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**JOURNAL**

# ECONOMIC GROWTH AS A MODERATOR OF THE EFFECT OF LOCAL OWN-SOURCE REVENUE AND INTERGOVERNMENTAL TRANSFERS ON CAPITAL EXPENDITURE

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**Abstract:**

This study examines the effects of Local Own-Source Revenue (LOSR), the General Allocation Fund (GAF), the Special Allocation Fund (SAF), and the Revenue Sharing Fund (RSF) on capital expenditure, with Economic Growth (EG) tested as a moderating variable, in regency/municipal governments in Central Kalimantan during the 2016–2023 period. Using panel data from 13 regencies and 1 city (112 observations), this research estimates random-effects regressions with natural log–transformed fiscal variables. The results show that GAF and SAF have significant positive effects, while LOSR and RSF have no significant effect on capital expenditure. Economic growth also does not directly affect capital expenditure and does not moderate the relationships between LOSR, GAF, SAF, or RSF and capital expenditure. These findings are consistent with the flypaper effect phenomenon, in which formula-based transfers rather than LOSR more strongly drive capital expenditure, providing implications for optimizing regional development budgeting.

**Keywords:**

Capital Expenditure, Economic Growth, Intergovernmental Transfers, Local Own-Source Revenue, Panel Data.

## BACKGROUND

One of the crucial components of regional expenditure in supporting regional development is **capital expenditure**, as it reflects local governments' investment efforts in sustainable infrastructure and public services. Unfortunately, in many regions, capital expenditure is often constrained by the dominance of operational expenditure, which is routine and consumptive in nature, and does not directly increase regional assets. Operational expenditure includes personnel expenditure, goods and services expenditure, interest payments, subsidies, grants, and social assistance.

According to Rifqinizamy Karsayuda (Chairman of Commission II of the House of Representatives), "So far, there are only four provinces in Indonesia that are not dependent on central government funding or the state budget (APBN). Only a few regions have Local Own-Source Revenue (LOSR) exceeding 60%, namely Banten, Jakarta, West Java, and Central Java." LOSR below 40% is considered highly dependent, and more than 70% of provinces and regencies/municipalities in Indonesia remain heavily dependent on the APBN (Dwi Rahmawati, 2025). Central Kalimantan Province is a clear example of this challenge. As a province located in the buffer zone of the new national capital (IKN), Central Kalimantan plays a strategic role in the future development of the Kalimantan region.

The proper allocation of Capital Expenditure is key to improving the quality of public services and promoting regional economic growth, as it is directly related to the provision of basic infrastructure needed by the community and businesses. In accordance with Law (UU) Number 1 of 2022 concerning fiscal relations between the central government and regional governments (HKPD), it is stipulated that by 2027 at the latest, all regional governments must implement and allocate at least 40% of the regional budget (APBD) for activities related to public service infrastructure. This policy aims to ensure the provision of basic infrastructure required by the community and the business sector (Republic of Indonesia, 2022).

In analyzing the relationship between local government revenues and expenditures, the Flypaper Effect theory serves as an important reference, asserting that central government transfers tend to "stick" more quickly to local government expenditure compared to revenues from LOSR, which normatively should better represent the spirit of fiscal independence (Hines & Thaler, 1995). In practice, this theory shows that when local governments receive grants or fiscal transfers from the central government, they are more likely to use them to increase public expenditure, rather than relying on their own-source revenues.

Therefore, this study seeks to address the fundamental question of how LOSR and intergovernmental transfers affect capital expenditure at the regency/municipal level in Central Kalimantan, and whether Economic Growth (EG) plays a moderating role in this relationship. Academically, this study contributes to the development of public economics theory, particularly by integrating the Flypaper Effect into the analytical framework of regional fiscal

interactions. Practically, the results are expected to provide insights for local budget policymakers.

## THEORETICAL FRAMEWORK

This study is grounded in the **Flypaper Effect theory**, which states that transfers from the central government tend to be absorbed into local government expenditure more quickly than Local Own-Source Revenue (LOSR). This phenomenon reflects regional fiscal dependence on formula-based transfers.

### Definition of Variables:

1. **Local Own-Source Revenue (LOSR)** refers to regional revenues derived from local taxes, local retributions, the management of regional assets, and other legitimate sources of LOSR (Law No. 33/2004).
2. **General Allocation Fund (GAF)** is a transfer from the central government allocated to equalize financial capacity among regions.
3. **Special Allocation Fund (SAF)** is a transfer intended to finance specific activities in line with national priorities.
4. **Revenue Sharing Fund (RSF)** consists of revenues from taxes and natural resources shared between the central government and local governments.
5. **Capital Expenditure** refers to budget expenditure used to acquire fixed assets and other assets that provide long-term benefits (Government Regulation No. 71/2010).
6. **Economic Growth (EG)** represents the annual change in real Gross Regional Domestic Product (GRDP) at the regency/municipal level.

### Previous Studies:

Prior research has produced mixed findings. Some studies found that LOSR has a positive effect on capital expenditure, while others reported a significant negative effect. GAF and SAF have generally been shown to exert significant positive effects on capital expenditure, whereas RSF tends to yield inconsistent results. Economic growth has been proven in several studies to directly influence capital expenditure, although its role as a moderating variable remains rarely tested comprehensively, particularly in the context of Central Kalimantan.

### Research Framework and Hypotheses:

Based on the theory and prior research, this study emphasizes the relationship between LOSR and intergovernmental transfers (GAF, SAF, RSF) on capital expenditure, while testing the moderating role of EG. The proposed hypotheses are as follows:

**H1:** LOSR affects capital expenditure.

**H2:** GAF affects capital expenditure.

**H3:** SAF affects capital expenditure.

**H4:** RSF affects capital expenditure.

**H5:** EG affects capital expenditure.

**H6:** EG moderates the effect of LOSR on capital expenditure.

**H7:** EG moderates the effect of GAF on capital expenditure.

**H8:** EG moderates the effect of SAF on capital expenditure.

**H9:** EG moderates the effect of RSF on capital expenditure.

## METHOD

This study employs a quantitative approach using panel data to analyze the relationships between Local Own-Source Revenue (LOSR), the General Allocation Fund (GAF), the Special Allocation Fund (SAF), and the Revenue Sharing Fund (RSF) on capital expenditure, as well as the role of Economic Growth (EG) as a moderating variable.

The research objects are local governments in Central Kalimantan Province, consisting of 13 regencies and 1 municipality. The study period covers 2016–2023, resulting in a total of 112 observations (14 regions × 8 years). The data used are secondary data obtained from the regional budget realization reports published by the Directorate General of Fiscal Balance (DJPK), Ministry of Finance, and the Gross Regional Domestic Product (GRDP) data published by Statistics Indonesia (BPS).

The analytical method applied is panel data regression using the Random Effects Model (REM), selected based on the results of the Chow test, Hausman test, and Lagrange Multiplier test. To address differences in variable scales, LOSR, GAF, SAF, RSF, and capital expenditure were transformed into natural logarithms, while EG remained in percentage form. The classical assumption tests conducted include residual normality and multicollinearity tests, in line with Gujarati (2013) and Baltagi (2005).

Moderation was tested by including the interaction terms between EG and each independent variable (LOSR, GAF, SAF, RSF). Data analysis was performed using EViews 13 software with a 5 percent significance level.

## RESULT

### Descriptive Statistics:

Descriptive statistics are used to provide a general overview of the characteristics of each research variable. In general, the number of observations for each variable is 112, consistent with the total research sample.

**Table 1. Descriptive Statistics**

| | LNY | LNX1 | LNX2 | LNX3 | LNX4 | Z |
|---|---|---|---|---|---|---|
| Mean | 5.493741 | 4.486475 | 6.364990 | 5.131433 | 4.901290 | 4.830982 |
| Median | 5.525018 | 4.399375 | 6.362476 | 5.108663 | 4.774718 | 5.710000 |
| Maximum | 6.417190 | 5.971670 | 6.800215 | 6.129181 | 7.728059 | 7.990000 |
| Minimum | 4.278470 | 3.521939 | 5.945159 | 4.029984 | 3.639689 | -3.250000 |
| Std. Dev. | 0.423225 | 0.601057 | 0.204616 | 0.388641 | 0.827303 | 2.655057 |
| Skewness | -0.280614 | 0.468577 | 0.062238 | -0.017298 | 0.972470 | -1.715891 |
| Kurtosis | 2.735284 | 2.511865 | 2.506331 | 3.368364 | 4.198058 | 5.325227 |
| | | | | | | |
| Jarque-Bera | 1.796910 | 5.210489 | 1.209619 | 0.638817 | 24.35128 | 80.19110 |
| Probability | 0.407198 | 0.073885 | 0.546179 | 0.726579 | 0.000005 | 0.000000 |
| | | | | | | |
| Sum | 615.2989 | 502.4851 | 712.8789 | 574.7205 | 548.9445 | 541.0700 |
| Sum Sq. Dev. | 19.88229 | 40.10089 | 4.647325 | 16.76564 | 75.97177 | 782.4754 |
| | | | | | | |
| Observations | 112 | 112 | 112 | 112 | 112 | 112 |

*Source: EViews 13 Output, 2025*

### Regression Model Selection:

Based on the table below, it can be observed that the model selected in this study is the Random Effect Model (REM).

**Table 2. Results of Panel Data Regression Model Selection**

| Model Test | Testing Method | Selected Model |
|---|---|---|
| Chow | CEM vs FEM | FEM |
| Hausman | FEM vs REM | REM |
| Lagrange Multiplier | CEM vs REM | REM |

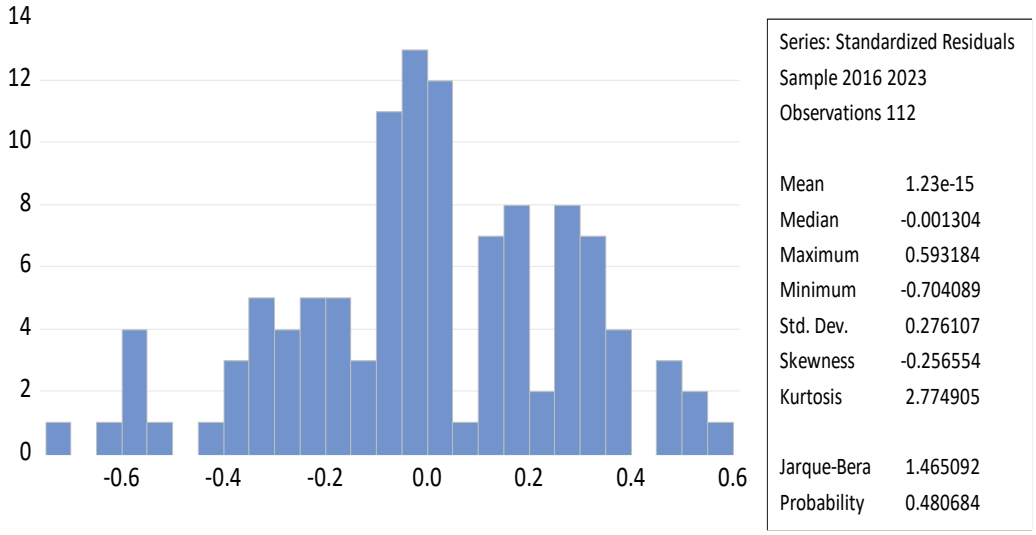
*Source: Author's compilation, 2025*

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**Classical Assumption Tests:**

Gujarati and Porter (2009) emphasize that in the Random Effect Model (REM), which applies the GLS method, issues of heteroskedasticity across units and autocorrelation in the error components are technically addressed. Therefore, this study only performed two classical assumption tests, namely the residual normality test and the multicollinearity test.

**Diagram 1. Results of the Jarque-Bera Test**




*Source: EViews 13 Output, 2025*

The residual normality test was conducted using the Jarque-Bera Test. The results show a Jarque-Bera value of 1.465, with a probability of 0.4806, which is greater than the significance level α = 0.05. Thus, the residuals of the model can be considered normally distributed.

**Table 3. Results of the Correlation Test**

| | LNX1 | LNX2 | LNX3 | LNX4 | Z |
|---|---|---|---|---|---|
| LNX1 | 1.000000 | 0.502458 | 0.379314 | 0.244628 | 0.005837 |
| LNX2 | 0.502458 | 1.000000 | 0.609899 | 0.231763 | 0.153637 |
| LNX3 | 0.379314 | 0.609899 | 1.000000 | 0.533969 | 0.120339 |
| LNX4 | 0.244628 | 0.231763 | 0.533969 | 1.000000 | -0.007086 |
| Z | 0.005837 | 0.153637 | 0.120339 | -0.007086 | 1.000000 |

Source: EViews 13 Output, 2025.

The results of the correlation test show that the relationships among the independent

variables are below the common threshold of 0.80, indicating that there is no excessively high correlation among the independent variables.

**Table 4. VIF Test Results**

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| C | 2.608535 | 826.3256 | NA |
| LNX1 | 0.003891 | 25.95290 | 1.140966 |
| LNX2 | 0.070782 | 909.6663 | 1.272326 |
| LNX3 | 0.008490 | 72.24663 | 1.427407 |
| LNX4 | 0.001413 | 12.26364 | 1.507582 |
| Z | 7.40E-05 | 1.661093 | 1.114154 |

Source: EViews 13 Output, 2025.

Based on the calculations, all independent variables have a Centered VIF value of less than 10, indicating that the model is free from serious multicollinearity issues.

**Moderated Regression Analysis (MRA) Test:**

**Table 5. Random Effect Model (REM) Results**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -2.628525 | 2.287216 | -1.149225 | 0.2532 |
| LNX1 | -0.098731 | 0.124815 | -0.791021 | 0.4308 |
| LNX2 | 0.897011 | 0.431737 | 2.077679 | 0.0403 |
| LNX3 | 0.602135 | 0.227433 | 2.647525 | 0.0094 |
| LNX4 | -0.082504 | 0.098249 | -0.839738 | 0.4030 |
| Z | 0.074315 | 0.308504 | 0.240888 | 0.8101 |
| LNX1Z | -0.007082 | 0.019880 | -0.356227 | 0.7224 |
| LNX2Z | -0.008107 | 0.063839 | -0.126997 | 0.8992 |
| LNX3Z | -0.017042 | 0.039074 | -0.436137 | 0.6637 |
| LNX4Z | 0.027021 | 0.017583 | 1.536721 | 0.1275 |

| Effects Specification | S.D. | Rho |
|---|---|---|
| Cross-section random | 0.193204 | 0.4323 |
| Idiosyncratic random | 0.221403 | 0.5677 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.518037 | Mean dependent var | 2.062941 |
| Adjusted R-squared | 0.475510 | S.D. dependent var | 0.307700 |
| S.E. of regression | 0.222841 | Sum squared resid | 5.065140 |
| F-statistic | 12.18159 | Durbin-Watson stat | 1.325796 |
| Prob(F-statistic) | 0.000000 | | |

*Source: EViews 13 Output, 2025.*

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Based on the results of the Random Effect Model (REM) regression analysis with Moderated Regression Analysis (MRA), the research findings are as follows:

$$Y = -2.628525 - 0.098731*LNX1 + 0.897011*LNX2 + 0.602135*LNX3 - 0.082504*LNX4 + 0.074315*Z - 0.007082*LNX1*Z - 0.008107*LNX2*Z - 0.017042*LNX3*Z + 0.027021*LNX4*Z.$$

**Hypothesis Testing:**

The coefficient of determination ($R^2$) is used to measure the extent to which the independent variables can explain the variation in the dependent variable.

**Table 6. $R^2$ Test Results**

| | | | |
|---|---|---|---|
| R-squared | 0.518037 | Mean dependent var | 2.062941 |
| Adjusted R-squared | 0.475510 | S.D. dependent var | 0.307700 |
| S.E. of regression | 0.222841 | Sum squared resid | 5.065140 |
| F-statistic | 12.18159 | Durbin-Watson stat | 1.325796 |
| Prob(F-statistic) | 0.000000 | | |

Source: EViews 13 Output, 2025.

Based on the results of the Random Effect Model regression, the R-squared value is 0.518047. This means that approximately 51.80% of the variation in Capital Expenditure in the regencies/municipalities of Central Kalimantan during the 2016–2023 period can be explained by the independent variables and the moderating (interaction) variables. Meanwhile, the remaining 48.20% is explained by other factors outside the scope of this research model.

**DISCUSSION**

Based on the estimation results of the Random Effect Model (REM) with Moderated Regression Analysis (MRA), the findings are as follows:

1. Local Own-Source Revenue (LNX1) has a coefficient of -0.098731 with a t-statistic of -0.791021 and a probability of 0.4308. Since the probability value is >0.05, LOSR has no significant effect on capital expenditure. This indicates that an increase in LOSR tends to be followed by a decline in capital expenditure, suggesting that LOSR is more often allocated to finance routine operational expenditures rather than investment (capital) expenditure.

2. General Allocation Fund (LNX2) has a coefficient of 0.897011 with a t-statistic of 2.077679 and a probability of 0.0403. Since the probability value is <0.05, GAF has a positive and significant effect on capital expenditure. This means that the higher the GAF received, the greater the regional capital expenditure, supporting the flypaper effect theory that intergovernmental transfers are more effective in stimulating development expenditure than LOSR.

3. Special Allocation Fund (LNX3) has a coefficient of 0.602135 with a t-statistic of 2.647525 and a probability of 0.0094. Since the probability value is <0.01, SAF has a positive and significant effect on capital expenditure. This implies that an increase in SAF allocation, which is earmarked for specific sectors, encourages local governments to increase capital expenditure in line with the transfer's objectives, particularly infrastructure development.

4. Revenue Sharing Fund (LNX4) has a coefficient of -0.082504 with a t-statistic of -0.839738 and a probability of 0.4030. Since the probability value is >0.05, RSF has no significant effect on capital expenditure. This suggests that although regions receive RSF from the central government, these funds tend not to be directed toward capital expenditure but are instead used to cover routine and operational needs.

5. Economic Growth (Z) has a coefficient of 0.074315 with a t-statistic of 0.240888 and a probability of 0.8101. Since the probability value is >0.05, EG does not significantly affect capital expenditure. This indicates that regional economic growth does not automatically lead local governments to increase capital expenditure, possibly because budget planning is more strongly influenced by intergovernmental transfers rather than local macroeconomic conditions.

6. Interaction between LOSR and Economic Growth (LNX1Z) has a coefficient of -0.007082 with a t-statistic of -0.356227 and a probability of 0.7224. Since the probability value is >0.05, this interaction is not significant. This means that economic growth neither strengthens nor weakens the effect of LOSR on capital expenditure.

7. Interaction between GAF and Economic Growth (LNX2Z) has a coefficient of -0.008107 with a t-statistic of -0.126997 and a probability of 0.8992. Since the

probability value is >0.05, this interaction is not significant. This indicates that economic growth does not moderate the relationship between GAF and capital expenditure.

8. Interaction between SAF and Economic Growth (LNX3Z) has a coefficient of -0.017042 with a t-statistic of -0.436137 and a probability of 0.6637. Since the probability value is >0.05, this interaction is not significant. This means that economic growth does not moderate the effect of SAF on capital expenditure.

9. Interaction between RSF and Economic Growth (LNX4Z) has a coefficient of 0.027021 with a t-statistic of 1.536721 and a probability of 0.1275. Since the probability value is >0.05, this interaction is not significant. However, the positive coefficient indicates a tendency toward a strengthening effect.

In summary, out of the nine hypotheses tested, only two: GAF and SAF show significant effects on capital expenditure, while the remaining variables do not.

## CONCLUSION

This study aims to analyze the effect of Local Own-Source Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) on Capital Expenditure, with Economic Growth as a moderating variable, in regency/municipal governments of Central Kalimantan Province. The research population covers all 14 regencies/municipalities, with the observation period from 2016 to 2023, resulting in a total of 112 panel data observations. The analytical method applied is panel data regression using the Random Effect Model (REM) approach.

Overall, the findings confirm that capital expenditure in Central Kalimantan is more strongly influenced by central government transfers (GAF and SAF) than by LOSR, RSF, or regional economic growth. These results reinforce the relevance of the Flypaper Effect theory in the context of fiscal decentralization in Indonesia, particularly in Central Kalimantan as a buffer region for the new capital city (IKN).

### Policy Implications:

First, the central government needs to ensure that the allocation of transfer funds, particularly GAF and SAF, is distributed fairly and aligned with regional development

priorities to reduce excessive fiscal dependence. Second, local governments should strengthen efforts to optimize LOSR collection and management, not merely relying on transfer funds, to enhance fiscal independence. Third, integrating capital expenditure planning with long-term economic growth strategies is crucial for maximizing the effectiveness of infrastructure development and public services in supporting sustainable regional development.

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