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# Analysis of The Determinants of Regional Government Loans District/City In Indonesia 2017 - 2021

**Dewi Pamungkas Ratnasari**
Faculty of Economic and Business, Universitas Lampung, Indonesia
*Email : dewisinagakbar@gmail.com

**Saring Suhendro**
Faculty of Economic and Business, Universitas Lampung, Indonesia
Email : saring.suhendro@feb.unila.ac.id

**Liza Alvia**
Faculty of Economic and Business, Universitas Lampung, Indonesia
Email : liza.alvia@feb.unila.ac.id

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**ABSTRACT**

*The formation of regions aims to accelerate the realization of community welfare and reduce disparities between regions, by carrying out constant and quality development. Until 2021, data from PT. SMI only 5.35% of regional governments that are eligible for loans utilize loans, while data from the Ministry of Finance's DJPK, regions that take loans are only 17.52%. This shows that many regional governments do not take advantage of regional loans to carry out their obligations to improve welfare in their regions. This study aims to analyze the effect of regional original income, regional financial capacity, regional fiscal capacity, and capital expenditure on regional loans. This study was conducted on all district/city governments in Indonesia that took out regional loans in the 2017-2021 period. Data analysis uses panel data regression with an approach Random Effect Model (REM). The results of the study indicate that increasing local revenue and high levels of regional financial capacity do not necessarily encourage district/city governments to undertake regional loans. Meanwhile, regional fiscal capacity and capital expenditures influence local governments to undertake regional loans.*

## INTRODUCTION

Based on Law Number 23 of 2014 concerning Regional Government, the formation of regions is basically aimed at improving public services in order to accelerate the realization of community welfare. To achieve this goal, regional governments must carry out development.

Constant and quality, which of course requires funds. The availability of an inadequate budget causes development to be carried out slowly and not optimally. Therefore, it is important for local governments to seek alternative sources of financing, one of which is through regional loans. In Government Regulation of the Republic of Indonesia Number 12 of 2019 concerning Regional Financial Management, it is also stated that one source of financing revenue is from regional loans.

PT. Sarana Multi Infrastruktur (SMI) is a central government-owned An institution that provides loan services in an effort to support local governments in making regional loans. Data from PT. SMI, up to 2021, out of 542 regions eligible for loans, only 29 local governments (5.35%) have made loans. Meanwhile, data from the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia shows



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that up to 2021, only 17.52% of local governments had made regional loans. Puspita & Hamidi (2021) stated that from 2007 to 2020, the ratio of regional loan receipts to the cumulative limit of regional loan receipts was still very small. This phenomenon is interesting to study so that the factors that influence local governments to make regional loans can be identified.

In general, the problem in local governments is the small proportion of Regional Original Income (PAD). The average PAD revenue of local governments from 2017 to 2021 is 25% of total regional income. The results of research by Mulyono (2007), Balaguer-Coll et al.,(2016), Dimu Ehalaiye, et al., (2017), and Shon & Kim, (2019), showed that PAD has an effect on regional loans. Navarro-Galera et al.,(2016), conducted research on cities in Spain which found that the effect of income on debt was unstable in each city area each year.

According to the Regulation of the Minister of Home Affairs, Number 62 of 2017 concerning the Grouping of Regional Financial Capabilities and the Implementation and Accountability of Operational Funds, Regional Financial Capability (KKD) is a classification of a region to determine the group of regional financial capabilities as a basis for calculating the amount of intensive communication allowances, recess allowances and operational funds for DPRD leaders. KKD can be used to create regional government policies that require indicators of regional financial capabilities, including in determining regional loan policies.

The Regional Fiscal Capacity Map (KFD) is a description of regional financial capacity grouped based on the regional fiscal capacity index, and its categorization is determined annually through the Regulation of the Minister of Finance (PMK).

Based on the PMK RI on the Regional Fiscal Capacity Map from 2017 Until 2021, the average district/city in Indonesia is included in the medium KFD. The category of regional fiscal capacity can be used by local governments to consider carrying out regional loans. Smith et al's research.,( 2019) shows that with greater fiscal capacity and fewer intergovernmental transfers, they can manage their debt better. Local fiscal capacity is the administrative control of the central government to reduce moral hazards in financial management. Shon & Kim (2019) found that increasing revenue causes the city's fiscal capacity to increase, which can increase long-term debt.

From an economic perspective, decentralization is a policy instrument to adjust the level of good public services to local preferences and costs (Oates, 1972). One of the implications of decentralization of infrastructure service provision is that resources are allocated to improve the provision of infrastructure services without disrupting economic and fiscal stability. To maintain sustainable economic growth, constant infrastructure improvements are needed. By allocating resources to capital expenditures, in the long term, there will be a stock of assets/infrastructure to support economic growth and development. Research by Mulyono (2007), Ilmiddaviq (2018) Balaguer-Coll et al.

, (2016), Dimu Ehalaiye, Nives Botica-Redmayne, (2017), Shon & Kim (2019), Yilmaz & Ebel (2020), Lofton & Kioko (2021) found that capital expenditure affects local borrowing. Meanwhile, Fisher & Wassmer (2015), examined whether capital expenditure and borrowing are determined independently or together, where a number of states have negative borrowing but positive capital expenditure. According to them, this finding can encourage the exploration of issues in the field of public finance policy that have received little attention.

Based on the results of various literature, this study was conducted to analyze the determinants of regional loans of district/city governments in Indonesia in 2017-2021, using a wider sample, namely district/city governments throughout Indonesia, and using 2 (two) different variables, namely Regional Fiscal Capacity (KFD) and Regional Financial Capability (KKD). Both variables are used because the measurement of the KKD and KFD levels is determined by the government.

## LITERATURE RESEARCH

### A. Stewardship Theory

Stewardship Theory is described as a condition where a steward is not prioritizing personal desires but prioritizing desires (Donaldson & Davis, 1991). Theory Stewardship-assumes a strong relationship between organizational success and owner satisfaction, so stewardship Protect and maximize the wealth of the organization with the company's performance according to the objectives. In Law Number 23 of 2014 concerning Regional Government, the mechanism for direct election of regional heads is regulated, which



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shows the delegation of authority from the people to regional heads. This shows that regional heads play the role of steward and the people are the principal.

Regional heads and regional officials will manage regional resources for the benefit of the community by setting aside personal interests to achieve common goals, namely achieving optimal community welfare. When the budget is insufficient to finance programs related to improving community welfare, regional loans can be made by the district/city government as an alternative source of financing.

**B. Local Government**

Regional Government according to Law Number 23 of 2014 is the implementation of government affairs by the regional government and the Regional People's Representative Council according to the principles of autonomy and assistance tasks with the principle of the broadest possible autonomy in the system and principles of the Unitary State of the Republic of Indonesia as referred to in the 1945 Constitution of the Republic of Indonesia.

Decentralization is defined as the transfer of government affairs by the central government to autonomous regions based on the principle of autonomy. Regional autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own government affairs and the interests of the local community in the system of the Unitary State of the Republic of Indonesia.

The central government and regional governments have an obligation to improve people's welfare, one of which is by implementing equitable development throughout Indonesia. Development in order to improve welfare includes infrastructure, education, and health. Increasing and accelerating development requires large costs, so regional governments must seek sources of financing. Regional loans can be an alternative for regions to overcome the problem of limited development financing.

**C. Regional Finance**

According to Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments, regional finances are all regional rights and obligations in the context of organizing regional government that can be valued in money and all forms of wealth that can be owned by the region in connection with the rights and obligations of the region. The purpose of regulating regional finances is to increase efficiency and effectiveness in Management of regional financial resources, improving regional welfare, and optimizing services to the community.

Other functions of local government are to provide services, protection, and development. The high or low level of regional finance will affect the implementation of several of these functions. Low regional finance can have an impact on minimal development, and conversely, high regional finance will have an impact on increasing development and services.

**D. Regional Financial Management**

According to Government Regulation of the Republic of Indonesia Number 12 of 2019 concerning Regional Financial Management, regional financial management is all activities that include planning, budgeting, implementation, administration, reporting, accountability, and supervision of regional finances.

Regional financial management is manifested in the Regional Revenue and Expenditure Budget (APBD). The APBD is the basis for regional governments in implementing regional revenues and expenditures. APBD is a unit consisting of regional income, regional expenditure and regional financing. Regional financial management can be interpreted as all activities including planning, implementation, administration, reporting, accountability, and supervision of regional finances. One of the functions of regional government is the role of allocating existing economic resources to improve the economy of the entire community. Regional loans are one source of financing revenue that can be utilized not only to cover the budget deficit but also to increase economic growth through the acceleration of regional infrastructure development.

**E. Regional Loans**

Regional loans according to Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments, are regional debt financing that is bound by a loan agreement and not in the form of securities, which results in the region receiving a sum of money or receiving benefits of



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monetary value from another party, so that the region is burdened with the obligation to repay. In Government Regulation of the Republic of Indonesia Number 56 of 2018 concerning Regional Loans, it is explained that regional loans are all transactions that result in the region receiving a sum of money or receiving benefits of monetary value from another party so that the region is burdened with the obligation to repay. Regional loan management must comply with the principles of compliance with statutory provisions, transparency, accountability, efficiency and effectiveness, and prudence.

Caution. Regional loans are made due to the increasing need for funds (fiscal needs)to serve the community which is also increasing as a result of population and economic development but is not balanced with the availability of funds( fiscal capacity)so it causes a fiscal gap.

**F. Local Original Income (PAD)**

According to Law Number 23 of 2014, Regional Original Income (PAD) is regional income collected based on regional regulations in accordance with laws and regulations. According to Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments, PAD is income obtained by regions collected based on regional regulations in accordance with laws and regulations. Saragih (2003) stated that PAD is a mainstay in supporting the implementation of government and development financing.

Research by Balaguer-Coll et al.,(2016) Navarro-Galera et al., (2016) Shon & Kim (2019) and Mulyono (2007) found that local revenue affects local loans and is a specific factor that affects the sustainability of local government finances. Local revenue is one of the important factors in implementing government programs. Thus, it can be concluded that local revenue is regional revenue that comes from the region itself and is managed by the local government for the benefit of the local government in accordance with the provisions of laws and regulations.

**G. Regional Financial Capacity**

Regional Financial Capacity (KKD) according to the Regulation of the Minister of Home Affairs Number 62 of 2017 concerning the Grouping of Regional Financial Capacity and the Implementation and Accountability of Operational Funds, is a classification of a region to determine the group of regional financial capacity which is determined based on a formula as the basis for calculating the amount of intensive communication allowances, recess allowances and operational funds for DPRD leaders. The grouping of regional financial capacity also applies to making regional government policies that require indicators of regional financial capacity.

**H. Regional Fiscal Capacity**

According to the Regulation of the Minister of Finance of the Republic of Indonesia Number 116/PMK.07/2021 Concerning the Regional Fiscal Capacity Map, Article 1 paragraph (1) states that regional fiscal capacity is the financial capacity of each region which is reflected through regional income minus income whose use has been determined and certain expenditures. Paragraph (2) states that the regional fiscal capacity map is a description of the financial capacity of the region which is grouped based on the regional fiscal capacity index.

Based on the fiscal capacity index of district/city areas, district/city areas are grouped into 5 (five) categories of regional fiscal capacity, namely very low, low, medium, high, and very high. Smith et al.'s research., (2019), and He & Jia (2020) found that regional fiscal capacity influences local governments in making regional loans.

**I. Capital Expenditure**

Regional spending is a manifestation of the regional government in spending its money for public services. Through regional spending, information on spending priorities carried out by the regional government can be obtained, whether Impact on the welfare of its people. Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) and Government Regulation Number 12 of 2019, state that capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets



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that provide benefits for more than one accounting period. Capital expenditure includes, among others, capital expenditure for the acquisition of land, buildings and structures, equipment, and intangible assets.

Capital expenditure is closely related to infrastructure expenditure, which is expenditure that is directly related to the acceleration of the development of public service facilities and the economy. Infrastructure is needed as a lever and has a transformative impact on economic growth. Physical infrastructure is also one of the benchmarks for the progress of a region. Puspita & Hamidi (2021) stated that capital expenditure is expected to have a provide multiplier effect for the regional economy and the results can be enjoyed by the community, the average portion for two decades is still low, namely 21.03%.

Obstacles to accelerating infrastructure development, especially in the regions, include budget limitations. To overcome these budget limitations, local governments need to access various alternative sources of financing, one of which is through regional loans. Lewis (2003), Balaguer-Coll et al.,(2016), Lofton & Kioko (2021), Mulyono (2007), Fisher & Wassmer (2015), Dimu Ehalaiye, Nives Botica-Redmayne, (2017), Yilmaz & Ebel (2020) stated that capital expenditure affects the level of local government debt.

**J. Research Hypothesis**

From a theoretical perspective, regional heads and regional officials will use all available resources and various methods to accelerate development in order to provide public services that have an impact on accelerating the improvement of the community's economy. When the budget for accelerating development cannot be met from regional income, they will utilize alternative sources of development financing, one of which is through regional loans.

Local revenue is one of the important factors in implementing government programs. Saragih (2003) stated that PAD is a mainstay in supporting the implementation of government and financing development. Mulyono (2007), Balaguer-Coll et al.,(2016) Navarro-Galera et al., (2016) found that local revenue has an effect on regional loans. Thus the first hypothesis is formulated, namely:

**H1: Regional Original Income has an effect on Regional Loans.**

The provisions regarding the grouping of regional financial capabilities can be used to create regional government policies that require indicators of regional financial capabilities. According to Arisanto and Ratnaningsih (2019), in an effort to meet the direction of national policies and achievement targets, quite a large funding is needed which causes there to be a gap between the need for infrastructure funding and the availability of funds. In reducinggapTherefore, there need to be alternative funding sources to finance these activities, one of which is through the use of loans. With good regional financial capabilities, it can be assumed that the regional government is able to repay regional loans. Thus, the second hypothesis is formulated, namely:

**H2: Regional Financial Capacity has an effect on Regional Loans.**

Based on the regional fiscal capacity index, there are five categories of regional fiscal capacity, namely very low, low, medium, high, and very high. Smith et al., (2019), and He & Jia (2020), found that, when local governments have greater fiscal capacity and fewer intergovernmental transfers, they can manage their debt better. The higher the category of a region's fiscal capacity, the higher the ability to repay the debt incurred. Thus, the third hypothesis is formulated, namely:

**H3: Regional Fiscal Capacity has an effect on Regional Loans.**

Capital expenditure is closely related to infrastructure expenditure which is directly related to the acceleration of the development of public service facilities and the economy. Infrastructure is needed as a lever and provides a transformational impact on economic growth. Physical infrastructure is also one of the benchmarks of a region's progress. Obstacles to accelerating infrastructure development, especially in the regions, include budget limitations. To overcome these budget limitations, local governments need to access various alternative sources of financing, one of which is through regional loans.

Puspita & Hamidi (2021) stated that capital expenditure is expected to provide a multiplier effect on the regional economy and the results can be enjoyed by the community, the average portion for two decades is still low, namely 21.03%. Loans are widely considered efficient and fair to use in regional public capital



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investment because the capital equipment purchased or facilities built usually have a long useful life (Lewis, 2003). Balaguer-Coll et al.,(2016), Lofton & Kioko (2021), Mulyono (2007), and Fisher & Wassmer (2015) stated that capital expenditure affects regional loans. According to them, this finding can encourage the exploration of policy issues. Public finance still receives less attention. Dimu Ehalaiye, Nives Botica- Redmayne, (2017), and Yilmaz & Ebel (2020) concluded that local governments must play a key role in infrastructure financing. Thus the fourth hypothesis is formulated, namely:

**H4: Regional Fiscal Capacity has an effect on Regional Loans.**

**C. Research Framework**

Based on the previous description and hypothesis, the research framework of the related variables can be described as follows:

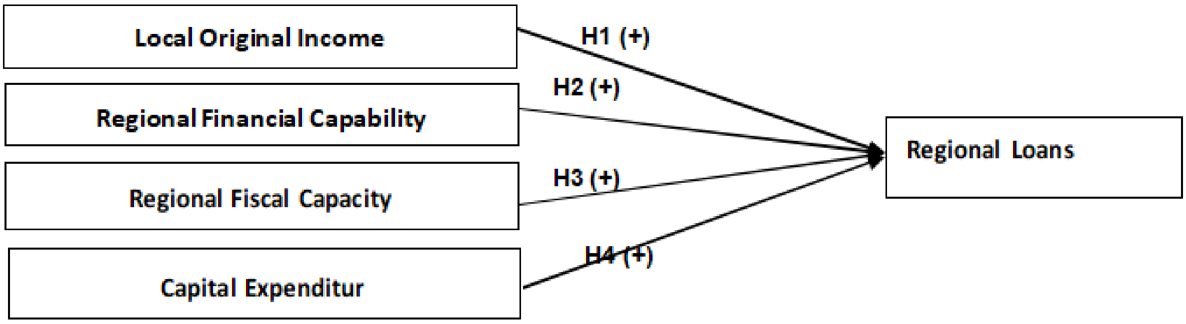


**Figure 1. Research Framework**
Source : Research Data (2024)

## RESEARCH METHODS

**A. Population and Research Sampling**

The research population is all district/city local governments in Indonesia, sample selection technique uses the method of purposive sampling, namely the district/city regional governments in Indonesia that took out regional loans from 2017 to 2021, the data for which is accessed via the website https:// djpk.kemenkeu.go.id/.

**B. Data Types and Data Sources**

This study uses secondary data, with panel data type. Data on local revenue, local financial capacity, and capital expenditure were obtained through the official website of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia, while data on regional fiscal capacity were obtained from the regulation of the Minister of Finance which stipulates the regional fiscal capacity index which is determined annually.

**Table 1. Measurement of Variables**

| Variable Name | Measurement |
|---|---|
| Regional Loans | Amount of regional loan receipts |
| Income Region (PAD) Original | PAD Ratio $= \frac{\text{Total PAD}}{\text{Total regional income}}$ x 100% |
| Ability Finance Area | *KKD = Regional General Revenue (PUD) – ASN Employee Expenditure* |



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| | |
|---|---|
| (KKD) | |
| Capacity Fiscal Region (KFD) | KFD District/*city-i* =Income – (income whose use has been determined + certain expenses) |
| Capital Expenditure | $BM = \frac{\text{Total Capital Expenditure}}{\text{Total Regional Expenditure}} \times 100$ |

**C. Analysis Method**

In the panel data regression method, selecting the right data regression model is necessary to obtain unbiased data, namely through Pooled Least Square (PLS)/Common Effect Model(CEM), Fixed Effect Model (FEM), and random Effect Model (REM). Next, testing is carried out to determine the most appropriate approach model through the TestChow, TestHousemanand TestLagrange Multiplier (LM). Ajija et al., (2019) stated that panel data has advantages that have implications for not requiring classical assumption testing. The general form for estimating panel data is with the following equation:

$$PDit=\beta o+\beta 1PADit+\beta 2KKDit+\beta 3KFDit+\beta 4fuelit+ eit$$

Information:

PDi,t = Regional Government Loansiin the year oft
Bo = Constant
β1 –β3 = Regression Coefficient
PADit = Local Government Original Income (PAD)in the year oft
KFDit = Regional Fiscal Capacity (KFD) of Local Government in the year oft
KKDit = Regional Financial Capacity (KKD) of the Regional Government in the year oft
BMit = Regional Government Capital Expenditure in the year of
tHit = Error term

## RESULTS AND DISCUSSION

**A. Descriptive Statistics**

**Table 2. Descriptive Statistics**

| Variables | n | Minimum | Maximum | Mean | Std. deviation |
|---|---|---|---|---|---|
| **PD (Regional Loan)** | 281 | 0.100 | 380,730 | 64,344 | 66,692 |
| **PAD (Regional Original Income)** | 281 | 0.248 | 46,006 | 11,756 | 8,532 |
| **KKD (Regional Financial Capacity)** | 281 | 1,000 | 3,000 | 2,145 | 0.704 |
| **KFD (Regional Fiscal Capacity)** | 281 | 0.030 | 4,573 | 0.968 | 0.597 |
| **BM (Capital Expenditure)** | 281 | 0.016 | 65,666 | 19,896 | 8,311 |

*Source: Data processed using eviews 10, 2023.*

The average value of regional loans is Rp. 64.344 billion, the standard deviation value is Rp. 66.692 billion, the minimum value is Rp. 0.100 billion, and the maximum value is Rp. 380.730 billion. The average value of PAD is 11.756%, the standard deviation is 8.532%, the minimum value is 0.248%, and the maximum value is 46.006%. The average value of regional financial capacity is 2.145 billion, the standard deviation value is 0.704, the minimum value is 1, and the maximum value is 3. The average value of KFD is 0.968, the standard deviation is 0.597, the minimum value is 0.030, and the maximum value is 4.573. The average value of capital



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expenditure is 19.896%, the standard deviation is 8.311%, the minimum value is 0.016%, and the maximum value is 65.666%.

**B. Panel Data Selection Method**

**Table 3. Model Selection Results**

| Testing | Prob. | Decision |
|---|---|---|
| **Chow Test** | 0,000 | FEM |
| **Hausman test** | 0.274 | BRAKE |
| **Lagrange Multiplier Test** | 0.002 | BRAKE |

*Source: Data processed using eviews10, 2023.*

Based on the three regression model testing approaches, the best model obtained is the random Effect Model(REM) to analyze the data in this study.

**C. Classical Assumption Test**

With the election of the Random Effect Model (REM)as the best model, the classical assumption test in this study is the Test Multicollinearity and Test Heteroscedasticity. Test Results Multicollinearity shows the correlation coefficient. If all independent variables < 0.8, then it can be concluded that the data is free from multicollinearity. Test ResultsHeteroscedasticityalso shows that the residual graph does not cross the limits (500 and -500), meaning that the residual variance is the same. Therefore, there is no symptom of heteroscedasticity or pass the test of heteroscedasticity.

## Discussion

**The Influence of Regional Original Income (PAD) on Regional Loans**

The results of the first hypothesis test show that PAD does not have a significant positive effect on regional loans. The results of the study failed to confirm stewardship Theory because the local original income has increased, it does not encourage the local government as Steward to make regional loans. The increase in PAD can be assumed to increase the ability to pay debts, this opportunity should be used by the regional government to make loans allocated to spending related to the acceleration of development that has an impact on improving the community's economy. The increase in PAD can be suspected of being used for additional routine spending that does not necessarily have an impact on the interests or improving the welfare of the community.

On the contrary, the results of this study confirm Agency Theory, where the theory

This assumes that each individual is solely motivated by self-interest. Regional heads and regional officials play a role in budgeting, supervision, and legislation. The role of regional heads and regional officials in budget allocation does not prioritize development acceleration by considering regional loans as a solution to budget needs. The results of this study are in line with Ilmiddaviq's (2018) research that although the PAD of district/city governments in East Java is quite high, it does not cause the district/city government to make regional loans. On average, the PAD is quite high, the district/city government meets its needs without making regional loans. However, the results of this study are not in line with the research conducted by Mulyono (2007), Balaguer-Coll et al..,(2016), Dimu Ehalaiye, et al.,(2017), Shon & Kim, (2019), where the results of their research show that PAD has an effect on regional loans.

The first hypothesis is not supported, it is suspected because APBD spending is routine and repeated every year. The increase in PAD is not interpreted as an increase in the ability to repay loans but is used to make purchases that do not have a direct impact on improving welfare. The practical implication of this study is that local governments should pay attention to budget allocations for activities or spending that have a direct impact on improving community welfare, by obtaining alternative budgets from regional loans.



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**The Influence of Regional Financial Capacity (KKD) on Regional Loans.**

The results of the second hypothesis test show that KKD has no effect on regional loans. Regional loans must be adjusted to the regional financial capacity because regional loans create a burden on the regional revenue and expenditure budget in the following years. As with the regional original income variable, the results of the study on the regional financial capacity variable also failed to confirm the Stewardship theory of the increasing regional financial capacity and did not encourage regional governments to undertake regional loans.

The increasing regional financial capability group should be utilized by regional government officials to make regional loans. The results of testing the regional financial capability variable in this study actually confirm Agency Theory, where regional heads and regional officials as development agents, in implementing and managing the budget do not prioritize the interests of the community in accordance with government objectives.

The KKD level that has no effect on regional loans can be assumed because the regional government uses the KKD level only to determine the amount of spending on intensive communication allowances, recess allowances, and operational funds for DPRD leaders. Based on regulations, the KKD level can be used to make regional policies that require financial capability indicators.

**The Influence of Regional Fiscal Capacity (KFD) on Regional Loans**

The results of the third hypothesis test show that the KFD variable has a significant positive effect on regional loans. The regional fiscal capacity map is a description of the regional financial capacity grouped based on the regional fiscal capacity index, which is the level of financial capacity of each region. The higher the KFD index of a region, the higher the opportunity to make regional loans.

The results of this study successfully confirmedStewardship Theory, because high regional fiscal capacity encourages local governments to make regional loans. The results of this study are in line with the research of Bailey et al., (2014) and Shon & Kim (2019) which found that high regional/city fiscal capacity allows the government to expand its long-term debt.

**The Influence of Capital Expenditures (BM) on Regional Loans**

The results of the hypothesis test show that capital expenditure has an effect on regional loans. Capital expenditure is closely related to asset/infrastructure expenditure which has an effect on economic growth. Regional governments in fulfilling Capital expenditure needs, one of which is by taking out regional loans. This result confirmsStewardship Theory.

The results of this study are in line with the research of Mulyono (2007), Ilmiddaviq (2018), Balaguer-Coll et al., (2016), Dimu Ehalaiye, Nives Botica- Redmayne, (2017), Shon & Kim (2019), Yilmaz & Ebel (2020), Lofton & Kioko (2021) which found that large capital expenditure allocations affect regional loans. It can be concluded that the need for large capital expenditures requires alternative sources of financing, one of which is through regional loans.

## CONCLUSION

The increase in local revenue and high regional financial capacity did not affect the local government to undertake regional loans. Although it can be assumed that when local revenue increases, the impact on the ability to repay loans becomes greater, it is not a consideration for the local government to undertake regional loans. The results of the study failed to confirm-stewardship Theory, but instead confirms-agency Theory.

Regional fiscal capacity and capital expenditure affect regional loans. A high KFD of a region reflects a good level of fiscal health so regional governments with high KFD make regional loans because they have a high ability to repay loans. Large capital expenditure allocations cause regional governments to need a large budget, the need for large capital expenditures is the basis for regional governments to make regional loans. These results confirm-stewardship Theory.

The theoretical implications of this study are expected to be used in the development of accounting science, especially public sector accounting in this case local government. The practical implications of the results of this study can contribute to the practice of regional financial management, related to regional loan policies. The district/city government in formulating and determining the allocation of the APBD must be



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based on development priorities that are directly related to sectors that accelerate economic growth by considering regional loans as an alternative source of financing.

The first limitation of this study is that it did not test the factors other than financial factors, such as regulations in making regional loans. One example of a regulation that must be carried out is the approval of the council which can influence the considerations of the regional government in deciding to make regional loans. Second, the population of this study did not include the provincial government, due to the extreme differences in data between the district/city and provincial governments. Based on the limitations of the study above, the researcher provides suggestions. To further research to be able to see the regulatory factors that apply in influencing regional loans, and to use the population of all provincial and district/city governments to obtain more comprehensive results.

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**Corresponding Author : Dewi Pamungkas Ratnasari**