American International Journal of Business Management (AIJBM)
*ISSN- 2379-106X, www.aijbm.com Volume 07, Issue 07 (**July-2024**), PP 31-35*

The Influence of Regional Original Income, General Allocation Funds, and Profit Sharing Funds on Capital Expenditures of the South Sulawesi Provincial Government, Indonesia

Amir[1], Akhmad[1], Andi Rustam[1], Buyung Romadhoni[1], Zainal Abidin[2], Asdi[1]
[1]*Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Makassar, Indonesia*
[2]*Sekolah Tinggi Ilmu Ekonomi (STIE-YPUP) Makassar, Indonesia*
**Corresponding Author: Amir,*

ABSTRACT: This research aims to determine the influence of local original income, general allocation funds and profit sharing funds on capital expenditure of the regional government of South Sulawesi province. This research was conducted in South Sulawesi Province. The data used in this research is time series data in the form of local original income, general allocation funds, profit sharing funds and capital expenditure of the government of South Sulawesi Province, 2010-2020. This data was obtained from the Central Statistics Agency of South Sulawesi Province and the Regional Government of South Sulawesi Province. The research results show that partially Original Regional Income has a positive and significant effect on the capital expenditure of the South Sulawesi provincial government. Meanwhile, the General Allocation Fund has a positive but not real influence on the capital expenditure of the South Sulawesi provincial government. Furthermore, profit sharing funds have a positive and significant influence on the capital expenditure of the South Sulawesi provincial government.

KEYWORDS - Regional Original Income, General Allocation, Profit Sharing Funds, Capital Expenditures

I. INTRODUCTION

The regional autonomy policy was launched by the government through Law Number 22 of 1999 concerning Regional Government which was revised by Law Number 32 of 2004. Apart from that, it is also contained in Law Number 25 of 1999 concerning Financial Balance between the Central and Regional Governments which was revised. with Law Number 33 of 2004. This law states that a region is given autonomous authority to carry out development in all fields and is expected to carry it out independently by the region, both in terms of planning, development and financing. This authority aims to bring government services closer to the community, and make it easier for the community to monitor and control the use of funds sourced from the Regional Revenue and Expenditure Budget (Akhmad, 2019).

Law Number 32 of 2004 states that regions have the authority to determine the amount of resource allocation in Capital Expenditures by adhering to the principles of appropriateness, regional needs and capabilities (Mardiasmo, 2009). The regional government, in collaboration with the Regional People's Representative Council as a legislative institution, first determines the General Policy (KUA), the Regional Revenue and Expenditure Budget (APBD) and the priorities and ceiling of the Temporary Budget (PPAS) as a guide in allocating internal resources (Akhmad and Amir, 2020).

Capital expenditure is a direct expenditure component in the government budget which produces output in the form of fixed assets (Rasyid, 1998). Capital Expenditures are closely related to long-term financial planning, especially financing for maintenance of fixed assets resulting from Capital Expenditures. According to the Multi-Term Expenditure Framework (MTEF) concept, Capital Expenditure policies must pay attention to the usefulness and financial capability of local governments (budget capability) in allocating these assets in the long term (Simanjuntak, 2002).

The regional government allocates funds in the form of a Capital Expenditure budget in the APBD to increase fixed assets (Kamaroellah, 2017). Capital Expenditure Allocations are based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and public facilities. Therefore, in an effort to improve the quality of public services, local governments should change the composition of their spending. So far, regional spending has been used more for routine spending which is relatively less productive. World Bank (2007), states that spending should be allocated to productive things, for example to carry out development activities.

Regional government can be run well because of the support of resource factors that are able to move the wheels of government organizations in order to achieve goals (Iimi, 2005). One factor is finance. Financial factors are the main factors that become financial sources for the implementation of regional government. Regional finance is the entire structure, instruments, institutions and budgeting policies which include regional income and expenditure. Regional income can be sourced from last year's Budget Calculation Surplus (SILPA), Original Regional Income, tax and non-tax revenue sharing, donations and assistance as well as development revenues (Indah, 2014).

Law Number 32 of 2004 states that the sources of financing include, among other things, Regional Original Income and balancing funds received by regions from the central government. Original Regional Income is regional revenue from the regional tax sector, regional levies, results from regionally owned companies, results from the management of separated regional assets, and other legitimate Regional Original Income (Mardiasmo; 2002). This Regional Original Income consists of regional tax proceeds, regional levy proceeds, separated regional wealth management results and others.

Currently, there are still many problems faced by local governments related to efforts to increase regional revenues, limited facilities and infrastructure that do not support investment, raising the question of how PAD actually relates to capital expenditure, whether due to low PAD or inappropriate allocation according to (Directorate General of Budget, Ministry of Finance, 2009).

Regional revenues are expected to continue to increase PAD from year to year in line with increasing spending needs. Increasing regional revenues, especially from regional original income (PAD) is something that must continue to be pursued towards realizing more real regional autonomy (Nurhemi and Suryani (2015).

Suci and Asmara (2014). states that the role/contribution of revenue originating from the central government in the form of transfers, donations and assistance, tax and non-tax revenue sharing, dominates the composition of the APBD. The regional government public sector budget in the APBD is actually the output of resource allocation. Therefore, regional governments are required to be careful in allocating the resources they have, both revenue resources from the region itself, as well as revenue resources from outside, in the form of Balancing Funds from the Center. Balancing funds are a source of regional income originating from the State Revenue and Expenditure Budget (APBN) to support the implementation of Regional Government authority in carrying out its duties and responsibilities to be able to provide public services and improve the welfare of its people (Saragih, 2014).

The balancing funds consist of Profit Sharing Funds (DBH), General Allocation Funds (DAU) and Special Allocation Funds (DAK). Profit Sharing Funds as one component of balancing funds are funds sourced from APBN revenues which are allocated to regions based on a certain percentage figure to fund regional needs in the context of implementing decentralization (Akhmad and Romadhoni. 2020).

Profit Sharing Funds transferred by the central government to regional governments consist of two types, namely tax Profit Sharing Funds and non-tax Profit Sharing Funds (Natural Resources). Regions that have natural wealth and tax revenues will have regional revenues originating from the management of these resources by the central government to finance regional expenditure (Nurhemi and Suryani, 2015).

The results of resource management are allocated to regions in the form of Profit Sharing Funds (DBH) using the by origin principle (producing regions) and looking at the realization in the State Revenue and Expenditure Budget (APBN). Misdawita and Sari (2013) stated that Revenue Sharing Funds (DBH) are a potential source of regional income and are one of the basic capital of regional governments in obtaining development funds and meeting regional expenditures other than those originating from Original Regional Income (PAD), Allocation Funds. General (DAU) and profit sharing funds (DBH). Irsyadi, (2014) stated that the government's role in development is as a catalyst and facilitator, because the government is the one who knows more about the development goals to be achieved.

The targets and objectives of regional development and economic activities within the framework of decentralization can be realized by issuing regional expenditures where receipts and expenditures can be received from the Profit Sharing Fund and issued with appropriate budgets, allocations and proportions.

According to Darwanto and Yustikasari (2007), the Balancing Fund is intended to overcome vertical imbalances between levels of government (profit sharing funds & general allocation funds), equalize the fiscal capacity of regional governments, encourage regional spending for priority national development activities, encourage the achievement of services and minimum standards, and stimulate revenue mobilization.

Law Number 32 of 2004 concerning Regional Government, regional expenditure is all regional obligations that are recognized as a deduction from the value of net assets in the relevant fiscal year period. Law Number 32 of 2004 concerning Regional Government also states that regional spending is prioritized to protect and improve the quality of life of the community in an effort to fulfill regional obligations (Harianto & Adi, 2007).

Regional expenditure is expenditure made by the regional government to carry out authority and responsibility to the community and the government above it. Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management also states that regional expenditure is an estimate of the burden of regional expenditure which is allocated fairly and evenly so that it can be relatively enjoyed by all community groups without discrimination, especially in the provision of public services Samimi at al. (2010).

Regional government spending is used to fund the implementation of government affairs which fall under the authority of the province or district/city, consisting of mandatory affairs, optional affairs and affairs which are handled in certain sections or fields which can be carried out jointly between the government and regional governments or between designated regional governments. with statutory provisions. Expenditures for administering affairs must be prioritized to protect and improve the quality of life of the community in an effort to fulfill regional obligations which are realized in the form of improving basic services, education, health, social facilities and adequate public facilities as well as developing a social security system (Kamaroellah, 2017).

The amount of revenue from regional original income (PAD) is very dependent on the ability of regional governments to explore their potential. The amount and increase in revenue from PAD will provide an illustration of the regional government's ability to manage development financing more independently (Indah, 2014).

Based on the background of the problem, the aim of this research is to determine the influence of local revenue, general allocation funds and profit sharing funds on the capital expenditure of the South Sulawesi provincial government.

II. RESEARCH METHODS

This research was conducted in South Sulawesi province. The data used in this research is time series data consisting of; local revenue, general allocation funds, profit sharing funds, and capital expenditure of the South Sulawesi provincial government in 1912-2022. This data was obtained from the central statistical agency of South Sulawesi Province.

The data collected was then analyzed using a multiple linear regression analysis model with the formula:

$Y = \alpha+ß1X1 +ß2X2+ß3X3 +e$

Where:

Y = capital expenditure (BM)

α = constant

ß = slope or regression coefficient

X1 = local original income (PAD)

X2 = General allocation fund (DAU)

X3 = Profit sharing funds (DBH)

e = error.

Multiple linear regression parameter estimation aims to explain the influence of one or more independent variables Xi on the response variable Yi. The solution that is often used is the Ordinary Least Squares (OLS) method. The principle of OLS estimation is to minimize the residual sum of squares.

III. RESULTS AND DISCUSSION

General description of the research object

~Geographically, South Sulawesi is a province in Indonesia which is located in the southern part of Sulawesi. The capital city is Makassar. This province borders Central Sulawesi and West Sulawesi to the north, Bone Bay and Southeast Sulawesi to the east, Makassar Strait to the west and the Flores Sea to the south.

South Sulawesi Province is located between 0°12´ South Latitude and 8° South Latitude and between 116° 48´ – 122° 36´ East Longitude and is crossed by the equator which is located at 00 Latitude. South Sulawesi consists of 24 Regencies /City consisting of 21 regencies and 3 cities, namely: Makassar City, Pare-Pare City, Palopo City, Selayar Islands, Bulukumba, Bantaeng, Jeneponto, Takalar, Gowa, Sinjai, Maros, Pangkep, Barru, Bone, Soppeng, Wajo , Sidrap, Pinrang, Enrekang, Luwu, Tana Toraja, North Luwu, East Luwu and North Toraja.

The area of South Sulawesi Province is recorded at 46,717.48 km² which includes 21 districts and 3 cities. North Luwu Regency is the largest Regency with an area of 7,502.68 km² or the area of the Regency is 16.39% of the entire South Sulawesi area. Meanwhile, Pare-Pare City is the Regency with the smallest area, namely 99.33 km² or 0.21% of the South Sulawesi area.

Results and Discussion

The data used in this research is Time Series data or data from 2012 to 2022. The data obtained was then processed using SPSS (Statistical Product Service Solutions) computer software.

This research contains three independent variables, namely regional original income, capital expenditure and profit sharing funds. and the dependent variable, namely capital expenditure of the South Sulawesi Provincial government. To see whether there is an influence of each independent variable on the dependent variable, a multiple regression model can be tested using SPSS 22.

Table 1. Multiple regression test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-374.449	382.313		-.979	.365
	PAD	.300	.090	.871	3.343	.016
	DAU	.109	.106	.021	.082	.338
	DBH	.277	.045	.200	3.035	.024

Source: Data processed with SPSS.22.

Based on table 1, the results of multiple linear regression can be obtained from the following regression equation:

Y= -374.449 + 0,300 X_1+ 0,109X_2 + 0,277X_3

The coefficients in the multiple linear regression equation can be interpreted as follows: (1) the coefficient obtained is 0.300, these results indicate that for every 1 percent increase in local original revenue, capital expenditure will increase by 0.30 percent. (2) while the regression coefficient for general allocation funds (DAU) is 0.109, indicating that every 1 percent increase in general allocation fund revenues will increase capital expenditure by 0.109 percent of capital expenditure, and (3) the regression coefficient for profit sharing funds (DBH) is 0.277 , shows that every 1 percent increase in revenue sharing funds will increase capital expenditure by 0.277 percent.
The results of the coefficient of determination test are used to find out how much influence the independent variable has on the dependent variable. The iR^2 value has an interval between 0 and 1. The greater the R^2 value (closer to 1), the better the results for the regression model.

Table 2. Determination coefficient test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.949[a]	.901	.852	119.063	.901	28.302	3	6	.002

Source: Data processed with SPSS.22.

Based on table 4.10. From the SPSS output results above, the Adjusted R Square (coefficient of determination) value is 0.901, which means the influence of the independent variable (X) on the dependent variable (Y) is 90.1%. Meanwhile, the remaining 9.9% is influenced by other variables outside this regression equation.

The test was carried out to see the influence of the independent variables on the dependent variable as a whole. This test was carried out by comparing the significance value obtained from the calculation results with the degree of error (α) tolerated in this research, namely α = 0.05

Discussion of Research Results

Based on the research that has been carried out, the test results can be explained as follows:

The influence of local revenue on the capital expenditure of the South Sulawesi Provincial government. The results of the analysis show that local revenue has a positive and significant influence on capital expenditure, which has a significant value of 0.016, which is smaller than the probability of 0.05. Therefore, we can say that local revenue has a positive and real influence on the increase in capital expenditure of the South Sulawesi Provincial government. This finding is in line with the findings of (Syahputra 2017), with the research title The influence of local revenue and capital expenditure on provincial governments in Indonesia. These results show that local revenue has a positive and real influence on capital expenditure.

The influence of general allocation funds on capital expenditure in South Sulawesi Province. The results of the analysis show that general allocation funds have a positive and insignificant effect on provincial government capital expenditure in Indonesia, with a significance value of 0.338 which is greater than the probability of 0.05. Therefore we can say that general allocation funds have a positive but not real effect on the increase in capital expenditure of the South Sulawesi Provincial government. This explains that the South Sulawesi Provincial government which receives large General Allocation Funds will tend to have low capital expenditure. This is because the General Allocation Funds obtained are mostly used to finance other expenditures such as personnel expenditures and social expenditures.

The Influence of Profit Sharing Funds on Capital Expenditures in South Sulawesi Province. Based on the test results above, it is known that profit sharing funds have a positive and real effect on the capital expenditure of the South Sulawesi provincial government. The significance value of the profit sharing fund variable is 0.024, which is smaller than 0.05. This means that there is a real influence of profit sharing funds on capital expenditure. This explains that the South Sulawesi Provincial government which receives large profit sharing funds will tend to increase its capital expenditure

IV. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of the research and discussion, the following conclusions can be drawn:
Regional Original Income has a positive and significant effect on capital expenditure in South Sulawesi. This means that every increase in Original Regional Income will increase the value of Capital Expenditures for the South Sulawesi Provincial government.

The General Allocation Fund has a positive and significant effect on capital expenditure in South Sulawesi. This means that the increase in revenue from the General Allocation Fund will increase the value of the Capital Expenditure of the South Sulawesi Provincial government. This explains that if the South Sulawesi Provincial Government gets large General Allocation Funds it will tend to have increased capital expenditure.

Profit Sharing Funds have a positive but not significant effect on capital expenditure in South Sulawesi. This means that the increase in revenue from the Allocation Fund will not significantly increase the value of Capital Expenditures for the South Sulawesi Provincial government.

Suggestion

Based on the results of the discussion and conclusions as well as the limitations of the research above, the researcher tries to provide suggestions: that regional governments are expected to continue to explore sources of Original Regional Income so that they are useful in funding to improve the quality of public services in the region. Regional governments are also expected to be able to manage and fully utilize General Allocation Funds and Profit Sharing Funds well to improve the quality of public services

ACKNOWLEDGMENTS

On this occasion the author would like to thank the Chancellor of the Muhammadiyah University of Makassar, the Chair of the LP3M of the Muhammadiyah University of Makassar and the Dean of the Faculty of Economics and Business, the University of Muhammadiyah Makassar and his staff, for the opportunity given to conduct research on the Influence of Regional Original Income, General Allocation Funds and Shared Funds. Results on Capital Expenditures of the South Sulawesi Provincial Government, Indonesia.

REFERENCES

[1]. Akhmad. (2019). *Regional Financial Management in the Era of Regional Autonomy.* Bogor: Azkiya Publishing.

[2]. Akhmad and Amir. 2020. Overcoming Poverty in the Region; Regency and City Government Poverty Alleviation Efforts in South Sulawesi. Bogor: Azkiya Publishing.

[3]. Akhmad and B. Romadhoni. 2020. Effectiveness of Regional Government Expenditures on Poverty. Mega Aktiva: Jurnal Ekonomi dan Manajemen. Vol 9. No.1 PP.11-20.

[4]. Darwanto dan Yulia Yustikasari.(2007). The Influence of Economic Growth, Original Regional Income, and General Allocation Funds on Capital Expenditure Budget Allocation. Simposium Nasional Akuntansi. Makassar.

[5]. Halim, Abdul. (2007). Public sector accounting; Regional Financial Accounting. Salemba Empat.

[6]. Harianto, D. & Adi, P.H. (2007). The relationship between General Allocation Funds, Capital Expenditures, Regional Original Income, and Per Capita Income. SNA X Unhass Makasar 26-28 Juli 2007.

[7]. Iimi A. (2005). Decentralization and Economic Growth Revisited: An Empirical Note. *Journal of Urban Economics*, *57*(1), 449-461

[8]. Indah. (2014). Authority Relations Between Central and Regional Governments in the Unitary State of the Republic of Indonesia. *Rechtidee Jurnal Hukum*, *9*(2), 137-153

[9]. Irsyadi, M.A. (2014). Analysis of Factors that Influence Capital Expenditure Allocation (Empirical Study in districts/cities in Central Java Province).Naskah Publikasi. Universitas Muhammadiyah Surakarta.Jakarta: Salemba Empat.

[10]. Kamaroellah R.A. (2017). Analysis of the Level of Regional Financial Capability in Supporting the Implementation of Regional Autonomy. *Nuansa*, *14*(1), 123-136

[11]. Kementerian Keuangan RI..(2004). Undang-Undang Nomor 32 Tahun 2004 tentang Pemerintah Daerah

[12]. Kementerian Keuangan RI. (2005). Peraturan Pemerintah Nomor 55 Tahun 2005 tentang Dana Perimbangan.

[13]. Mardiasmo. (2002). Regional Financial Autonomy and Management..Yogyakarta: Penerbit Andi.

[14]. Mardiasmo. (2009). Fiscal Decentralization Policy in the Reform Era: 2005-2008: Era Baru kebijakan Fiskal. Jakarta: Kompas.

[15]. Misdawita dan A P. Sari. (2013). Analysis of the Impact of Government Expenditures in the Sectors of Education, Health, and Subsidy Expenditures on Poverty in Indonesia. Jurnal Ekonomi & Kebijakan Publik, 4(2), 147-161.

[16]. Nurhemi and G.Suryani. (2015). The Impact of Regional Financial Autonomy on Economic Growth in Indonesia. Buletin Ekonomi Moneter dan Perbankan, *18*(2), 183-206

[17]. Rasyid M.R. (1998). Decentralization in the Context of Supporting Regional Development: in a Collection of Essays. Administrative Development in Indonesia. Jakarta: LP3ES.

[18]. Samimi A.J A.J., S.K.P.Lar, G.K.Haddad, and M. Alizadeh, (2010). Fiscal Decentralization and Economic Growth in Iran. Australian Journal of Basic and Applied Sciences, 4(11), 5490-5495.

[19]. Saragih J.P. (2014). The Politics of Fiscal Decentralization: Problems in Implementation. *Politica, 5*(2), 200- 224.

[20]. Simanjuntak. (2002). Fiscal Needs, Fiscal Capacity and Optimization of Regional Original Income Potential (PAD). Working Paper. Lembaga Penyelidikan Ekonomi dan Masyarakat, Universitas Indonesia, Jakarta. *Otonomi Daerah* (pp. 25-33). Lembaga Penyelidikan Ekonomi dan Masyarakat: Universitas Indonesia.

[21]. Suci S.C dan A.Asmara. (2014). The Influence of Regional Financial Independence on the Economic Growth of Regency/City Banten Province. *Jurnal Ekonomi dan Kebijakan Pembangunan*, *3*(1), 8-22.

[22]. Syahputra R. (2017). Analysis of the Degree of Decentralization or Regional Financial Independence in the Implementation of Regional Autonomy in Aceh Tamiang. *Jurnal Samudra Ekonomika*, *1*(1), 12-21.

[23]. World Bank. (2007). *Indonesian Public Expenditure Study: Maximizing New Opportunities, Indonesian Public Expenditure Study* 2007. Jakarta: World Bank.

****Corresponding Author:* Amir** ***e-mail: amir@unismuh.ac.id***
[1](Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Makassar, Indonesia.