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# Nexus Between Capital Expenditure and Inclusive Economic Growth during the Covid-19 Pandemic

**Herlina Aria Chandra** [1]
**Rudy Badrudin** [2 *]

[1] *Graduate Program, Master of Accountancy*
[2] *Department of Doctor of Accountancy*
[1,2] *YKPN School of Business (STIE YKPN), Yogyakarta, Indonesia*
**Corresponding author*: rudybadrudin.stieykpn@gmail.com

**Abstract:** *Regional economic development can lead to an increase in economic growth, a reduction in unemployment and inequality, and a decrease in poverty levels in the area. However, the COVID-19 pandemic has resulted in a decline in economic activities, causing increasing unemployment and poverty in Indonesia. This study aims to analyze the influence of Regional Original Revenue (ROR) and General Allocation Fund (GAF) on capital expenditure and economic growth, with the COVID-19 pandemic as a moderating variable in all districts and cities throughout Indonesia from 2019 to 2022. The sample consists of 341 districts and cities that have complete data on the required variables. The analytical techniques employed include path analysis, descriptive analysis, model fit tests, and multicollinearity tests. The research findings indicate that ROR and GAF have a significant positive effect on capital expenditure. Capital expenditure can be able to mediate the relationship between ROR, GAF, and economic growth. However, economic growth is unable to mediate the relationship between capital expenditure and unemployment or poverty. Covid-19 is found to negatively moderate the relationship between capital expenditure and unemployment, while positively moderating the relationship between capital expenditure and poverty.*

Keywords: *capital expenditure; covid-19; inclusive economic growth; general allocation fund; regional original revenue*

## 1. Introduction

According to the United Nations Development Program (UNDP), inclusive economic growth focuses on improving the quality of life and welfare of all members of society. This means that inclusive economic growth includes reducing poverty and inequality and fulfilling basic rights, such as education, health, and decent work. One of the efforts to achieve inclusive economic growth is economic development. Economic development that involves sustainable economic growth, expanding employment opportunities, increasing per capita income, and improving economic infrastructure is appropriate to be used to achieve inclusive economic growth. If regional economic development is formed, there will be an increase in economic growth, a reduction in unemployment and inequality, and a decrease in the poverty rate in the region. In addition, this economic development is also characterized by an increase in economic activity, such as increased productivity and income per capita of the population, which in turn increases the level of people's welfare (Sukirno, 2006).

Local governments have an important role in achieving economic development goals by utilizing revenues and expenditures that have been budgeted in the APBD. The role of local government has become increasingly important in carrying out economic development since the existence of fiscal decentralization where the priority of regional financial management is used for productive purposes to encourage regional economic growth.

Economic development through capital expenditure will cause the economy to grow so that it can increase the welfare and prosperity of the community. ROR and GAF are two components in the APBD that local governments can use to finance capital expenditures. Capital expenditure is carried out based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for improving public facilities. This capital expenditure allocation should be used more for productive things to increase economic development (Darise, 2006).

Regional Original Revenue (ROR) is a source of funding for autonomous regions obtained from the ability of resources in the region itself. Regional Original Revenue is influenced by the potential of each region. This income will of course be different in each region due to differences in the ability of resources. This can lead to a fiscal gap (the gap between fiscal needs and regional capabilities) so that other income is needed besides this Regional Original Revenue. One source of additional funds that can be used to fund capital expenditures is the General Allocation Fund (GAF). GAF is allocated to realize equal distribution of financial capacity among regions to support spending in the context of implementing decentralization. GAF allocation is regulated in Law No. 33 of 2004, which considers the fiscal gap of an area, regional potential, area size, geographical conditions, population, and income level of people in each region. This aims to reduce the difference between developed and developing regions (Sukirno, 2006).

Regional revenues and expenditures can be one of the components to encourage economic growth using capital expenditures that are spent for productive purposes. Not only increasing economic growth but also GAF can reduce unemployment and overcome poverty. During the COVID-19 pandemic, economic growth in Indonesia experienced a decline (Arianto, 2021; Fadhilah et al., 2023). Therefore, the government issued capital expenditures that were higher than the previous year to maintain the level of economic growth in all regions of Indonesia. Economic growth in Indonesia in 2020 weakened by 2.97% and even reached -5.32% in the second quarter. This economic contraction was triggered by the external factor of COVID-19. Not only nationally, the impact of COVID-19 will affect regional economic growth. The economic contraction is most felt by regions that rely on the tourism sector due to *social distancing*, such as regencies/cities located in the provinces of Bali and Yogyakarta. Based on *Google Mobility*, the level of mobility in public transportation centers in Bali Province decreased by 95% in March 2020, while in Yogyakarta it decreased by 84% in May 2020. This resulted in an economic decline in Bali of 9.31% and 2.69% in Yogyakarta.

COVID-19 has also led to an increase in the unemployment rate, a decrease in the productivity level of both individuals and companies and has resulted in the emergence of new groups of poor people, which as a whole has increased the number of people living in poor conditions which have led to an increase in the death rate. In September 2019, the percentage of poor people was 9.22% but increased to 9.78% in March 2020 as a result of the COVID-19 Pandemic. This is equivalent to an increase of 1.63 million poor people since September 2017. Apart from that, COVID-19 has also had an impact on increasing unemployment in Indonesia where there has been a decrease in the income of

workers/employees/employees by 15.6%. During the implementation of Large-Scale Social Restrictions (PSBB), there was a Termination of Employment (PHK) which caused an increase in the number of unemployed people from 2.67 million in August 2020 to 9.77 million people. Of these, 1.77 million people lost their jobs due to the impact of COVID-19 and another 24.03 million people experienced reduced working hours due to COVID-19. COVID-19 has also increased the crime and death rate in Indonesia.

The impact of the presence of COVID-19 has also affected poverty in the regions, including areas on the islands of Java-Bali. 70-80% of COVID-19 cases are in Java-Bali resulting in a new poverty knot due to the economy of the affected districts/cities. It was recorded that in the period March-September 2020, the highest increase in poverty was in the Seribu Islands, namely 2.07%, and in 2021 the highest increase in poverty was in Sampang Regency, 3.05%. Meanwhile, in Bali, Buleleng Regency is the area with the highest increase in poverty, namely 0.93%. This increase in the poverty rate was also triggered by layoffs and reduced salaries during the pandemic (Quy, 2016).

The government is required to respond to COVID-19 quickly. In this case, the regional government has an important role to play as an extension of the central government to ensure that every effort is carried out appropriately and reaches the entire community. Efforts made by the government are encouraging domestic consumption and business activities as well as maintaining economic stability. The increase in domestic consumption was driven by the provision of electricity fee waivers, Pre-Employment Cards, and Direct Cash Assistance. Then to increase the activities of MSME and corporate actors, the government provides stimulus such as postponement of installments and interest subsidies, guaranteed working capital of up to IDR 10 billion, and tax incentives. Meanwhile, to maintain national stability, Bank Indonesia took various measures, including lowering interest rates, maintaining the value of the rupiah, purchasing government securities, as well as macroeconomic and financial stability.

In the fourth quarter of 2022, Indonesia's economic growth grew at 5.01% amid slowing world economic growth. Overall, Indonesia's economic growth in 2022 was recorded to be higher, namely 5.31% compared to 2021, which was 3.70%. Meanwhile, regional economic growth was led by North Maluku which was able to grow by 22.94% in 2022. This indicates that the government's economic recovery strategy is producing results. Efforts made by the government succeeded in encouraging household consumption and investment. This household consumption for the government will increase the allocation of capital expenditure. The government's push for capital expenditure has been able to make the Indonesian economy, which at the beginning of the COVID-19 pandemic experienced a contraction, is now gradually improving.

In addition to improving economic growth, the handling of COVID-19 has also had an impact on reducing poverty and unemployment. In March 2022, the number of poor people has decreased to 26.16 million people or 9.54% of the total population. Meanwhile, the unemployment rate decreased to 6.49% of the total workforce, or the equivalent of 9.10 million people in August 2021. This means that the government's push for capital spending,

apart from affecting economic growth, will also indirectly reduce unemployment and poverty rates in Indonesia.

The research *gap* that distinguishes this research from previous research is found in the research object, and the mediating and moderating variables used. This research involved all districts/cities in Indonesia as research objects, while previous research only focused on districts/cities in a particular province or island. In addition, economic growth in this research is used as a mediating variable between capital expenditure and unemployment and poverty. Meanwhile, previous studies have not utilized economic growth as a mediating variable in the relationship between capital expenditure, unemployment, and poverty. This study also uses the COVID-19 Pandemic as a moderating variable between economic growth, unemployment, and poverty. The COVID-19 Pandemic in previous research has not been used as a moderating variable between the two variables. No previous research has used COVID-19 as a moderator between economic growth and unemployment. Previous research has examined the more direct effect of COVID-19 on poverty and unemployment or economic growth. In addition, previous research has used the COVID-19 Pandemic as categorical data to find out the differences before and after the pandemic.

## 2. Literature Review

### 2.1. Agency Theory

The agency theory describes the relationship between the principal and the agent, in which the principal entrusts his organization to be managed by the agent. Communities that can be said to be principals require accountability from the government when managing their organizations because there is an information asymmetry between the two. The realization of APBN and APBD that is published transparently to the public is a form of government responsibility in managing finances so that the public can assess whether their organization, in this case, the regions, is being managed properly or not (Jensen & Meckling, 1976).

### 2.2. Locally Generated Revenue

ROR refers to Law Number 33 of 2004 concerning the Financial Balance between the Center and the Regions Article 1 number 18 that "Regional original income, hereinafter referred to as ROR, is income obtained by the regions which are collected based on regional regulations by laws and regulations". In the APBD, ROR has four posts, namely regional taxes, regional fees, results of separated regional management, and other legitimate ROR. ROR can be used as a benchmark for economic growth in a region. If an area experiences an increase in ROR, the area will likely experience positive economic growth.

### 2.3. General Allocation Fund

The General Allocation Fund (GAF) is part of the balancing funds transferred from the central government to support fiscal decentralization, together with DBH and DAK. GAF comes from the State Revenue and Expenditure Budget (APBN) and aims to overcome financial gaps between regions to finance regional needs. GAF allocation is regulated in Law No. 33 of 2004, which considers the fiscal gap, regional potential, area size, geographical conditions, population, and income levels of residents in the area so that the difference

between developed and developing areas can be reduced. If a region has small fiscal needs but has high fiscal potential and economic growth, then the GAF allocated will be relatively small. On the contrary, if a region has large fiscal needs but has low fiscal potential and economic growth, then the GAF allocated will be relatively large.

### 2.4. Capital Expenditures

Capital expenditure is one of the direct expenditure components contained in the APBD which has long-term benefits and can be felt by the community directly. The capital expenditure budget can come from ROR and GAF. Capital expenditure has the aim of improving people's welfare, so local governments need to strive to increase development expenditure including capital expenditure (Badrudin, 2017). The theory of government spending stated that aggregate spending can be increased through government spending on development activities so it can trigger an increase in state economic activity including regional economic activity (Sukirno, 2006). When linked with capital expenditure, the higher the capital expenditure, the greater the impact on the regional economy (Darise, 2006).

### 2.5. Inclusive Economic Growth

According to the United Nations Development Program (UNDP), Inclusive economic growth is economic growth that focuses on improving the quality of life and welfare of all members of society (Siregar, 2019). This means that inclusive economic growth includes reducing poverty, reducing inequality, and fulfilling basic rights, such as education, health, and decent work. This study uses economic growth, unemployment, and poverty which are important elements of concern in inclusive economic growth.

### 2.6. Economic Growth

Economic growth is an increase in income or ability caused by an increase in the production of goods and services. Economic growth is closely related to people's welfare, so economic growth is important for a country. Economic growth can be assessed using the growth rate of GDP (Gross Domestic Product) at the national scope and GRDP (Gross Regional Domestic Product) at the regional or regional scope (Siswiyanti, 2017 Sundoro & Suhardjo, 2021). GDP or GRDP itself is the value that arises due to the production of goods and services in a region in a certain period. The theory of economic growth that is relevant to this research is the theory of economic growth according to the Neo Keynes theory which was popularized by Roy F. Harrod and Evsey D. Domar who concluded that investment and investment are the most important factors in economic growth. Investment results in the availability of capital to increase production. If there is an increase in production, there will also be an increase in economic growth. Capital formation is very important because proper capital formation will increase production thereby increasing economic growth (Gunantara & Dwirandra, 2014; Irawan, 2022 Siregar, 2022).

### 2.7. Unemployment

Unemployment according to the Central Bureau of Statistics (BPS) refers to individuals who do not have a job, are looking for work, are preparing for a business, are not looking for job

opportunities because they feel it is impossible to get them, or individuals who already have a job but have not started working (Salsabila, 2022). Unemployment is described by the open unemployment rate *indicator.* The unemployment rate can be used to analyze the economy of a country or region whether it is experiencing growth, slowdown, or decline. In addition, it can also provide an overview of inequality and income distribution gaps in a country or region (Isa et al., 2019; Ardian & Dermawan, 2022).

### 2.8. Hypothesis Development

ROR functions as a determinant of regional capacity in conducting government functions, both public and development functions. The higher the ROR obtained by a region, the more independent the region in financing its expenses. Another study that tries to describe the correlation between ROR and capital expenditure which obtained that ROR has no significant effect on capital expenditure (Lisandri et al., 2017). Another study conducted by Azzahra et al. (2023) obtained the result that ROR has a negative effect on capital expenditure. Research conducted by Setiyawati & Hamzah (2007) and Mawarni et al. (2013) obtained the result that ROR has a significant positive effect on capital expenditure. This means that the allocation of ROR needs to be considered because it contributes to capital expenditure budgeting. With more ROR allocations for capital expenditure, the region will be more independent and productive.

*$H_1$: ROR has a positive effect on capital spending in regencies/cities throughout Indonesia.*

Regional governments use the GAF to fund various expenditures, including capital expenditures if regional revenues are insufficient to finance capital expenditures (Joy et al., 2021). Another study that tries to describe the relationship between GAF and capital expenditure is research conducted by Maheni & Maryono (2021) which found that GAF does not influence capital expenditure. Previous research found that GAF influences capital expenditure (Azzahra et al., 2023; Priambudi 2017; Lisandri et al., 2017; Salama 2018). GAF influences capital expenditure because it is allocated for regional development as stated in the capital expenditure allocation. This indicates that the regions using the GAF are allocated for regional development as stated in the capital expenditure allocation.

*$H_2$: GAF has a positive effect on capital spending in regencies/cities throughout Indonesia.*

The proportion of the budget is assessed by the Ministry of Home Affairs to see the extent to which local governments use their budgets to carry out functions that are considered productive and functions that are less productive in economic development. Even minimal provisions are regulated about education, health, and capital expenditure. In addition, Irvan & Karmini (2016) in their research obtained results that ROR has no indirect relationship with economic growth through capital expenditure. However, Azzahra et al. (2023) show different results, where capital expenditure does not play a mediating role in the relationship between ROR and economic growth. Previous research conducted by Lisandri et al. (2017) obtained the result that capital expenditure has a mediating role in the relationship between ROR and economic growth. This shows that with the higher capital expenditure budgets from ROR, the quality of infrastructure that supports people's productive activities will increase. If the infrastructure supports the community's productive activities will increase

economic activity which has an impact on economic growth. Based on previous research, such as that conducted by, it was found that capital expenditure acts as a significant intervening or mediating variable between ROR and economic growth.

*$H_3a$: Capital expenditure mediates the effect of ROR on economic growth in regencies/cities throughout Indonesia.*

The influence of GAF on economic growth can occur indirectly through capital expenditure funding. Infrastructure improvements due to capital expenditure will increase economic activity. Previous research conducted by Lisandri et al. (2017) and Maheni & Maryono (2021) showed that capital expenditure has a mediating role in the relationship between GAF and economic growth. GAF is a central government transfer fund that, if allocated for regional development as stated in the capital expenditure allocation, can indirectly impact increasing economic growth. However, another research conducted by Azzahra et al. (2023) concluded that capital expenditure does not have a significant mediating effect on the relationship between GAF and economic growth. Lisandri et al. (2017) also found that capital expenditure has an important role in mediating the relationship between the General Allocation Fund (GAF) and economic growth. These findings are also supported by Maheni & Maryono (2021) who found that GAF influences economic growth through capital expenditure.

*$H_3b$: Capital expenditure mediates the influence of GAF on economic growth in regencies/cities throughout Indonesia.*

Capital expenditure aims to improve people's welfare, so local governments need to make efforts to increase the allocation of development funds, including increasing capital expenditure (Badrudin, 2017). The higher the capital expenditure, the greater the impact on economic growth (Luthfia & Siregar, 2016). If regional economic growth increases, it can be said that regional development is realized. This can have an impact on the opening of employment opportunities, thereby causing a reduction in the unemployment rate in the region. Research conducted by, Putri & Yuliana (2023) and Azzahra et al. (2023) have used economic growth as a mediating variable. Therefore, this study uses economic growth as a variable that mediates the effect of capital expenditure on unemployment.

*$H_4a$: Economic growth mediates the effect of capital expenditure on unemployment in regencies/cities throughout Indonesia.*

Poverty can be measured in terms of expenditure, in which a person is economically unable to fulfill basic food and non-food needs. According to BPS, someone is categorized as poor if the average per capita monthly expenditure is below the poverty line. The Poverty Line (GK) describes the minimum value of expenditure needed by a person to fulfill his basic needs for a month, including food and non-food needs. The GK consists of the Food Poverty Line (GPV) and the Non-Food Poverty Line (GKNM). The poor population ratio indicator describes poverty. The purpose of capital expenditure is to improve people's welfare because it is used for adding assets or investments to improve public facilities and infrastructure. The higher the capital expenditure, the greater the impact on economic growth. If economic growth increases, social welfare also increases. This shows that an

increase in economic growth will contribute to reducing poverty rates in the region. Research conducted by, Putri & Yuliana (2023) and Azzahra et al. (2023) have used economic growth as a mediating variable. Therefore, this study uses economic growth as a variable that mediates the effect of capital expenditure on poverty.

*$H_4b$: Economic growth mediates the effect of capital expenditure on poverty in regencies/cities throughout Indonesia.*

Based on the theory of economic growth, increased economic growth in the regions will create economic development which will have an impact on reducing unemployment in the regions. Therefore, increased economic growth should be able to reduce the unemployment rate. However, the COVID-19 Pandemic reduced or even stopped economic activity which increased unemployment. This increase in the unemployment rate is due to the enormous number of layoffs by companies that are threatened or have even gone bankrupt. Research conducted by Haryamto & Suprianto (2022) has used the COVID-19 Pandemic as a moderating variable. Therefore, this study uses the COVID-19 Pandemic as a variable that moderates the effect of economic growth on unemployment.

*$H_5a$: The COVID-19 pandemic moderate the effect of economic growth on unemployment in regencies/cities throughout Indonesia.*

Increased economic growth in the regions will create economic development which was marked by increased economic activity, which is shown in increased productivity and per capita income of the population so that the level of social welfare will be better so that the poverty rate will decrease. Therefore, good economic growth should be able to reduce poverty levels. However, the COVID-19 Pandemic has reduced or even stopped economic activity which has an impact on increasing the poverty rate. This is due to reduced employment opportunities and an increase in unemployed people. Research conducted by Haryamto & Suprianto (2022) has used the COVID-19 Pandemic as a moderating variable. Therefore, this study uses the COVID-19 Pandemic as a variable that moderates the effect of economic growth on poverty.

*$H_5b$: The COVID-19 pandemic moderates economic growth's effect on poverty in regencies/cities throughout Indonesia.*

Based on the explanation of the theory and hypotheses that have been described, a conceptual framework can be formed as shown in Figure 2.1.

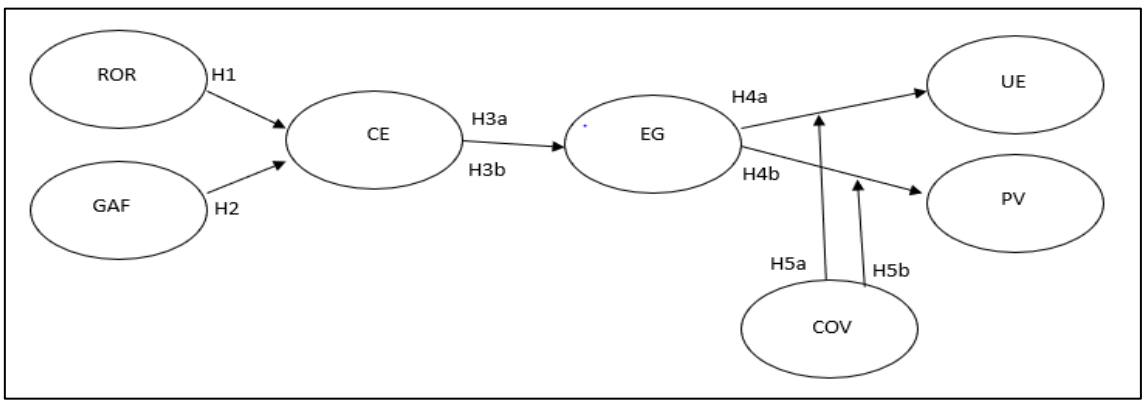


**Figure 1. Structural Models**

## 2. Method

This research uses all districts/cities in Indonesia as research objects in the 2019-2022 timeframe. ROR, GAF, and capital expenditure data are obtained from district/city APBD in Indonesia through the official website djpk.kemenkeu.go.id. Meanwhile, data on economic growth, poverty, and district/city unemployment in Indonesia were obtained through the official website bps.go.id.

The sample in this study consisted of 508 out of a total of 514 districts/cities in Indonesia which have complete data on ROR, GAF, capital expenditure, economic growth, unemployment, and poverty. Districts/cities in DKI Jakarta Province, namely the Thousand Islands, South Jakarta, East Jakarta, Central Jakarta, West Jakarta, and North Jakarta are excluded from the sample due to differences in the administrative structure in these areas, where data is only available at the provincial level and does not include data on regencies/cities that have DPRDs like other regencies/cities. However, out of 508 samples, 167 samples did not have complete data, so those data were excluded from the sample. Therefore, the sample used in this study was 341 samples.

This study used descriptive statistical analysis, model fit test, multicollinearity test, and hypothesis testing (Algifari, 2016). Hypothesis testing uses SEM (Structural Equation Model) which shows that there is a relationship between variables either directly (direct effect) or indirectly (indirect effect). This hypothesis analysis is determined by looking at the level of significance in each path coefficient.

## 4. Result and Discussion

### 4.1. Descriptive Statistical Analysis

Based on the test results in the table above, we can see the average, median, maximum, minimum, standard deviation, number, and number of observations used. The number of research observations is 1364 samples during 2019-2022. The highest value of ROR shows data of IDR 4835.19 billion realized from the Badung Regency APBD in 2019. This value is 1872.48% above the average realized before the COVID-19 Pandemic.

**Table 1. Descriptive Analysis Results**

| Variable | N | Min | Max | Means | S. Dev. |
|---|---|---|---|---|---|
| Local Own Revenue (ROR)* | 1364 | 1.44 | 4835,19 | 245,133 | 412,648 |
| General Allocation Fund (GAF)* | 1364 | 225.98 | 2149.82 | 653,629 | 290,641 |
| Capital Expenditures (CE)* | 1364 | 18.79 | 1701.25 | 272,23 | 205,518 |
| Economic Growth (EG) % | 1364 | -16.52 | 28.78 | 2,897 | 3,262 |
| Unemployment (UE) % | 1364 | 0.12 | 15.92 | 5,076 | 2,505 |
| Poverty (PV) % | 1364 | 1.78 | 34,83 | 10,691 | 5,847 |
| COVID-19 (COV) pandemic | | 0 | 1 | 0.5 | 0.5 |
| Valid N(*listwise)* | 1364 | | | | |

Note:*) in billions of rupiah
The table above contains a summary description of the research variables. The measurements of the various research variables are: ROR (Regional Original Income) = Local Own Revenue, GAF (General Allocation Fund) = General Allocation Fund, CE (capital expenditure) = capital expenditure, EG (economic growth) = GRDP, UE (unemployment) = open unemployment rate, PV(poverty)=poor population ratio, COV(COVID-19)=0 indicates no COVID-19 Pandemic in 2019 and 2022, 1 indicates there is a COVID-19 Pandemic in 2020 and 2021.

Source: Primary Data, 2023

The lowest value shows data of IDR 1.44 billion, 99.41% below the average realization from the 2022 South Manokwari Regency APBD, which realization occurred after the COVID-19 Pandemic. Then the mean for this ROR variable is 245.133, which means that the average ROR in this data is IDR 245.133 billion. Meanwhile, the overall standard deviation of the ROR value is 412.648 higher than the average value which means the distribution of data is unevenly distributed.

The highest GAF value shows data of IDR 2149.82 billion realized from the 2019 Bandung Regency APBD. This value is 228.91 % above the average realized before the COVID-19 Pandemic. Meanwhile, the lowest value shows data of IDR 225.98 billion, 65.43% below the realized average from the 2021 Bontang City Budget, which realization occurred during the COVID-19 Pandemic. Then the mean for this GAF variable is 653.629 which means the average GAF in this data is IDR 653.629 billion. Meanwhile, the overall standard deviation of the GAF value is 290.641 lower than the average value which means the distribution of data is evenly distributed.

The highest value of capital expenditure shows data of IDR 1701.25 billion which was realized from the Bogor Regency APBD in 2021. This value is 524.93 % above the average realized during the COVID-19 Pandemic. The lowest value shows data of IDR 18.79 billion, 93.10% below the realized average of the Pematang Siantar City APBD in 2022, which realization occurred after the COVID-19 Pandemic. Then the mean for this capital expenditure variable is 272.23, which means that the average capital expenditure in this data is IDR 272.23 billion. Meanwhile, the overall standard deviation of capital expenditure is 205.518, which is lower than the average value, which means that the data is evenly distributed.

The highest value for economic growth shows data of 28.78% realized from the 2020 West Sumbawa Regency APBD. This value is 8.93% above the average realized during the COVID-19 Pandemic. The lowest value shows data of -16.52%, 6.70% below the average realized from the 2020 Badung Regency APBD, which realization occurred during the COVID-19 Pandemic. Then the mean for this economic growth variable is 2.897, which means that the average economic growth in this data is 2.897%. Meanwhile, the overall standard deviation of economic growth is 3.262 which is higher than the average value, which means that the distribution of data is unevenly distributed.

The highest unemployment rate shows data of 15.92% which was from the 2020 Makassar City APBD. This value was 2.14 % above the average realized during the COVID-19 Pandemic. The lowest value shows data of 0.12%, 0.98% below the average realized from the 2022 Arfak Mountains District APBD, which realization occurred after the COVID-19 Pandemic. Then the mean for this unemployment variable is 5.076, which means that the average unemployment in the data is 5.076%. Meanwhile, the overall standard deviation of the unemployment rate is 2.505 which is lower than the average value, which means that the data is evenly distributed.

The highest poverty value shows data of 34.83% which was from the 2019 Arfak Mountains District APBD. This value is 2.26 % above the average realized before the

COVID-19 Pandemic. The lowest value shows data of 1.78%, 0.83% below the average realized from the South Badung Regency APBD in 2019, which realization occurred before the COVID-19 Pandemic. Then the mean for this poverty variable is 10.691, which means that the average poverty in the data is 10.691%. Meanwhile, the overall standard deviation of the poverty score is 5.847 which is lower than the average value, which means that the data is spread evenly. This study obtained SRMS results of 0.000, less than 0.1. Therefore, it can be concluded that the structural model in this study meets the requirements and is feasible to use. In this study, it can be seen in the table above that the VIF value of all variables is 1. This means that there is no correlation between the independent variables or there is no multicollinearity problem in this research model.

**Table 2. SRMR Fit Model**

| Name | Saturated Model |
|---|---|
| SRMS | 0.000 |
| NFIs | 0.000 |

Source: Primary Data, 2023

**Table 3. VIF Collinearity Statistics**

| Name | VIF Collinearity Statistics |
|---|---|
| ROR | 1.000 |
| GAF | 1.000 |
| CE | 1.000 |
| EG | 1.000 |
| UE | 1.000 |
| PV | 1.000 |
| COV | 1.000 |

Source: Primary Data, 2023

## 4.2. Hypothesis Testing

Based on the results of the hypothesis testing above it was found that $H_1$ was supported. This means that ROR has a significant positive effect on capital expenditure.

**Table 4. Hypothesis Testing Results**

| Hypothesis | Track | Path Coefficient | Q | Sig. | Result |
|---|---|---|---|---|---|
| H1 | ROR →CE | 0.485 | 11.759 | 0.000** | Supported |
| H2 | GAF →CE | 0.246 | 6.153 | 0.000** | Supported |
| H3a | ROR →CE →EG | 0.045 | 3.115 | 0.002** | Supported |
| H3b | GAF →CE →EG | 0.023 | 2.721 | 0.007** | Supported |
| H4a | CE →EG →UE | -0.001 | 0.275 | 0.784 | Rejected |
| H4b | CE →EG →PV | -0.010 | 1.539 | 0.124 | Rejected |
| H5a | COV*EG →UE | -0.087 | 2.399 | 0.016* | Supported |
| H5b | COV*EG →PV | 0.146 | 2.625 | 0.009** | Supported |

the table above contains a summary of the results of testing ROR and GAF on CE, CE mediation on the relationship between ROR and GAF and EG, EG mediation on the relationship between CE and UE and effect PV, and COV moderation on the relationship between EG and UE and PV. the measurements of the various research variables are: ROR (regional original income) = local own revenue, GAF (general allocation fund) = general allocation fund, CE (capital expenditure) = capital expenditure, EG (economic growth) = GRDP, UE (unemployment) = open unemployment rate, PV(poverty)=poor population ratio, cov(covid-19)=0 indicates no covid-19 pandemic in 2019 and 2022, 1 indicates there is a covid-19 pandemic in 2020 and 2021.

** Sig < 1%; * Sig < 5%

This means that ROR is something that needs to be considered for its allocation because it has proven to contribute to capital expenditure budgeting (Setiyawati & Hamzah, 2007; Mawarni et al., 2013). Based on the results of the hypothesis ($H_2$) which states that

the GAF has a positive effect on capital expenditure. This indicates that the regions using the GAF are allocated for regional development as stated in the capital expenditure allocation (Azzahra et al., 2023; Priambudi 2017). Based on the results of the hypothesis testing above, it was found that capital expenditure (CE) is able to mediate the relationship between ROR and EG. This means that ROR allocated to capital expenditure is proven to be able to improve public services. This further reinforces that the allocation of ROR contained in capital expenditure will increase productivity because of the improved quality of public services so it will affect economic growth (Lisandri et al., 2017). Based on the results of the hypothesis testing above, it was found that capital expenditure (CE) is able to mediate the relationship between GAF and EG. This strengthens the evidence that the allocation of the use of GAF contained in capital expenditures will increase productivity due to the improved quality of public services that affect economic growth (Lisandri et al., 2017; Maheni & Maryono 2021).

Based on the results of the hypothesis **(**$H_4$a**)** which states that EG was able to mediate the relationship between CE and UE obtained contradictory results. This means that EG is not able to mediate the relationship between CE and UE. EG's inability to mediate the relationship between CE and UE can be caused by the allocation of CE not necessarily to increase economic growth through improving facilities and infrastructure alone. CE is also used for human resource development and technology modernization. EG's inability to mediate the relationship between CE and UE can also be caused by an increase in EG which does not necessarily trigger production and distribution activities, thereby opening jobs. Therefore, CE allocated to EG may not necessarily reduce the unemployment rate. The increase in EG due to the allocation of CE may have a greater effect on increases in other economic activities, such as consumption. This is also supported by the existence of COVID-19 where the government has diverted CE allocations to overcome the impact of COVID-19, one of which is to increase public consumption (Haryamto & Suprianto, 2022).

Based on the results of the hypothesis **(**$H_4$b**)** which states that EG was able to mediate the relationship between CE and PV, obtained contradictory results. This means that EG is not able to mediate the relationship between CE and PV. EG's inability to mediate the relationship between CE and PV can be caused by the allocation of CE not necessarily to increase economic growth through improving facilities and infrastructure alone to increase economic activity. Capex is also used for human resource development and technology modernization. There is another possibility, that is, capital spending that triggers economic development and increases economic growth has more influence on people's welfare, but not in terms of poverty, maybe in terms of education or life expectancy related to public health. The inability of EG to mediate the relationship between CE and PV can also be caused by an increase in EG which does not necessarily trigger production and distribution activities, thereby creating jobs and reducing poverty. The increase in EG due to the allocation of CE may have a greater effect on increases in other economic activities, such as consumption. This is also supported by the existence of COVID-19 where the government has diverted CE allocations to overcome the impact of COVID-19, one of which is to increase public consumption (Putri & Yuliana 2023; Azzahra et al., 2023).

Based on the results of the hypothesis **(**$H_5$a**)** in this study is supported, it is proven that the significance level is 0.016 greater than 0.05. The H5a pathway coefficient is -0.087 which means that COV negatively moderates (weakens) the relationship between EG and UE. EG and UE have an opposite relationship where if EG is high then UE will be low. But on the contrary, this study found that increased economic growth should be able to reduce the unemployment rate, instead, it increased the unemployment rate due to the negative moderation of COVID-19. The negative impacts of COVID-19, which include layoffs, have a direct impact on increasing unemployment. Inclusive economic growth should be able to reduce the unemployment rate in Indonesia, but due to COVID-19, this cannot happen. At the time of COVID-19, the economic situation in Indonesia experienced a decline, which led to an increase in the number of unemployed. The government's efforts to stabilize the economy have not succeeded in reducing the unemployment rate during the COVID-19 Pandemic (Haryamto & Suprianto, 2022).

Based on the results of the hypothesis **(**$H_5$b**)** which states the COV moderation of the relationship between EG and PV is also supported, this is evidenced by a significance level of 0.009 which is less than 0.05. However, in contrast to H5a which moderates negatively, H5b COV moderation proves to be positive (strengthens) the relationship between EG and PV because the path coefficient value is 0.146. EG and PV have an opposite relationship where if EG is high then PV will be low. This study found that COV moderated the positive or amplified the effect of both. High EG reduces poverty, strengthened by COV so that high EG results in low PV. The results of the study show that COV is able to moderate economic growth and poverty positively, this means that the presence of COVID-19 does not exacerbate or increase poverty in Indonesia. This can happen because of the government's response to tackling COVID-19. With the assistance provided to communities affected by COVID-19 and MSMEs, they can reduce the negative impact of COVID-19. Government assistance can drive economic growth to reduce the level of poverty in Indonesia. In addition, government assistance enables the community to finance their expenses so that the poverty rate is reduced. The government's efforts to stabilize economic growth during the COVID-19 Pandemic succeeded in reducing the poverty rate in the regions (Putri & Yuliana, 2023; Azzahra et al., 2023).

## 4. Conclusion and Suggestion

Based on the results of the testing and discussion previously described, it can be concluded that the allocation of ROR and GAF is important for the government to pay attention to, and it is important to monitor their utilization because they are proven to be one of the funds used for capital expenditures. ROR and GAF allocated to capital expenditures to support economic activity have proven to be able to influence economic growth. Therefore, the allocation of ROR and GAF contained in capital expenditures should be used more to support economic activities and the development or improvement of supporting infrastructure. Capital expenditure in this study does not affect unemployment and poverty through economic growth.

The effect of COVID-19 has been proven to increase unemployment even though economic growth is kept stable. This is certainly inseparable from the many companies that have made layoffs and experienced bankruptcy. Finally, COVID-19 has not significantly increased poverty in Indonesia, this cannot be separated from the role of the central and regional governments who are aggressively providing assistance to the community to meet their living needs during COVID-19 and continuing to try to maintain economic stability during the pandemic (Goma, 2021; Ghiffari & Ariani, 2022; Sani et al., 2022).

This research was planned to use four years of research, namely 2019-2022. However, there are still many districts/cities in Indonesia that have not presented complete data from 2019-2022, especially 2022, so this study eliminated several samples, namely 167. Most of the samples eliminated came from Papua, so this research did not reflect conditions throughout Indonesia. This research only uses economic growth to mediate the effect of capital expenditure on unemployment and poverty, even though there are still many variables related to people's welfare that can be linked to capital expenditure through economic growth.

It is hoped that research like this can be carried out again by future researchers by completing data in 2022 so that the research results will better reflect accurate and general conditions. Therefore, the local government should also pay attention to the completeness of the data published *to* the public considering the importance of this data to increase public trust in the government. In addition, future researchers can add other variables that reflect people's welfare such as the Human Development Index (HDI) which can be linked to capital expenditure through economic growth. HDI, which is a composite measure that includes income, life expectancy, and education level in a country, is very closely related to economic growth and capital expenditure. Therefore, capital expenditure through economic growth will probably affect the HDI variable.

Based on the results of the analysis, it shows that economic growth cannot mediate capital spending on unemployment and poverty. Capital expenditure is not able to reduce unemployment and poverty rates in Indonesia through economic growth. This means that economic growth driven by capital expenditure has not been able to affect unemployment and poverty rates in regencies/cities throughout Indonesia. Therefore, regional governments should be wiser in considering the allocation of capital expenditures in the APBD so that policies related to these capital expenditures can contribute more to economic growth in Indonesia so that the level of social welfare increases, and unemployment and poverty rates can be controlled.

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