by national policies is the main determinant of the economic progress of a region. Other factors that accelerate economic growth are income, regional government expenditure, balancing funds, inflation, investment and workforce (Manik, 2023).
Stewardship theory illustrates that regional governments must optimize PAD to improve the economy in their regions. In stewardship theory, economic growth can moderate the relationship between PAD and regional financial independence by strengthening the regional economic base, increasing tax revenues, and creating synergy between PAD management and economic development. Regional governments acting as stewards will be more motivated to use PAD strategically in order to achieve financial independence, supported by positive economic growth

conditions. Based on the research results of Maheni and Maryono (2021), PAD has a significant impact on economic growth. Based on research by Burhan, Kartini & Said (2022), the higher the PAD, the greater the funds that can be used by the regional government for infrastructure development, which drives economic growth.

H5: Economic Growth can moderate the effect of PAD on the Level of Regional Financial Independence.

Stewardship theory explains that regional governments utilize DAU to improve public services, which accelerates economic growth in a region. From the perspective of stewardship theory, economic growth acts as a moderator that can strengthen or weaken the effect of DAU on regional financial independence. Good economic growth provides opportunities for regional governments to use DAU more effectively, especially for long-term investments that drive PAD and reduce dependence on central funds. Based on the research results of Sari, Suteyo & Saleh (2016), DAU has an effect on economic growth, which means that the higher the DAU obtained by the regional government, the greater the value of the government's GRDP.

H6: Economic Growth is able to moderate the influence of DAU on the Level of Regional Financial Independence

Stewardship theory explains that local governments can utilize DAK to improve public services, which in turn will encourage economic growth in the region. In stewardship theory, economic growth plays an important role in moderating the influence of DAK on regional financial independence. Economic growth can strengthen the strategic use of DAK for infrastructure development and public services that drive PAD, thereby reducing dependence on central funds. Based on research by Trianto and Panggabean (2023), DAK has an effect on economic growth, because its use is focused on investment in the development and improvement of public service support facilities that have long-term benefits, including the procurement of supporting facilities.

H7: Economic growth is able to moderate the influence of DAK on the Level of Regional Financial Independence

Stewardship theory explains that local governments in allocating capital expenditures can be used to encourage economic growth in the region. In the context of stewardship theory, economic growth plays an important role in moderating the influence of capital expenditures on regional financial independence. When economic growth increases, capital expenditure is more effective in driving PAD growth and increasing fiscal independence, because a conducive economic environment supports increased economic activity, investment, and local tax base. Based on research by Burhan et al., (2022), the allocation of capital expenditure provided by the government can increase public motivation to participate in development.

H8: Economic growth can moderate the effect of Capital Expenditure on the Level of Regional Financial Independence

MATERIALS & METHODS

The approach used in this study is a quantitative approach based on the philosophy of positivism used in answering hypotheses in certain populations or samples (Sugiyono, 2019). This study also applies a causality approach that aims to evaluate the causal relationship between variables (Sugiyono, 2019). The data used is secondary data in quantitative form derived from budget realization reports sourced from the DJPK and BPS portals. The data analyzed is panel data, which combines time series data and cross-section data. The population used as subjects in this study includes the Regency/City Governments of Special And Exclusive Administrative Areas during the 2018-2022 period, with a total of 75 Regencies/Cities. The sample selection technique used in this study is purposive sampling. According to Erlina

(2023) purposive sampling is a representative collection method based on predetermined provisions, the provisions used are based on criteria. The considerations used in sampling are based on the following provisions: 1) Regency/city governments in special and special provinces that provide information on PAD, DAU, DAK, and capital expenditure from 2018-2022. 2) Regency/city governments in special and special provinces that provide information on the rate of GRDP ADHK from 2018-2022.

Based on the criteria specified above, there are 44 regencies and cities located in Special And Exclusive Administrative Areas as samples in this study from 2018-2022, so that the number of research samples is 220 analysis units. The data analysis technique in this study is panel data regression analysis and moderated regression analysis using eviews 13.

RESULT

Descriptive Statistical Analysis

In this study, descriptive statistical analysis contains the average value, maximum value, minimum value and standard deviation value.

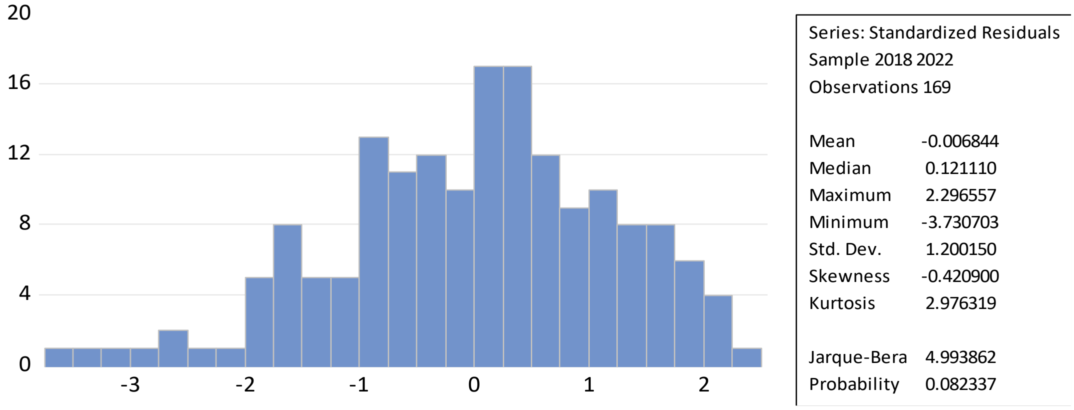
Table 1. Descriptive Statistical Analysis

	Y	X1	X2	X3	X4	Z
Mean	9.211864	138584.1	572340.3	170087.1	223161.8	3.168455
Maximum	39.02000	1061065.	1035862.	444120.0	1308678.	13.97000
Minimum	0.350000	3254.000	314290.0	36307.00	72627.00	-6.270000
Std. Dev.	7.673428	172406.3	167969.0	83239.56	126651.0	2.957103
Observations	220	220	220	220	220	220

Normality Test

The normality test used in this study is the Jarque-Bera test.

Figure 2. Normality Test



Multicollinearity Test

The multicollinearity test in this study uses the correlation value between independent variables.

Table 2. Multicollinearity Test

Variable	Correlation	Results
PAD (X1)	0,637860	There is no multicollinearity
DAU (X2)	0,666013	There is no multicollinearity
DAK (X3)	0,169988	There is no multicollinearity
Capital Expenditure (X4)	0,153227	There is no multicollinearity
Economic Growth (Z)	0,158008	There is no multicollinearity

Heteroscedasticity Test

The heteroscedasticity test used in this study uses the Harvey test.

Table 3. Heteroscedasticity Test

F-statistic	1.415572	Prob. F(5,163)	0.2213
Obs*R-squared	7.033004	Prob. Chi-Square(5)	0.2182
Scaled explained SS	7.877855	Prob. Chi-Square(5)	0.1631

Autocorrelation Test

The autocorrelation test in this study was carried out by looking at the durbin watsons value.

Table 4. Autocorrelation Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.448341	0.329900	-1.359022	0.1760
X1	-6.93E-07	1.04E-06	-0.666605	0.5060
X2	1.22E-06	7.85E-07	1.552757	0.1224
X3	-9.28E-07	1.54E-06	-0.600763	0.5488
X4	7.04E-08	6.04E-07	0.116557	0.9074
Z	-0.012619	0.028816	-0.437922	0.6620
RESID(-1)	0.495723	0.078983	6.276323	0.0000
RESID(-2)	0.051438	0.080996	0.635061	0.5263
R-squared	0.256301	Mean dependent var		-1.18E-15
Adjusted R-squared	0.223966	S.D. dependent var		1.143769
S.E. of regression	1.007578	Akaike info criterion		2.899156
Sum squared resid	163.4493	Schwarz criterion		3.047316
Log likelihood	-236.9786	Hannan-Quinn criter.		2.959282
F-statistic	7.926478	Durbin-Watson stat		1.947369
Prob(F-statistic)	0.000000			

Hypothesis Test

After conducting the classical assumption test, a hypothesis test was conducted using panel data regression analysis using a random effect model:

Table 5. Hypothesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.243515	0.576465	14.30012	0.0000
X1	5.51E-05	1.33E-06	41.52366	0.0000
X2	-7.70E-06	1.08E-06	-7.119084	0.0000
X3	-7.65E-06	1.46E-06	-5.256573	0.0000
X4	-3.29E-06	6.54E-07	-5.033746	0.0000
Z	0.044286	0.019801	2.236538	0.0267
R-squared	0.905601	Mean dependent var		2.203086
Adjusted R-squared	0.902705	S.D. dependent var		2.154362
S.E. of regression	0.631957	Sum squared resid		65.09726
F-statistic	312.7429	Durbin-Watson stat		1.487605
Prob(F-statistic)	0.000000			

Moderated Regression Analysis

After conducting the classical assumption test, a moderation test was conducted with panel data regression analysis using a random effect model:

Table 6. Moderated Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.002439	0.584191	15.41009	0.0000
X1	5.85E-05	1.73E-06	33.86981	0.0000

X2	-9.78E-06	1.22E-06	-8.029321	0.0000
X3	-6.72E-06	2.17E-06	-3.097487	0.0023
X4	-3.61E-06	7.28E-07	-4.952744	0.0000
Z	-0.109279	0.084410	-1.294622	0.1973
X1_Z	-8.33E-07	2.88E-07	-2.896586	0.0043
X2_Z	4.18E-07	1.90E-07	2.197237	0.0295
X3_Z	-8.97E-08	4.05E-07	-0.221424	0.8250
X4_Z	7.32E-08	1.73E-07	0.421907	0.6737

DISCUSSION

The Influence of PAD on the Level of Regional Financial Independence

Based on the results of hypothesis testing, it is known that PAD (X1) has a positive and significant effect on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022. The coefficient value of X1 is known to be 0.000551 with a probability value of 0.0000. Because the probability value of 0.0000 <0.05, H1 is accepted. The increasing PAD obtained by district/city governments will also increase the independence of the regional government. With this increasing independence, the goal of regional autonomy can be achieved where regional governments are expected to be more independent, especially in terms of finance. This is because regional governments are given the authority to manage their own natural resources and collect taxes and levies to support the management of their government.

In line with the findings of Fitriyani and Suwarno (2021) which show that an increase in PAD will be followed by an increase in the level of regional financial independence. This finding is also supported by previous studies (Bella et al., 2019; Heryanti et al., 2019; Machfud et al., 2020; Parapat et al., 2020). The results of this study are not in line with the results of the studies (Andjarwati et al., 2021; Puspitasari & Salisa, 2017).

The Influence of DAU on the Level of Regional Financial Independence

Based on the results of hypothesis testing, it is known that DAU (X2) has a negative and significant effect on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022. The coefficient value of X2 is known to be -0.000770 with a probability value of 0.0000. Because the probability value of 0.0000 <0.05, H2 is accepted. The higher the realization of DAU generated by the district/city government will reduce the level of independence of the district/city government. The existence of a large DAU realization can make district/city governments more passive in developing policy innovations to explore their regional resources so that this can lead to a decrease in regional financial independence.

The results of this study are in line with the results of the study by Amalia and Haryanto (2019) that DAU has a negative and significant effect on the level of regional financial independence. This means that if the DAU of a region increases, the level of regional financial independence tends to decrease, and vice versa. The results of this study are supported by research (Heryanti et al., 2019; Machfud et al., 2020; Puspita & Budiwitjaksono, 2023; Sulistyawati et al., 2024). The results of this study are not in line with the results of research (Nindita & Rahayu, 2019; Puspitasari & Salisa, 2017; rofi, 2022).

The Influence of DAK on the Level of Regional Financial Independence

Based on the results of hypothesis testing, it is known that DAK (X3) has a negative and significant effect on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022. The coefficient value of X3 is known to be -0.000765 with a probability value of 0.0000. Because the probability value of 0.0000 <0.05, H3 is accepted. The higher the realization of DAK generated by the regional government, the lower the level of regional financial independence. This happens because district/city governments of Special And Exclusive Administrative Areas are very dependent on transfer funds provided by the central government. Conversely, the decreasing realization of DAK generated by district/city governments of Special And Exclusive Administrative Areas will increase the level of regional financial independence. This happens because dependence on transfer funds provided by the central government decreases. Conversely, the lower the realization of DAK generated by district/city governments shows that regional governments are able to increase the level of regional financial independence.

The results of this study are in line with the results of the study by Parapat et al., (2021) that DAK has a negative and significant effect on the level of regional financial independence. The results of this study are supported by research (Heryanti et al., 2019; Machfud et al., 2020; Nurkhayati, 2022; Puspita & Budiwitjaksono, 2023). The results of this study are not in line with the results of research (er & Amiranto, 2024; Shalsyhyabilla et al., 2020).

The Effect of Capital Expenditure on the Level of Regional Financial Independence

Based on the results of hypothesis testing, it is known that capital expenditure has a negative and significant effect on the level of regional financial independence in district/city governments in Special And Exclusive Administrative Areas in 2018-2022. The coefficient value of X4 is known to be -0.000329 with a probability value of 0.0000. Because the probability value is 0.0000 < 0.05, then H4 is accepted.

Capital expenditure has a negative and significant effect on the level of regional financial independence, meaning that increasing capital expenditure can reduce the level of regional financial independence. This happens because capital expenditure is financed by transfer funds from the center. If the increase in capital expenditure is not balanced by an increase in PAD, then dependence on funds from the central government increases, which means that regional financial independence decreases because the regional government cannot finance its own expenses through PAD.

Economic Growth Moderates the Effect of Local Original Income on the Level of Regional Financial Independence

Based on the results of hypothesis testing through moderated regression analysis (MRA), it states that economic growth is able to moderate the effect of PAD on the level of financial independence, so H5 is accepted. It is known that the probability value of the interaction variable PAD and economic growth is 0.0043 <0.05 with a coefficient value of -0.0008333. The negative coefficient value indicates that economic growth weakens the effect of PAD on the level of regional financial independence. Based on the results of this study, it shows that economic growth weakens the effect of PAD on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022. Increasing economic growth has the ability to generate low PAD so that the level of regional financial independence decreases.

Economic growth weakens the effect of PAD on the level of regional financial independence of districts/cities of Special And Exclusive Administrative Areas due to several factors. One of them is the increasing dependence on transfers from the central government, such as DAU, DBH, DAK and Special Autonomy Funds (DOK). In addition, local governments have not been able to optimize their PAD potential, either due to limited capacity or ineffective policies.

The results of this study are in line with the research of Maheni and Maryono (2021) which shows that there is a strong indication that local revenue plays a very large role in economic growth. The results of this study are not in line with the research of Handayani and Erinos (2020) which shows that economic growth is unable to moderate the influence of local revenue on the level of regional financial independence.

Economic Growth Moderates the Influence of General Allocation Funds on the Level of Regional Financial Independence

Based on the results of hypothesis testing through moderated regression analysis (MRA), it states that economic growth is able to moderate the influence of DAU on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022, so H6 is accepted. It is known that the probability value of the interaction variable DAU and economic growth is 0.0295 <0.05 with a coefficient value of 0.000418. A positive coefficient value indicates that economic growth strengthens the influence of DAU on the level of regional financial independence.

Economic growth strengthens the influence of DAU on the level of regional financial independence of Special And Exclusive Administrative Areas because when economic growth increases, it causes greater dependence on DAU to support its financial activities. Although economic growth is increasing, the contribution of DAU, which is a transfer fund from the central government, is increasingly dominant in financing regional spending so that the level of regional financial independence decreases. Increasing economic growth can increase the realization of DAU to support regional development when regions show economic potential that needs to be further optimized and also to reduce disparities between regions.

The results of this study are in line with the research of Trianto & Panggabean (2023) DAU has a significant effect on economic growth, this is because DAU is a type of unconditional grant transfer, meaning that its use is free in order to support the implementation of fiscal decentralization. The results of this study are in line with research (Arniaty, 2023; Sari et al., 2016). The results of this study are not in line with the research of Tahar and Zakiya (2011) which states that economic growth is unable to moderate the influence of general allocation funds on the level of regional financial independence.

Economic Growth Moderates the Effect of Specific allocation funds on the Level of Regional Financial Independence

Based on the results of hypothesis testing using moderated regression analysis (MRA), it was found that economic growth was unable to moderate the effect of DAK on the level of regional financial independence in district/city governments in Special And Exclusive Administrative Areas in 2018-2022. It is known that the probability value of the interaction variable DAU and economic growth is 0.8250 > 0.05, so H7 is rejected. This is because DAK has not been allocated evenly to infrastructure development related to facilities and infrastructure to encourage economic growth in district/city governments in Special And Exclusive Administrative Areas.

Based on research data, it is known that Aceh Besar in 2018-2022 had more realization for non-physical DAK than physical DAK. Likewise, in South Aceh in 2020-2022, Aceh Singkil in 2020, East Aceh in 2018-2022, Southeast Aceh in 2018, Gunung Kidul in 2018-2022, Kulon Progo in 2018-2019, Yogyakarta City in 2022, Jayapura city in 2022, Fak-Fak in 2022 and Kaimana in 2022, there was more DAK realization for non-physical DAK, namely for operational assistance funds for family planning, operational funds for health, operational assistance funds for the implementation of early childhood education, population administration service funds, additional funds for PNS teacher income, special teacher allowance funds than physical DAK which is directed to improve the quality of community welfare through the fulfillment of basic services for economic equality in the regional government of the Regency/City in Special And Exclusive Administrative Areas.

The findings in this study are consistent with the findings of Maheni and Maryono (2021) that DAK has no effect on economic growth. This situation is because the allocation of DAK has not been maximized in infrastructure development related to facilities and infrastructure so that it can encourage economic growth. However, the findings in this study contradict the findings (Nashshar & Mulyana, 2022; Wahyudi 2021) that DAK has an effect on economic growth.

Economic Growth Moderates the Effect of Capital Expenditure on the Level of Regional Financial Independence

Based on the results of hypothesis testing using moderated regression analysis (MRA), it was found that economic growth was unable to moderate the effect of capital expenditure on the level of regional financial independence in district/city governments of Special And Exclusive Administrative Areas in 2018-2022. It is known that the probability value of the interaction variable DAU and economic growth is 0.6737> 0.05, so H8 is rejected. Economic growth is unable to moderate capital expenditure on the level of regional financial independence due to the realization of capital expenditure that fluctuates in Special And Exclusive Administrative Areas/regencies/cities in 2018-2022.

Based on research data, it is known that in Aceh Besar district in 2019-2022 there was a decrease in the realization of capital expenditure so that it did not have a direct impact on increasing economic growth. Likewise, in West Aceh district in 2022, Lhokseumawe in 2019-2022, Gayo Lues in 2019-2022, Bantul in 2018-2022, Gunung Kidul in 2019-2022, Biak Numfor in 2019-2020 and Manokwari in 2019-2021 there was a decrease in the realization of capital expenditure so that capital expenditure allocated for infrastructure development related to facilities and infrastructure to encourage economic growth in district/city governments in Special And Exclusive Administrative Areas is less able to increase economic growth.

The results of this study are in line with the research of Handayani & Erinos (2020) that economic growth is unable to moderate the influence of capital expenditure on the level of regional financial independence. The results of this study are not in line with the research of Burhan et al., (2022) that the allocation of capital expenditure carried out by local governments can encourage community participation in development.

CONCLUSION

Based on the test results in the research of district/city governments in special and specific regions in 2018-2022, it can be concluded that :

1. Local revenue has a positive and significant effect on the level of regional financial independence.
2. Allocation funds have a negative and significant effect on the level of regional financial independence.
3. Specific allocation funds have a negative and significant effect on the level of regional financial independence.
4. Capital expenditure has a negative and significant effect on the level of regional financial independence.
5. Economic growth is able to moderate the effect of local revenue on the level of regional financial independence.

6. Economic growth is able to moderate the effect of general allocation funds on the level of regional financial independence.
7. Economic growth is unable to moderate the effect of Specific allocation funds on the level of regional financial independence.
8. Economic growth is unable to moderate the effect of capital expenditure on the level of regional financial independence.

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