Research Paper

Analysis of the Effect of Local Own-Source Revenue, General Allocation Funds, Special Allocation Funds, And Village Funds on Economic Growth with Capital Expenditure as a Moderating Variable in Regency/City of Sumatera

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ABSTRACT

This study aims to analyze the influence of Local Own-sources Revenue, General Allocation Fund, Special Allocation Fund, and Village Funds on regional economic growth, with capital expenditure as a moderating variable, in districts/cities on Sumatra Island during the 2017–2023 period. This research was motivated by inconsistencies in previous research results and the need for a more comprehensive understanding of the effectiveness of public fund allocation in supporting regional economic development.

The research method used was a quantitative approach using secondary data analyzed through panel data regression and moderated regression analysis. The results indicate that Local Own-Sources Revenue and General Allocation Fund have a positive but insignificant effect on economic growth. Special Allocation Fund and Village Funds have a positive and significant impact. Capital expenditure significantly moderates the effect of Local Own-Sources Revenue and General Allocation Fund, but does not moderate the effect of Special Allocation Fund and Village Funds on economic growth. These findings indicate that the effectiveness of capital expenditure depends on the source of funds and the accuracy of budget allocation, and have important implications for strengthening fiscal governance in the regions.

Keywords: Local Own-sources Revenue, General Allocation Fund, Special Allocation Fund, Village Fund, Capital Expenditure, Economic Growth.

INTRODUCTION

Improving public services and optimizing the utilization of local potential are the primary objectives of implementing regional autonomy. In this regard, regional governments play a strategic role in formulating development policies tailored to the needs and characteristics of their respective regions. Regional autonomy is the authority an autonomous region holds to regulate and manage government affairs and the interests of the local community, based on its own initiative and community aspirations, within the framework of the Unitary State of the Republic of Indonesia. According to Syarifudin (2021), regional autonomy grants regional governments relative freedom to administer government based on local needs and characteristics while adhering to the national legal framework. This autonomy aims to increase

public service efficiency, effectiveness, and quality, as well as strengthen community participation in regional development.

According to Minister of Home Affairs Regulation No. 77 of 2020, the Local Own-sources Revenue and Expenditure Budget is the primary instrument for regional governments to perform their functions. Local Own-sources Revenue consists of Local Own-sources Revenue, Balancing Funds (General Allocation Fund, Special Allocation Fund, and Revenue Sharing Funds), and other legitimate revenue sources. According to Musgrave and Musgrave (1989), public budget allocation must consider efficiency in resource use, equitable distribution of development outcomes, and economic stability. Disparities in regional Local Own-Sources Revenue are one cause of fiscal disparity, as regions with high economic potential will have greater budgetary capacity than less developed regions.

In the context of fiscal decentralization, capital expenditure plays a crucial role in driving regional economic growth. Government allocation theory emphasizes that one of the primary objectives of government spending is to improve efficiency and public welfare by providing quality infrastructure and public services. Capital expenditure, directed at the construction of fixed assets such as roads, bridges, irrigation, and other public facilities, is expected to have a greater multiplier effect than other types of spending.

Economic growth is a crucial indicator reflecting a region's economic development results. According to Putra (2021), economic growth reflects changes in economic activity over time and serves as a benchmark for the success of regional fiscal policy. The better the regional budgetary management, the greater the likelihood of achieving sustainable economic growth.

Regional development, as part of national development, aims to strengthen the capacity of local governments to provide public services professionally and efficiently. According to Panjaitan (2019), the success of

regional development is greatly influenced by the optimization of available funding sources and their management capabilities. Unfortunately, many regions still face challenges in the form of budget deficits due to the suboptimal utilization of regional revenues.

Samuelson & Nordhaus (2004) state that economic growth reflects the increase in the production of goods and services in a region, which is influenced by the availability of human, natural, capital, and technological resources. Therefore, the success of regional autonomy in increasing economic growth can also be seen from indicators such as increases in real Gross Regional Domestic Product (GRDP), increased investment, and the development of the business world and local community creativity.

The economic growth rate, measured by GRDP at constant prices, provides an objective picture of the extent to which a region can utilize its potential to improve public welfare. This data is crucial for formulating targeted and sustainable regional development policies.

Economic growth data can illustrate a region's ability to manage its development resources. The magnitude of economic growth in each region varies greatly depending on its potential and production factors.
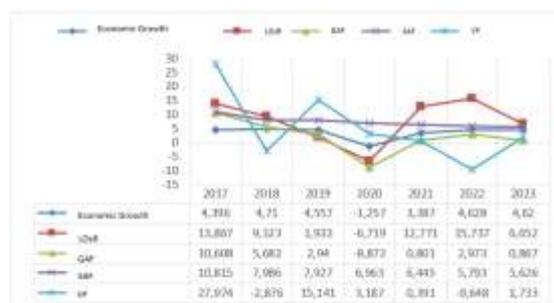

Figure 1. Development of Economic Growth, Local Own-Sources Revenue, General Allocation Fund, Special Allocation Fund, and Village Funds 2017-2023

Figure 1 shows conditions from 2017 to 2023. Regional economic growth exhibits dynamics closely related to fluctuations in Local Own-sources Revenue and fiscal

transfers from the central government, such as Local Own-Sources Revenue, General Allocation Fund, Special Allocation Fund, and Village Funds. Based on the data presented in the graph, a pattern is evident reflecting the impact of fiscal policy, macroeconomic conditions, and the effects of global crises such as the COVID-19 pandemic.

Economic growth generally showed a stable trend at the beginning of the observation period. From 2017 to 2019, economic growth ranged from 4.3% to 4.7%, indicating a relatively positive regional economic performance. However, in 2020, economic growth contracted by -1.257%. It was likely due to the impact of the COVID-19 pandemic, which led to a decline in economic activity across various sectors. As the pandemic subsided and the national economy recovered, economic growth returned to a positive trend from 2021 to 2023, although it has not yet fully returned to pre-pandemic levels.

Local Own-sources Revenue, an indicator of regional fiscal capacity, showed significant fluctuations. From 13,867 in 2017, Local Own-Sources Revenue experienced a drastic decline, reaching a negative figure (-6,719) in 2020. This decline shows that the pandemic has put significant pressure on regional revenue, particularly from sectors that are sources of Local Own-Sources Revenue, such as regional taxes, levies, and revenue from regionally-owned enterprises. However, post-pandemic, Local Own-Sources Revenue experienced a surge in 2021 and 2022, reaching 15,737 2022. It indicates economic recovery and increased regional fiscal capacity. However, in 2023, Local Own-Sources Revenue fell again to 6,652, which could be caused by an economic slowdown or a shift in the Local Own-sources Revenue structure.

The General Allocation Fund, a form of general transfer from the central government, also declined from 10,608 in 2017 to a negative figure of -8,872 in 2020. This decline indicates adjustments in central government spending allocations during the crisis. After 2020, the General Allocation Fund recovered but remained at a relatively low level. It suggests that the recovery in central government funding allocations is gradual and may be influenced by national priorities and the central government's budget capacity.

The analyzed graph shows that General Allocation Fund fluctuations tend to align with economic growth. The sharp decline in General Allocation Fund in 2020 coincided with the national economic contraction due to the pandemic. Regression results show that while the General Allocation Fund impacts economic growth, its influence is smaller than that of Local Own-sources Revenue and Special Allocation Fund. It is because the General Allocation Fund is primarily used for routine spending, thus limiting its impact on economic output (growth-inducing expenditure).

The Special Allocation Fund, used to fund specific regional activities such as infrastructure, education, and health, shows a relatively stable trend. However, there is a gradual decline from year to year. The Special Allocation Fund decreased from 10,815 in 2017 to 5,626 in 2023. This trend could indicate a shift in national priorities toward regional sectoral projects or budget efficiencies in specific programs.

The Village Fund, allocated to village governments to support development and empowerment of rural communities, exhibits the most fluctuating pattern. In 2017, the Village Fund reached a very high level (27,974) but dropped drastically to negative levels in 2018 (-2,876). Subsequently, the Village Fund increased again in 2019 (15,141), but fluctuated again until it reached its lowest point in 2022 (-9,648). In 2023, this fund showed a slight improvement to 1,733. These fluctuations indicate inconsistencies in the distribution or absorption of funds, which administrative factors, budget realization, or financial reporting capacity at the village level may cause.

Overall, these dynamics indicate that external factors, such as the pandemic, and

internal factors, such as the effectiveness of regional financial management, significantly influence regional economic growth. Regional dependence on fiscal transfers from the central government remains high, particularly when Local Own-sources Revenue is under pressure. However, the post-pandemic economic recovery demonstrates the need for continued fiscal consolidation and capacity-building efforts for regional governments to achieve sustainable economic development.

Based on the results of the regression analysis and trend visualization in the graph for 2017–2023, that regional economic growth is significantly influenced by fluctuations in fiscal financing components, particularly the Special Allocation Fund, General Allocation Fund, Village Funds, and Local Own-sources Revenue. The regression results demonstrate a significant relationship between Special Allocation Fund and economic growth, reinforced by the annual dynamics in the graph.

2020 marked a significant milestone in the dynamics of the national and regional economies due to the global COVID-19 pandemic. Its impact was far-reaching, affecting all sectors, from health and social to economic. In the regional context, the pandemic became a real test of the extent to which regions possessed fiscal resilience in the face of external shocks.

The graph shows that in 2020, there was a significant contraction in almost all components of regional finances:

- Economic growth fell to -1.257%, the lowest figure in the 2017–2023.
- Local Own-sources Revenue decreased by -6.71%, reflecting sluggish local economic activity.
- General Allocation Funds and Village Funds also decreased by -8.87% and -3.18%, respectively, due to budget refocusing by the central government.

This phenomenon reflects that the crisis affected the central government and directly impacted regional fiscal and economic performance, particularly due to the high dependence on central transfers and the weak Local Own-sources Revenue base.

Studies on Economic Growth conducted in Indonesia include those by Budiman et al. (2023) and Wahyuni (2020), who found that Local Own-sources Revenue has a positive effect on Economic Growth, while Magfira et al. (2023) found that Local Own-sources Revenue has a negative impact. Research by Iskandar et al. (2018) and Pertiwi et al. (2022) found that general allocation funds positively affect economic growth. Conversely, Setyanto (2021) and Savitri et al. (2020) found that general allocation funds do not affect economic growth. Researchers Iskandar et al. (2023), Prasetyo et al. (2022), and Putra (2021) found that special allocation funds have a positive effect on economic growth, while Rosyidi et al. (2023) found that special allocation funds have a negative impact on economic growth. Aslan et al (2019) conducted a study in which the results showed that village funds had a positive effect on economic growth, which was inversely proportional to the study conducted by Ritonga et al (2021), whose results showed that village funds had a negative impact on economic growth.

Given the research gap in the form of inconsistencies in several of the variables mentioned above, as well as the phenomena occurring in regional government economic growth on the island of Sumatra, research was conducted to re-examine the factors influencing economic development, namely, Local Own-sources Revenue, General Allocation Funds, Special Allocation Funds, Village Funds, and Capital Expenditures. Based on the above description, the research will be titled "Analysis of the Effect of Local Own-sources Revenue, General Allocation Funds, Special Allocation Funds, and Village Funds on Economic Growth with Capital Expenditures as a Moderating Variable in Regencies/Cities on the Island of Sumatra."

LITERATURE REVIEW
Economic Growth
Economic growth is one indicator of the success of an economy's development. The

prosperity and progress of an economy are determined by the magnitude of growth, as indicated by changes in national output. Economic output changes are a key component of short-term economic analysis (Ma'ruf and Wihastuti, 2008).

Todaro & Smith (2011) define economic growth as a continuous process in which economic production capacity increases over time, resulting in increased output and national income. Regional economic growth is the increase in community income within a region, namely the increase in total value added. The prosperity of an area is determined not only by the amount of value added created within the area but also by the extent of transfer payments, namely the portion of income that flows outside the region or is received from outside the area.

A comprehensive overview of a region's economic condition can be obtained from GRDP. As a macroeconomic indicator, GRDP is the total gross value added generated by all regional business units, or the sum of the final goods and services produced by all economic units. GRDP is an indicator that measures the extent to which the government has succeeded in utilizing existing resources. It can also be used for planning and decision-making.

Local Own-source Revenue
According to Prasetyo (2021), Local Own-sources Revenue is defined as regional income that depends on the general economic conditions and the potential of the region's own sources of revenue. Local Own-Sources Revenue indicates a region's ability to raise funds to finance regional activities.

Regional governments with growing Local Own-Sources Revenue will positively impact economic growth, with a ratio of GRDP to GDP, and vice versa. It is because Local Own-Sources Revenue growth positively impacts GRDP, which affects economic growth. Local Own-Sources Revenue is a source of regional spending. If Local Own-Sources Revenue increases, local government funds will also increase, thus providing adequate funding for regional development, which ultimately boosts economic growth.

If a region's Local Own-Sources Revenue increases, government funds will also increase. This increase benefits the government, as it can be used to meet regional needs, thus boosting regional economic growth. According to Firmansyah et al. (2022), Local Own-Sources Revenue significantly and positively influences local government economic growth. Furthermore, Yasin (2020) stated that Local Own-Sources Revenue provides opportunities for regions to increase infrastructure development, impacting community welfare and increasing local government economic growth. Research by Pertiwi (2022), Sisilia & Harsono (2020), Sinaga et al. (2020), and Pinem (2020) produced similar results, namely that Local Own-Sources Revenue has a positive and significant influence on economic growth. Mokorow et al. (2020) argue that any increase in Local Own-Sources Revenue will impact local government economic growth.

Capital Expenditure
According to Halim (2006), capital expenditure is budget expenditure for capital formation, specifically to increase fixed assets and provide benefits for more than one accounting period. It includes maintenance costs to maintain or extend the useful life of the assets and improve their capacity and quality.

Capital expenditure is used as a moderating variable influencing the strength of the relationship between Local Own-sources Revenue, General Allocation Fund, Special Allocation Fund, and Village Funds on economic growth. Previous research has shown that regional government funds do not necessarily positively impact economic growth without proper allocation, particularly to productive sectors (Zuhro, 2021). Capital

expenditure is an essential indicator of regional fiscal effectiveness because it reflects the government's ability to invest its resources sustainably (Putri & Herawati, 2019). Thus, capital expenditure is thought to strengthen the positive influence of government revenue and transfers on regional economic growth (Siregar & Manurung, 2020).

General Allocation Fund

The General Allocation Fund calculation considers indicators of each region's fiscal needs and capabilities to achieve budgetary equity and equitable public services. The General Allocation Fund, the primary source of financing for the Local Own-sources Revenue and Expenditure Budget, is absorbed mainly by personnel expenses, resulting in reduced spending on development projects. The General Allocation Fund is a type of intergovernmental transfer that is not tied to specific spending programs. The General Allocation Fund is intended to replace transfers in the form of subsidies for autonomous regions.

If the General Allocation Fund received by regional governments increases, it will stimulate economic activity and impact the region's GRDP. This increase in GRDP will lead to increased economic growth. All General Allocation Fund received by regional governments will be allocated to regional government spending, one of which is capital expenditure. It is the role of Local Own-sources Revenue as a source of financing for developing economic facilities and infrastructure, which will support the production of goods and services by investors, both local and outside the region. Ultimately, this financial activity impacts regional economic growth.

According to Trianto (2023), the General Allocation Fund significantly and positively influences regional economic growth. According to him, the influence of general allocation funds on economic development indicates the continued dependence of regional governments on the central government. Therefore, the general allocation of funds provided by the central government is expected to increase regional economic growth. Research by Pertiwi (2022), Rosyadi (2024), Arbila et al. (2022), Datu et al. (2023), Ramadhani (2015), and Pulungan (2016) produced similar results, namely that the General Allocation Fund has a positive and significant influence on economic growth. Lulage et al. (2023) had different results, namely that the General Allocation Fund significantly negatively affects economic growth.

Special Allocation Fund

According to Halim (2020), special allocation funds are funds sourced from the State Budget (APBN) and allocated to specific regions to help finance activities related to regional affairs and in accordance with national priorities. The primary purpose of special allocation funds is to invest in the needs of basic public service facilities and infrastructure that have not yet reached standards or to accelerate regional development.

Special Allocation Fund aims to finance special activities in certain regional affairs that align with national priorities, specifically to fund the needs of basic public service facilities and infrastructure that have not yet met specific standards or to accelerate regional development. Therefore, the higher the Special Allocation Fund, the higher the economic growth of regional governments. The increase in Special Allocation Fund disbursements to regions each year should be accompanied by a more targeted plan, and its utilization should be genuinely for the benefit of the people, rather than a plan that creates opportunities for budget leakage. If such leakage occurs, it indicates a low regional government economic growth level. According to Murti et al (2023), Special Allocation Fund has a significant and positive influence on local governments' economic development.

With the existence of funding sources, local governments must be able to allocate capital expenditures well because capital expenditures are one of the steps for local governments to develop facilities and infrastructure. Research by Iskandar (2023), Pertiwi (2022), and Trianto (2023) produced similar results, namely that Special Allocation Fund has a positive and significant influence on economic growth. Research by Lulage et al. (2023) showed that Special Allocation Fund negatively and significantly influences economic growth.

Village Fund

According to Government Regulation Number 60 of 2014, as amended by Government Regulation Number 8 of 2016, Village Funds are funds sourced from the State Revenue and Expenditure Budget allocated for villages, transferred through the Regency/City Local Own-sources Revenue and Expenditure Budget, and used to finance governance, development implementation, community development, and community empowerment.

Village revenue is a vital resource for village administration. The philosophy of village funds is to improve welfare and equitable village development by improving public services in villages, promoting the village economy, addressing disparities in village development, and strengthening village communities as subjects of development. The existence of village funds is expected to boost regional development because village governments receive funding allocations to be used for development capital costs.

A study by Wasudewa & Iskandar (2022) and research by Pasetyo & Dinarjito (2021) also revealed that Village Funds play a crucial role in accelerating economic development, especially in underdeveloped regions, by increasing productivity and reducing economic disparities between regions.
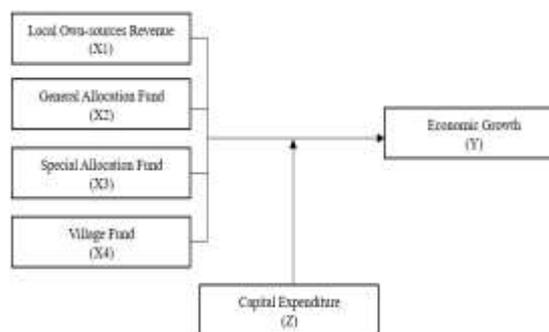
Framework

Figure 2. Conceptual Framework

H1: Local Own-source Revenue partially positively and significantly affects Economic Growth.
H2: The General Allocation Fund partially positively and significantly affects Economic Growth.
H3: Special Allocation Fund has a partial positive and significant effect on Economic Growth.
H4: Village Funds partially positively and significantly affect Economic Growth.
H5: Capital Expenditure has a positive and significant effect on Economic Growth.
H6: Capital Expenditure significantly moderates the relationship between Local Own-source Revenue and Economic Growth.
H7: Capital Expenditure significantly moderates the relationship between General Allocation Fund and Economic Growth.
H8: Capital Expenditure significantly moderates the relationship between Special Allocation Fund and Economic Growth.
H9: Capital Expenditure significantly moderates the relationship between Village Funds and Economic Growth.

MATERIALS & METHODS

This research is a causal associative study using quantitative data. According to Umar (2015), causal associative research aims to determine the influence of two or more variables. This study examines the influence of Local Own-sources Revenue, General Allocation Fund, and Special

Allocation Fund as independent variables on Economic Growth as the dependent variable, with Capital Expenditure as a moderating variable.

The population in this study was all regencies/cities in 10 provinces on the island of Sumatra. The sample was selected using a purposive sampling technique based on the following criteria:

- Regencies/cities with complete data for 2017–2023 for all study variables.
- Data can be obtained from official sources and processed using a panel method (reverse/no missing observations).

The data collection technique used was documentation. Data documentation was obtained from books, records, or historical reports compiled in archives from the Central Statistics Agency publications. This study uses a quantitative approach with panel data, a combination of time series data (2017–2023) and cross-sectional data (regencies/cities on Sumatra Island). Data analysis was performed using Eviews software.

RESULT
Panel Data Regression Model Selection
To select the most appropriate model for panel data processing, several tests can be performed, including the Chow test (common effect vs. fixed effect), the Hausman test (fixed effect vs. random effect), and the Lagrange multiplier test (random effect vs. common effect). The following are the models selected in this study, which will be used in subsequent research:

Chow Test
The Chow test is used to determine which model is most appropriate between the common effect model (CEM) and the fixed effect model (FEM). In this Test, the significance level used is 0.05 or 5%. The criteria used in this model are: if the probability value is $> \alpha$ 0.05, then Ho is accepted, meaning the common effect model (CEM) is more suitable. Conversely, if the

probability value is $< \alpha$ 0.05, then Ha is accepted, meaning the fixed effect model (FEM) is more appropriate. The results of the Chow test are as follows:

Table 1. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	27.961041	(130,777)	0.0000
Cross-section Chi-square	1592.488206	130	0.0000

Source: EViews Output 10, 2022

Based on the results of this table, the F-statistic probability value is 0.0000, which is less than the significance level of 0.05. It indicates that Ho is rejected and Ha is accepted, meaning the fixed effects model is the appropriate model for panel data regression between the common effects model (CEM) and the fixed effects model (FEM). The Hausman test was then performed.

Hausman Test
The Hausman test is used to determine which model is most appropriate between the fixed effects model (FEM) and the random effects model (REM). In this Test, the significance level used is 0.05 or 5%. The criteria used in this model are: if the probability value of the random cross-section is <0.05, then Ha is accepted, meaning that the fixed effects model (FEM) is more suitable for panel data regression. Meanwhile, if the probability value of the random cross-section is >0.05, Ho is accepted, meaning that the random effects model (REM) is more suitable for panel data regression. The test results of the Hausman test are as follows:

Table 2. Hausman Test Results

Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	179.005153	9	0.0000

Source: EViews Output 10, 2022

Based on Table 2, from the results of the Hausman test, it is known that the random cross-section value has a significance value of $0.000 < 0.05$, so the estimation model used is the fixed effect model (FEM).

Table 3. Panel Data Regression Results with the Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_LOsR	1.221650	1.963306	0.622246	0.5340
X2_GAF	0.599228	2.256178	0.265594	0.7906
X3_SAF	12.26771	3.574968	3.431557	0.0006
X4_VF	31.01612	11.54578	2.686360	0.0074
Z_CE	-2.960739	1.440895	-2.054792	0.0402
X1_Z	1.67E-08	5.41E-09	3.087287	0.0021
X2_Z	-1.09E-08	3.52E-09	-3.106799	0.0020
X3_Z	1.34E-09	7.54E-09	0.177132	0.8595
X4_Z	1.29E-08	8.59E-09	1.501269	0.1337
C	6.14E+09	2.72E+09	2.256212	0.0243

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.922325	Mean dependent var	1.31E+10
Adjusted R-squared	0.908429	S.D. dependent var	1.44E+10
S.E. of regression	4.36E+09	Akaike info criterion	47.36706
Sum squared resid	1.47E+22	Schwarz criterion	48.10311
Log likelihood	-21577.80	Hannan-Quinn criter.	47.64798
F-statistic	66.37560	Durbin-Watson stat	1.349932
Prob(F-statistic)	0.000000		

Source: EViews Output 10, 2022

Based on the fixed effect model estimation, it has a Prob. (F-statistic) value $< \alpha$ (0.05), meaning that it can be concluded that H1 or the simultaneous influence of the predictor variable on the dependent variable is proven to be statistically significant.

Classical Assumption Test
Normality Test
In this study, the normality test for residuals was performed using the Jarque-Bera (J-B) test.

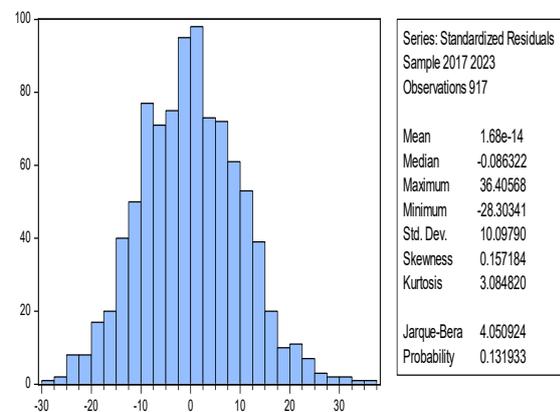| Series: Standardized Residuals	
Sample 2017 2023	
Observations 917	
Mean	1.68e-14
Median	-0.086322
Maximum	36.40568
Minimum	-28.30341
Std. Dev.	10.09790
Skewness	0.157184
Kurtosis	3.084820
Jarque-Bera	4.050924
Probability	0.131933

Figure 3. Normality Test with the Jarque-Bera Test
Source: EViews Output 10, 2022

According to Figure 3, the probability value of the J-B statistic is $0.1319 > \alpha$ (0.05). It indicates that the residual data are normally distributed.

Multicollinearity Test

Table 4. Multicollinearity Test Results

	X1	X2	X3	X4	Z	X1_Z	X2_Z	X3_Z	X4_Z
X1	1.000000	0.482376	0.439958	0.296759	0.434022	0.328532	0.144471	0.229333	0.250430
X2	0.482376	1.000000	0.541326	0.505148	0.303922	0.145466	0.306488	0.064607	0.178587
X3	0.439958	0.541326	1.000000	0.528043	0.451964	0.161959	0.053946	0.285977	0.131961
X4	0.296759	0.505148	0.528043	1.000000	0.383446	0.167562	0.110781	0.117698	0.089824
Z	0.434022	0.303922	0.451964	0.383446	1.000000	0.339447	0.027778	0.245997	0.238881
X1_Z	0.328532	0.145466	0.161959	0.167562	0.339447	1.000000	0.431432	0.505832	0.505774
X2_Z	0.144471	0.306488	0.053946	0.110781	0.027778	0.431432	1.000000	0.189740	0.520646
X3_Z	0.229333	0.064607	0.285977	0.117698	0.245997	0.505832	0.189740	1.000000	0.524654
X4_Z	0.250430	0.178587	0.131961	0.089824	0.238881	0.505774	0.520646	0.524654	1.000000

Source: EViews Output 10, 2022

Based on Table 4, the results of the multicollinearity test, where the correlation value between independent variables is <0.9, it can be concluded that there are no symptoms of multicollinearity between independent variables.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test with the Glejser Test

Heteroskedasticity Test: Glejser

F-statistic	0.278992	Prob. F(9,907)	0.9804
Obs*R-squared	2.531607	Prob. Chi-Square(9)	0.9800
Scaled explained SS	2.532174	Prob. Chi-Square(9)	0.9800

Source: EViews Output 10, 2022

Based on the results of the heteroscedasticity test with Glejser's Test in Table 5, the significance value of Obs*R-squared in the Chi-Square Prob. is $0.9800 > 0.05$, thus concluding that heteroscedasticity does not occur.

Autocorrelation Test

Table 6. Autocorrelation Test with Serial Correlation LM

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.599163	Prob. F(2,905)	0.5495
Obs*R-squared	1.212611	Prob. Chi-Square(2)	0.5454

Source: EViews Output 10, 2022

Based on Table 6, the autocorrelation test with the Serial Correlation LM Test yields a statistical significance value of Obs*R-squared of 0.5454 > α (0.05), indicating no signs of autocorrelation.

Hypothesis Testing
Simultaneous Test (f-statistic Test)
Table 3 shows that the sample size (n) is 917, and the number of parameters (k) is 10. Therefore, df1 = 10 – 1 = 9; df2 = n – k = 917 – 10 = 908. Therefore, at α = 0.05, Ftable = 1.890. Based on Table 5.10, the calculated F-value (66.375) is greater than the F-table (1.890), and the significance value (0.00) is less than α (0.05). It indicates that the variables Local Own-sources Revenue, General Allocation Fund, Special Allocation Fund, Village Fund, the interaction between Capital Expenditure and Local Own-sources Revenue, the interaction between Capital Expenditure and General Allocation Fund, the interaction between Capital Expenditure and Special Allocation Fund, and the interaction between Capital Expenditure and Village Fund simultaneously have a significant effect on Economic Growth.

Partial Test (t-statistic Test)
Based on Table 3, the panel data estimation model using FEM yields the following multiple linear regression equation for panel data:

EG = 6,14E09 + 1,221LOsR + 0,599GAF + 12,267GAF + 31,016VF - 2,96CE + 1.67E08X1_Z - 1.09E08X2_Z + 1.34E09X3_Z + 1.29E08X4_Z

Based on Table 3, with (n) = 917, number of parameters (k) = 10, df = (n–k) = 917 – 10 = 907. At an error level of α = 0.05, the t-table value is 1.962, as follows:

1. The constant value is Rp. 6,149E+09. It means that if Local Own-sources Revenue, General Allocation Fund, Special Allocation Fund, Village Fund, Capital Expenditure, the interaction between Capital Expenditure and Local Own-sources Revenue, the interaction between Capital Expenditure and General Allocation Fund, Village Fund, the interaction between Capital Expenditure and Special Allocation Fund, and the interaction between Capital Expenditure and Village Fund are considered constant or equal to 0, then Economic Growth will be Rp. 6,149E+09.

2. The regression coefficient value of Local Own-sources Revenue (β1) = 1.221 > 0, with t count (0.622) < t table (1.962) and significance (0.534) > α (0.05). It indicates that the Local Own-sources Revenue variable has a positive and insignificant effect on Economic Growth, meaning that every Rp. 1 increase in Local Own-sources Revenue, there is no significant increase in Economic Growth of Rp. 1,221.

3. The regression coefficient value of the General Allocation Fund (β2) = 0.599 > 0 with t count (0.265) < t table (1.962) and significance (0.790) > α (0.05). It indicates that the General Allocation Fund variable has a positive and insignificant effect on Economic Growth, meaning that for every Rp. 1 increase in General Allocation Fund, there is no significant increase in Economic Growth of Rp. 0.599.

4. The regression coefficient value of the Special Allocation Fund (β3) = 12.267 > 0 with t count (3.431) > t table (1.962) and significance (0.000) < α (0.05). It indicates that the Special Allocation Fund variable has a positive and significant effect on Economic Growth, meaning that for every Rp. 1 increase in the Special Allocation Fund, Economic Growth will significantly increase by Rp. 12,267.

5. The regression coefficient value of the Village Fund (β4) = 31.016 > 0 with t count (2.686) > t table (1.962) and significance (0.007) < α (0.05). It indicates that the Village Fund variable has a positive and significant effect on Economic Growth, meaning that for every Rp. 1 increase in the Village Fund,

Economic Growth will increase by Rp. 31,016 significantly.

6. The regression coefficient value of Capital Expenditure ($\beta5$) = -2.960 < 0 with t count (-2.054) < t table (-1.962) and significance (0.04) < α (0.05). It indicates that the Capital Expenditure variable has a negative and significant effect on Economic Growth, meaning that for every Rp. 1 increase in Capital Expenditure, Economic Growth will decrease by Rp. 2,960 significantly.

7. The MRA coefficient value of the Interaction of Capital Expenditure with Local Own-sources Revenue ($\beta6$) = 1.67E-08 > 0, with t count (3.087) > t table (1.962) and significance (0.002) < α (0.05), meaning that Capital Expenditure can significantly moderate the effect of Local Own-sources Revenue on Economic Growth.

8. The MRA coefficient value of the interaction between Capital Expenditure and the General Allocation Fund ($\beta7$) = -1.09E-08 < 0 with t count (-3.106) < t table (-1.962) and significance (0.002) < α (0.05), meaning that Capital Expenditure can significantly moderate the effect of the General Allocation Fund on Economic Growth.

9. The MRA coefficient value of the interaction between Capital Expenditure and the Special Allocation Fund ($\beta8$) = 1.34E-09 > 0 with t count (0.177) < t table (1.962) and significance (0.859) > α (0.05), meaning that Capital Expenditure is unable to significantly moderate the effect of the Special Allocation Fund on Economic Growth.

10. The MRA coefficient value of the interaction between Capital Expenditure and Village Funds ($\beta9$) = 1.29E-09 > 0 with t count (1.501) < t table (1.962) and significance (0.133) > α (0.05), meaning that Capital Expenditure is not able to moderate the influence of Village Funds on Economic Growth significantly.

DISCUSSION

The Effect of Local Own-Sources Revenue on Economic Growth

The regression coefficient for Local Own-sources Revenue ($\beta1$) is 1.221 > 0, with t-test (0.622) < t-table (1.962) and significance (0.534) > α (0.05). It indicates that Local Own-sources Revenue has a positive but insignificant effect on Economic Growth. It means there is no significant increase in economic growth for every Rp. 1 increase in local own-source revenue, 1,221.

Local governments with growing Local Own-sources Revenue will positively affect Economic Growth with the GRDP ratio, and vice versa. If Local Own-Sources Revenue increases, local government funds will also increase, providing adequate regional development funding and boosting economic growth. However, this study's findings do not significantly impact economic growth. Although Local Own-Sources Revenue reflects regional fiscal independence, the failure to allocate it to productive investment—due to information asymmetry (Agency Theory), weak public policy design, and suboptimal budget allocation—results in the insignificant effect on economic growth. Agency Theory emphasizes that information asymmetry and moral hazard between the principal (community/DPRD) and the agent (local government) cause the distribution of Local Own-sources Revenue to be more for routine spending or political interests than for productive investment, so that an increase in Local Own-Sources Revenue does not automatically encourage the rate of economic growth.

The Effect of General Allocation Funds on Economic Growth

The regression coefficient for General Allocation Funds ($\beta2$) is 0.599 > 0, with t count (0.265) < t table (1.962) and significance (0.790) > α (0.05). It indicates that the General Allocation Fund variable has a positive but insignificant effect on Economic Growth. This means that for every Rp. 1 increase in General Allocation Funds,

Rp's economic growth is a non-significant increase of 0.599.

An increase in the General Allocation Fund received by local governments will increase economic activity in the region, which will also impact the region's GRDP. This increase in GRDP will lead to increased Economic Growth. Within the Agency Theory framework, the relationship between the principal (the central government and the community as representatives of the Regional People's Representative Council) and the agent (the local government) is established through a contract that regulates the delegation of authority for regional financial management, including the General Allocation Fund. However, information asymmetry, when local governments (agents) have greater access to budget implementation data than the DPRD (principals), creates a moral hazard, where agents tend to channel General Allocation Fund to finance routine expenditures, bureaucratic operations, and short-term political projects rather than productive investments such as infrastructure or human resource development. This condition results in budget allocations not aligned with development priorities that can spur economic growth.

The Effect of Special Allocation Funds on Economic Growth

The regression coefficient value of the Special Allocation Fund ($\beta 3$) = 12.267 > 0, with t-count (3.431) > t-table (1.962) and a significance level (0.000) < α (0.05). It indicates that the Special Allocation Fund variable positively and significantly affects Economic Growth. Economic growth will increase by a significant Rp for every Rp. There will be a one-time increase in Special Allocation Funds. 12,267.

The annual increase in Special Allocation Funds disbursement to regions should be accompanied by a more targeted plan, and its utilization should be genuinely for the benefit of the people, rather than a plan that creates opportunities for budget leakage. If leakage occurs, it indicates low levels of regional government Economic Growth. Within the framework of Public Policy Theory, the Special Allocation Fund is a targeted fiscal instrument designed to channel resources from the central government to the regions according to national priorities and local needs. With an allocation mechanism based on general, specific, and technical criteria, the Special Allocation Fund channels direct funding to strategic sectors such as road infrastructure, education, and health, directly impacting regional productivity and competitiveness. A significant increase follows each increase in Special Allocation Fund allocation in Gross Regional Domestic Product. Therefore, Public Finance Theory emphasizes that designing transfer policies responsive to regional needs, such as the Special Allocation Fund, will strengthen infrastructure capacity and human resource quality, encouraging sustainable economic growth.

The Effect of Village Funds on Economic Growth

The regression coefficient for Village Funds ($\beta 4$) = 31.016 > 0, with t-count (2.686) > t-table (1.962) and a significance level (0.007) < α (0.05). It indicates that the Village Fund variable positively and significantly affects Economic Growth. It means that for every Rp. 1 increase in village funds, economic growth will substantially increase by Rp. 31.016.

Village Funds allocated for village-scale infrastructure development can reduce logistics costs, streamline the distribution of goods and services, and open market access for farmers and micro-entrepreneurs. Furthermore, Village Funds managed by villages in accordance with community aspirations will encourage positive spillovers in the form of increased employment opportunities in the small-scale construction sector, increased village household income from trade activities, and the growth of Village-Owned Enterprises (BUMDes) as a driving force for the local economy. Thus, the Government Allocation Theory asserts that Village Funds, when allocated and

managed appropriately, are effective in accelerating local infrastructure development, increasing village economic efficiency, and encouraging inclusive and sustainable economic growth.

The Effect of Capital Expenditure on Economic Growth

The regression coefficient for Capital Expenditure ($\beta 5$) is -2.960 < 0, with t-count (-2.054) < t-table (-1.962), and a significance level of 0.04 < α (0.05). It indicates that capital expenditure negatively and significantly affects it. It means that for every Rp. 1 increase in Capital Expenditure, Economic Growth will decrease by a substantial Rp. 2,960.

Within the framework of Government Allocation Theory, capital expenditure is viewed as a crucial instrument for aligning public output with local community preferences and needs. Based on Oates' decentralization theorem, targeted budget allocation to capital expenditures such as the construction and improvement of road infrastructure, bridges, irrigation, and energy facilities will reduce logistics costs and streamline the distribution of goods and services, thereby increasing regional economic productivity. Furthermore, through adequate physical facilities, capital expenditure in the education and health sectors improves the quality of human resources, further strengthening the skilled and efficient workforce base. Thus, the Government Allocation Theory asserts that capital expenditure, if allocated and managed according to infrastructure development priorities and human resource quality, will directly drive the rate of sustainable economic growth.

The Effect of Local Own-Sources Revenue on Economic Growth with Capital Expenditure as a Moderating Variable

The MRA coefficient value for the interaction between Capital Expenditure and Local Own-sources Revenue($\beta 6$) is 1.67E-08 > 0, with t-count (3.087) > t-table (1.962) and a significance level of 0.002 < α (0.05). It

means that capital expenditure significantly moderates the effect of local own-source revenue on economic growth.

Allocating Local Own-sources Revenue to capital expenditures is preferable because regional development will be more noticeable than if the Regional Budget (APBD) is spent solely on improving employee welfare. Regional development will stimulate increased incomes for residents in the region, which is in line with increased Local Own-Sources Revenue. Higher Local Own-Sources Revenue means greater regional spending by local governments on development in their respective areas, as the funds used for capital expenditure allocations come from Local Own-Sources Revenue. Thus, capital expenditure can moderate the relationship between Local Own-Sources Revenue and regional government financial performance. Capital expenditures in infrastructure clearly impact regional development, stimulating residents' incomes by creating jobs. Increased income through job creation is expected to increase community income and Local Own-sources Revenue. The allocation of Local Own-sources Revenue in capital expenditures will be better, indicating the region's growing financial independence. The reduced dependence on the central government for capital expenditures means the area can now budget and manage its own spending for the benefit of the community.

The Effect of General Allocation Funds on Economic Growth with Capital Expenditure as a Moderating Variable

The MRA coefficient value for the interaction between Capital Expenditure and General Allocation Funds ($\beta 7$) is -1.09E-08 < 0, with t-count (-3.106) < t-table (-1.962) and a significance level of 0.002 < α (0.05), indicating that Capital Expenditure significantly moderates the effect of General Allocation Funds on Economic Growth.

Capital expenditure allocations also impact transfer funds from the central government, as regional governments' financial capacity to meet regional spending needs through

utilizing Local Own-sources Revenue remains limited. In realizing the government's budget expenditure, it is hoped that more regional spending allocations will be used to improve the community's economy through public interest programs. It will enable communities to increase their incomes. As incomes increase, communities will have greater freedom to meet their needs. Overall, this has the potential to increase Economic Growth. Similar to Local Own-sources Revenue, the government allocation theory also supports the findings of this study. The General Allocation Fund is a transfer from the central government to the regions to finance basic public service needs. However, if the General Allocation Fund is used solely for operational expenses, its impact on economic growth can be limited. When the General Allocation Fund is allocated to capital expenditures—for example, infrastructure development—the government is carrying out its allocation function productively, and the results can stimulate regional economic growth.

The Effect of Special Allocation Funds on Economic Growth with Capital Expenditure as a Moderating Variable

The MRA coefficient value for the interaction between Capital Expenditure and Special Allocation Funds ($\beta 8$) = 1.34E-09 > 0, with t-count (0.177) < t-table (1.962) and significance (0.859) > α (0.05), indicating that Capital Expenditure is unable to significantly moderate the effect of Special Allocation Funds on Economic Growth.

Public services require facilities and infrastructure to support operational activities. The longer a government has existed, the more experienced it is. The greater the funds allocated for capital expenditure, the more infrastructure and facilities can be created, thereby increasing regional economic productivity. With a more extended history, regional governments will be more experienced and better able to manage resources and utilize infrastructure, improving their financial performance. Therefore, capital expenditure can moderate

the relationship between regional government age and economic performance.

The Effect of Village Funds on Economic Growth with Capital Expenditure as a Moderating Variable

The MRA coefficient value for the interaction between Capital Expenditure and Village Funds ($\beta 9$) = 1.29E-09 > 0, with t count (1.501) < t table (1.962), and significance (0.133) > α (0.05). It indicates that capital expenditure cannot significantly affect the Village Funds' effect on economic growth. It shows that capital expenditure does not statistically strengthen or weaken the relationship between Village Funds and economic growth. In other words, whether capital expenditure is high or low makes no significant difference in how Village Funds impact a region's economic development. The study results indicate that capital expenditure cannot significantly moderate the effect of Village Funds on economic growth. From an allocation theory perspective, the government's allocation function is not functioning optimally at the village level. Capital expenditure, which should be used to support productive programs and infrastructure supporting community economic activities, does not significantly impact economic growth.

CONCLUSION

Based on the discussion in the previous chapters, answering the problem formulation, research objectives, and referring to the process and results of data analysis in this study, the following conclusions can be drawn:

1. Local Own-sources Revenue has a positive but insignificant effect on Economic Growth in Regencies/Cities of Sumatra.
2. General Allocation Funds have a positive but insignificant effect on Economic Growth in Regencies/Cities of Sumatra.
3. Special Allocation Funds positively and significantly affect Economic Growth in Regencies/Cities of Sumatra.

4. Village Funds positively and significantly affect Economic Growth in Regencies/Cities of Sumatra.
5. Capital Expenditures have a negative but significant effect on Economic Growth in Regencies/Cities of Sumatra.
6. Capital Expenditures significantly moderate the effect of Local Own-sources Revenue on Economic Growth.
7. Capital Expenditures significantly moderate the effect of General Allocation Funds on Economic Growth.
8. Capital Expenditures do not significantly moderate the effect of Special Allocation Funds on Economic Growth.
9. Capital Expenditures do not significantly moderate the effect of Village Funds on Economic Growth.

SUGGESTIONS
Based on the research results obtained, the researcher has the following recommendations:
1. **For Future Researchers**
   The researcher recommends that future researchers explore variables outside this study to obtain more varied results. However, if future researchers wish to examine the same variables, they are expected to add independent variables or replace them with others, such as Exports, Imports, and Inflation.
2. **For the Government**
   Determining Economic Growth is expected to be a crucial issue for each Regency/City because good or bad economic growth will directly impact the province's financial position. Mistakes in determining Economic Growth will have far-reaching implications for a province. Therefore, management should pay attention to variables that influence Economic Growth, particularly the Special Allocation Fund, Village Fund, and Capital Expenditure variables, as these variables have been shown to affect the Economic Growth of a Regency/City.

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