

## Research Article

## The Influence of Regional Expenditures Toward Economic Growth of Districts/Cities in Aceh Province, Indonesia

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**Abstract:** The objective of research is to determine the effect of operating expenditure, capital expenditure and transfer on the economic growth of district/city governments in the province of Aceh. The study was conducted on 23 district/city governments in Aceh by analyzing data using multiple linear regression. The results showed that operating expenditure, capital expenditure and transfer have a simultaneous affect on economic growth. Partial testing of the effect of operating expenditure, capital expenditure and transfer in the same year, one year before, two years earlier, three years earlier, and the previous four years on economic growth showed a varied influence both positive and negative.

**Keywords:** Operating expenditure, Capital expenditure, Transfers, Economic Growth.

### INTRODUCTION

Economic growth as a benchmark for a region is also inseparable from the role of the government in providing funds to finance development activities in both economic and non-economic fields. The cost of this activity is often referred to as government expenditure (Zahari, 2017). However, the role of government expenditure / expenditure is still debated whether it is able to accelerate economic growth or vice versa. So far government spending has been widely used as part of government fiscal policy in many countries, but its influence on economic growth is still questionable (Hasnul, 2015).

Previous studies have shown a variety of things in explaining the effect of government spending on economic growth. Research conducted by Badriyah (2016) in Central Java shows that personnel expenditure, goods / services spending, and capital expenditure have a significant effect on economic growth in the long and short term. This is reinforced by the results of Sodik's (2007) study which revealed that government spending (both development expenditure and routine expenditure) affects regional economic growth.

Different results were shown by Harjanto (2014) who concluded that government spending did not affect economic growth. Harjanto (2014) explains that the absence of a relationship between government

spending and economic growth may occur because of problems of efficiency and effectiveness in government and bureaucracy.

The above results show that government spending, which is reflected in the regional government in the Regional Revenue and Expenditure Budget (APBD), can have a different influence on the economic growth of a region. APBD as one aspect of regional government must be carefully regulated and implemented to increase economic growth. According to Fauzana (2011) there are many cases of local government policies that do not have the objective of moving the regional economy, for example in determining the development budget, many local government projects that cannot be seen by the multiplier effect for the economy.

Aceh Province is one of the regions that is granted special autonomy by the central government through Law No.18 / 2001 concerning Special Autonomy for the Special Province of Aceh as the Province of Nanggroe Aceh Darussalam. The granting of autonomy is expected to improve economic development and economic growth of districts / cities in Aceh Province which are far behind the economic progress of other provinces in Indonesia (Mawarni, Darwanis and Abdullah, 2013).

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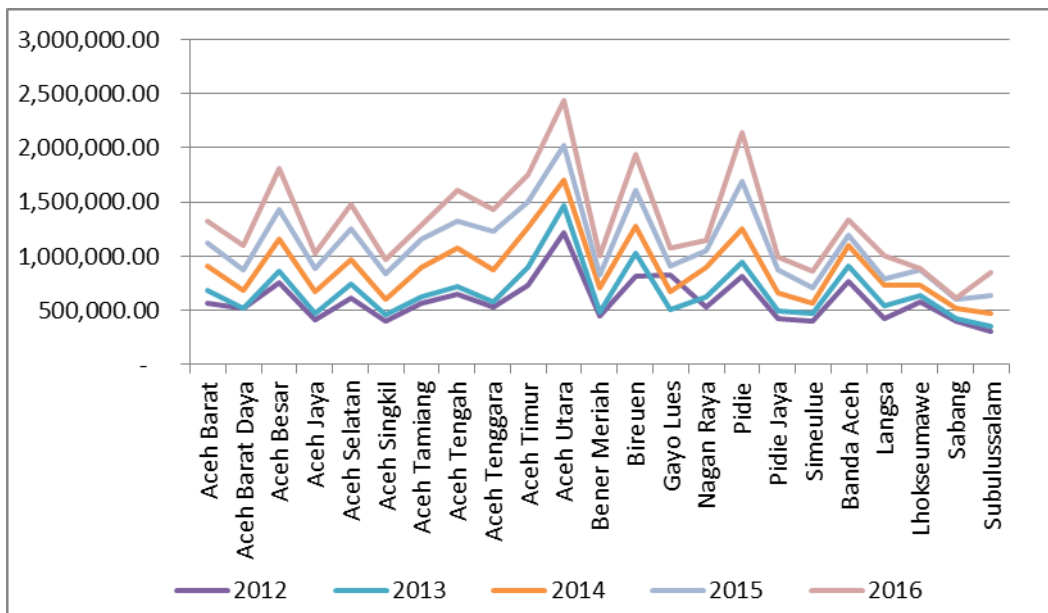
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The development of the Regency / City APBD in Aceh during 2012 to 2016 generally shows that there

is an increase in the realization of regional expenditure.

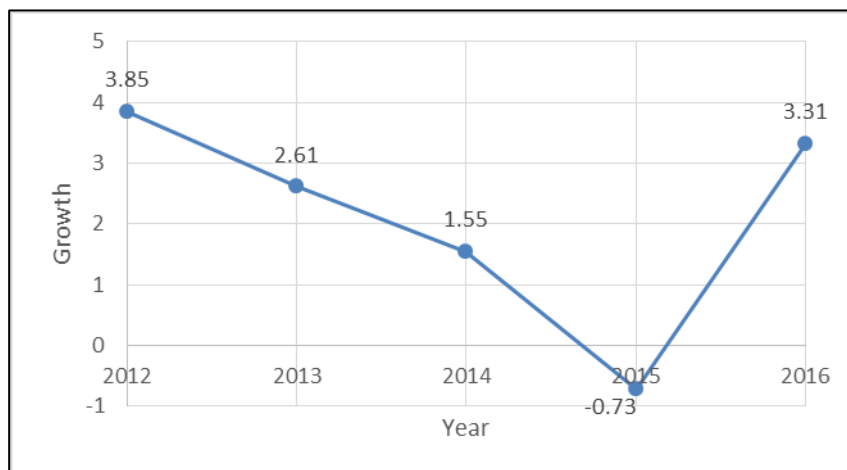


Source: District / City Financial Report (BPK Representative of Aceh Province)

**Figure 1** Realization of District / City Regional Expenditures in Aceh 2012-2016 (In million rupiah)

Based on Figure 1 it is seen that in general there has been an increase in regional expenditure realization in Districts / Cities in Aceh between 2012 - 2016. The decline in regional expenditure realization only occurred in Gayo Lues District in 2013 when compared to 2012 realization.

The increase in the realization of regional expenditures should be followed by equal distribution of economic growth reflected in per capita income per year. However, different conditions are indicated by the trend of Aceh's economic growth over the past five years that continues to fluctuate. This is as shown in Figure 2.



Source: BPS Aceh Province

**Figure 2.** Aceh Economic Growth (In Percentage)

Based on this description, it is necessary to conduct research on the effect of APBD use, the variables of which are represented by regional spending on economic growth in districts / cities in Aceh.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### *Operational Expenditures*

Government Regulation No. 71 of 2010 concerning Accounting Standards the Government defines operating expenditure as the amount of government expenditure for personnel expenditure, goods, interest, subsidies, grants, and social assistance. Operational Expenditures are government consumption or also referred to as non-market government output to finance government activities which include central and regional government administration activities, including defense and security administration.

Operational expenditures are budget expenditures for the daily activities of the central / regional government which provide short-term benefits, including spending on personnel, goods expenditure, interest expenditure, subsidies, grants, and social assistance.

### **Capital Expenditures**

According to Halim (2007) capital expenditure is a expenditure that benefits more than one budget year and will increase regional assets or wealth and will add routine expenditure such as maintenance costs. The portion of capital expenditure in the APBD is a very important expenditure component because the realization of capital expenditure will have a multiplier effect in moving the wheels of the regional economy (Samsuri, 2016).

Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, Article 2 paragraph 1, PSAP Number 07 concerning accounting for fixed assets, capital expenditure includes capital expenditure for the acquisition of land, buildings and buildings, equipment and intangible assets. In other words, capital expenditures are made for capital formation which add to fixed assets or inventories that provide benefits for more than one accounting period, including expenditures for maintenance costs that maintain or add to the useful life, increase the capacity and quality of assets.

### **Transfer**

Substantially, there are four spheres of government in the government system of the Republic of Indonesia, namely the central government, provincial government, district / city government, and village government. Higher governments give direction to lower governments. The SAP Conceptual Framework explains that the existence of a government that generates greater tax or non-tax revenue results in the holding of a profit sharing system, general fund allocation, grants, or subsidies between government entities.

As a consequence of the handover of authority to the regions, the government is also obliged to transfer

funding sources to its subordinate regions in accordance with the principle of the money follows function. The financing is realized in the form of transfer funds to the region. Transfer funds to the regions are funds allocated to reduce inequality of funding between the central and regional governments, reduce funding disparities between regional governments, reduce disparities in public services between regions, fund the implementation of special autonomy and regional privileges (Ministry of Finance, 2017).

In Paragraph 40 of PSAP Number 02, the definition of outgoing transfers is the expenditure of money from reporting entities to other reporting entities such as the expenditure of balancing funds by the central government and revenue sharing funds by regional governments. Transfers to regions in Law Number 23 of 2014 concerning Regional Government include central government transfers and inter-regional transfers. Central Government Transfers consist of balance funds, special autonomy funds, privilege funds, and Village funds. Inter-regional transfers consist of revenue sharing, and financial assistance.

Technical Bulletin Number 21 concerning Accrual-Based Accounting Transfers states that transfer funds from district / city governments consist of Tax DBH, Village Funds and Financial Assistance.

### **Economic growth**

According to Sukirno (2000), economic growth is a change in the level of economic activity that applies from year to year. Where the economy experiences growth if the level of economic activity is higher than what has been achieved in the previous time period. This economic growth is one indicator of development success. Economic growth is a parameter of a development activity, this is because economic growth can measure the level of development of activity in economic sectors in an economy. These parameters form the basis for making decisions and basic policies by the government for the preparation of the APBD.

### **Gross Regional Domestic Product**

In the basic concept of macroeconomic indicators used in measuring economic growth, is gross domestic product (GDP). Gross Domestic Product (GDP) is the market value of all final goods and services produced in the economy over a period of time (Mankiw, 2006). In the regional concept the Gross Domestic Product is known as the Gross Regional Domestic Product (GRDP). GRDP is a regional economic macro indicator, which describes the presence or absence of regional economic development. By calculating the GRDP carefully and accurately both on the basis of current prices and on the basis of constant prices several conclusions can be drawn about the success of development in an area, which shows the rate of economic growth which represents an increase in

production in various existing business sectors (Saggaf, 1999).

The calculation of Gross Regional Domestic Product uses three approaches, namely the production approach, expenditure approach and income approach (Kuncoro, 2015).

GRDP calculation, with any approach, is always calculated in two ways, namely on the basis of the current price (ADHB) and on the basis of constant prices (ADHK). ADHB GRDP illustrates the added value of goods and services that are calculated using prices in the current year, while ADHK GRDP shows the added value of goods and services that are calculated using the prices that are valid for one particular year as the base year. ADHK GRDP is used to determine economic growth in real terms from year to year or economic growth that is not influenced by price factors (Kuncoro, 2015).

### **Hypotheses Development**

#### ***Effect of Operational Expenditures on Economic Growth***

Operational expenditure is consumption expenditure for local government. With the increase in operating expenditure, the consumption of local government will also increase. This increase in consumption provides a multiplier effect on the economy, especially in the trade and services sector. In the end this will encourage regional economic growth (Karlinda, Rheza, Damanik, Agustine, and Sianturi, 2015).

When compared to other types of government spending, operating expenditure is government expenditure that has a greater value and percentage. The high number of operating expenditures is expected to be directly proportional to the level of government performance. Public services are getting better and the level of corruption is diminishing, which will then create a good and conducive investment climate so as to increase economic activity which will ultimately increase regional economic growth (Samsuri, 2016).

The researchers expressed varied results regarding the effect of operating spending on economic growth both at home and abroad. The results of Attari and Javed's (2013) study show that routine government spending does not significantly affect economic growth. According to Attari and Javed (2013) this occurs because the composition of routine spending consists of unproductive expenditures such as interest and defense spending.

In line with Attari and Javed (2013), Hasnul (2015) in his research on the effect of government spending on economic growth in Malaysia concluded that operating spending did not significantly affect economic growth. Different results are expressed by

Devarajan, Swaroop and Zou (1996). The results of their research in 43 developing countries show that increasing the composition of routine expenditure has a significant positive effect on economic growth.

In Indonesia, the results of Samsuri's research (2016) reinforce the findings of Devarajan et al. (1996). Samsuri (2016) proved that operating expenditure variables have a positive and significant effect on the level of the Gross Regional Domestic Product (GRDP) of the province in Sumatra.

Operational spending in a year is expected not only to affect economic growth in the same year but also to affect economic growth in the next year and so on. Kaspuri (2008) assumes that government spending that affects economic growth for a year is five years of government expenditure up to the previous year. Research conducted by Kaspuri (2008) regarding the influence of regional government spending on regional economic growth in Indonesia concluded in general that routine local government spending over the past five years had a positive effect on economic growth over the next five years.

#### ***Effect of Capital Expenditures on Economic Growth***

Capital expenditure is investment expenditure for local governments. The higher the capital expenditure issued by the local government, the higher the formation of fixed assets. This will increase regional productivity so that the output produced by a region is also getting bigger. Thus, economic growth increases (Karlinda *et al.*, 2015).

Research on the effect of capital expenditure on economic growth both at home and abroad shows varied results. Benos (2009) in his research concluded that government spending on infrastructure has a positive impact on economic growth. This is consistent with Roşoiu's findings (2015) who found that capital expenditure has an effect on economic growth. According to Roşoiu (2015) this shows that capital expenditure has been used efficiently. In addition, Roşoiu (2015) added that in order to have a more significant impact, it was very important to improve the way of governance and corruption.

Meanwhile, the results of research into the effect of capital expenditure on economic growth are quite varied in developing countries. Hasnul (2015) in his research in Malaysia concluded that government development spending has a significant effect on reducing economic growth. Regarding these results, Hasnul (2015) argues that if government spending is used in excessive amounts, excessive development spending becomes unproductive. Therefore, fiscal policy is needed to ensure that government spending is used as an investment by allocating the funds to productive sectors.

Different results were shown by Attari and Javed (2013) which concluded that government development spending had a significant positive effect on economic growth. Meanwhile, Husnain, Haider, Padda, Khan, Akram, Mahmood, and Mahmood (2015) in their research on public expenditure, taxation and economic development conducted in Pakistan showed that there was an insignificant relationship between capital expenditure and economic growth. Husnain *et al.* (2015) suspect this is because very low development spending in Pakistan is inadequate to achieve the expected results.

In Indonesia, research conducted by Sularso and Restianto (2011) concluded that the allocation of capital expenditure has a positive effect on economic growth. While research conducted by Mawarni *et al.* (2013) show that capital expenditure does not have a significant effect on economic growth.

In addition, capital expenditure is considered to have a long term benefit value, where the impact cannot be felt in the same year. The impact of this capital expenditure will be felt by the people in the following years (Karlinda *et al.*, 2015). In other words, capital spending in one year may not have an impact on economic growth in the same year but will affect economic growth in the next year, two years or more.

Research on the effect of capital expenditure on economic growth by paying attention to lags (lags) of the time among them is carried out by Anasmen (2009). Anasmen (2009) conducted an analysis using a one-year and two-year lag on government capital expenditure. From these studies Anasmen (2009) concluded that government capital expenditure does not significantly affect economic growth. In addition, research conducted by observing the time lag of the effect of capital expenditure on economic growth was also carried out by Kaspuri (2008). Kaspuri (2008) concludes in general that regional government development spending over the past five years does not significantly affect economic growth over the next five years. This happens to be allegedly due to relatively large inefficiencies in development spending, as well as effectiveness in planning, implementing and monitoring activities.

#### ***Influence of Transfer and Economic Growth***

Fund transfers from one level of government to the government level below it are described as identical as a fiscal decentralization policy. According to Saragih (2003) a brief fiscal decentralization can be interpreted as a budget distribution process from a higher level of government to a lower government, to support the functions or tasks of government and public services in accordance with the number of authorities delegated to the government.

Fiscal decentralization, as a transfer of power and financial responsibility to a lower level of government, is considered to improve economic efficiency. This is because the government at a lower level has better information than the government at the upper level in allocating resources. In addition, lower level government officials responsible for the use of funds are under close supervision by their constituents who encourage them to carry out financial responsibilities in the best interests of society in general (Lin and Liu, 2000). Economic efficiency will ultimately dynamically drive economic growth in an area (Oates, 1993).

Research on the influence of government transfers to lower levels of government on economic growth shows different results. The results of Zou's (1994) study show that federal government aid funds are a significant driving force for economic growth for the region. Meanwhile, Zhang and Zou (1998) found that the higher the level of fiscal decentralization resulted in lower economic growth.

In Indonesia, research conducted by Saputra and Mahmudi (2012) concluded that fiscal decentralization has a negative influence on economic growth. Saputra and Mahmudi (2012) explained that this is possible because institutions in developing countries do not provide incentives to lower level governments to use information related to their constituents. In addition, the government at the lower level does not have sufficient economic resources and does not have the human resources with the ability to manage the budget.

#### ***Hypothesis***

**Testing the hypothesis in this study can be formulated as follows:**

1. Operational Expenditures, Capital Expenditures and Transfers together influence the economic growth of districts / cities in Aceh;
2. Operational Expenditures in the same year, one year before, two years earlier, three years before, and four years earlier each had an effect on the economic growth of districts / cities in Aceh;
3. Capital Expenditures in the same year, one year before, two years before, three years before, and four years before each had an influence on the economic growth of districts / cities in Aceh;
4. Transfers in the same year, one year before, two years before, three years before, and four years earlier each had an effect on the economic growth of districts / cities in Aceh.

#### **RESEARCH METHOD**

The unit of analysis in this study was 23 district / city governments in Aceh. The data in this study are in the form of district / city financial reports in Aceh for the 2012-2016 period, especially those relating to the realization of operating expenditures, capital

expenditures, and transfers as well as district / city GRDP growth data in Aceh for the 2012-2016 period. The data used is data pooling which is a combination of time-series data and cross-section data. The number of observations in this study were 115 observations or the

same as the study population and using multiple linear regression analysis. Data is processed using SPSS version 22. The operationalization of variables in this study can be seen in table 1.

**Table 1.** Operationalization of Research Variables

Variabel	Definisi	Indikator	Skala
Economic Growth	Changes in the level of economic activity that apply from year to year.	Economic Growth = GRDP ADHK year t – GRDP ADHK year (t-1)	Ratio
Operational Expenditures	The real value of the realization of the budget for the daily activities of local governments that provide short-term benefits.	$= \frac{\text{Operational Expenditures year t}}{\text{Operational Expenditures on LRA year t}} \times \text{GRDP Deflator year t}$	Ratio
Capital Expenditures	Real value of budget realization for the acquisition of fixed assets and other assets that benefit more than one accounting period.	$= \frac{\text{Capital Expenditures year t}}{\text{Capital Expenditures on LRA year t}} \times \text{GRDP Deflator year t}$	Ratio
Transfer	The real value of the realization of the transfer out of the reporting entity to another reporting entity.	$= \frac{\text{Transfer year t}}{\text{Transfer on LRA year t}} \times \text{GRDP Deflator year t}$	Ratio

**RESULTS AND DISCUSSION**

This research is a study by testing hypotheses using multiple linear regression analysis. In this study the independent variables used were operating expenditure in the same year (OE), operating expenditure one year before (OE-1), operating expenditure two years earlier (OE-2), operating expenditure three years earlier (OE-3), operating expenditure four years earlier (OE-4), capital expenditure in the same year (CE), capital expenditure one year earlier (CE-1), capital expenditure two years earlier (CE-2), capital expenditure three years earlier

(CE-3), capital expenditure four years earlier (CE-4), transfers in the same year (TR), transfers one year before (TR-1), transfers two years earlier (TR-2), transfers three years earlier (TR-3), and transfer four years earlier (TR-4). While the dependent variable used is economic growth (EG).

Multiple linear regression analysis is used to obtain regression coefficients that will determine whether the hypothesis made will be accepted or rejected. Based on the regression analysis using SPSS version 22, the results can be seen in Table 2.

**Table 2.** Multiple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-11.653	2.125		-5.483	.000
OE	1.552	.178	.791	8.711	.000
OE-1	.267	.210	.137	1.272	.207
OE-2	-.152	.210	-.078	-.727	.469
OE-3	.070	.202	.036	.349	.728
OE-4	.311	.167	.159	1.864	.065
CE	.018	.102	.014	.179	.858
1 CE-1	-.046	.108	-.036	-.426	.671
CE-2	.175	.108	.135	1.621	.108
CE-3	-.170	.109	-.131	-1.551	.124
CE-4	-.092	.105	-.072	-.878	.382
TR	-.005	.005	-.074	-.990	.325
TR-1	.001	.005	.018	.214	.831
TR-2	.010	.005	.165	1.952	.054
TR-3	.004	.006	.067	.761	.448
TR-4	-.001	.005	-.019	-.236	.814

a. Dependent Variable: Economic Growth (EG)

b. R = 0.874

c. R Square = 0.764

Through the results of the SPSS program as shown in table 2, the multiple linear regression equation is obtained as follows:

$$EG = -11,653 + 1,552OE + 0,267OE-1 - 0,152OE-2 + 0,070OE-3 + 0,311OE-4 + 0,018CE - 0,046CE-1 + 0,175CE-2 - 0,170CE-3 - 0,092CE-4 - 0,005TR + 0,001TR-1 + 0,010TR-2 + 0,004TR-3 - 0,001TR-4 + \epsilon$$

The value of  $\alpha$  equal to -11,653 shows that if the variable operating expenditure, capital expenditure and transfer are declared constant or unchanged, then economic growth moves at -11.6653.

From the regression results it can be seen that operating expenses, capital expenditures, and transfers together (simultaneously) affect the economic growth of regencies / cities in Aceh in the period 2012-2016 this can be seen from the overall research regression coefficient that shows indigo is not the same as zero ( $\neq 0$ ).

Table 2 also shows the regression coefficients of OE, OE-1, OE-2, OE-3, and OE-4, respectively 1.552, 0.267, -0.152, 0.070, and 0.311. This shows that operating expenditure in the same year (OE), operating expenditure one year before (OE-1), operating expenditure two years earlier (OE-2), operating expenditure three years earlier (OE-3), and operating expenses four years earlier (OE-4) affected economic growth.

Regression coefficients CE, CE-1, CE-2, CE-3, and CE-4 are 0.018, -0.046, 0.175, -0.170, and -0.092, respectively. This shows that capital expenditure in the same year (CE), capital expenditure one year earlier (CE-1), capital expenditure two years earlier (CE-2), capital expenditure three years earlier (CE-3), and capital expenditure four years earlier (CE-4) had an effect on economic growth.

The regression results in table 2 also show the regression coefficients of TR, TR-1, TR-2, TR-3, and TR-4 which are -0.005, 0.001, 0.010, 0.004, and -0.001 respectively. This shows that transfers in the same year (TR), transfers one year before (TR-1), transfers two years earlier (TR-2), transfers three years earlier (TR-3), and transfers four years earlier (TR-4) affect economic growth.

## DISCUSSION

### *Effect of Operational Expenditures on Economic Growth*

Based on the data of regression results that have been explained previously, it can be seen that operating expenditure in the same year period (OE) has the highest influence on the economic growth of districts / cities in Aceh in one year compared to operating expenditures for a period of one year to four years previous. This is consistent with the theory that operating expenditures are generally consumption expenditures whose benefits are short-term, so that the

impact can be significantly felt in the same year (Karlinda *et al.*, 2015).

From the results of this study it can also be concluded that operating expenditure in one year will have the highest positive effect on economic growth in the same year, then have a positive effect but decrease in one year after that, negatively affect two years later, and return a positive effect in the third year and fourth after that.

In general, the results of this study indicate that operating expenditure has a positive influence on economic growth. This is in accordance with the previously stated theories which state that operating expenditures will increase government consumption which will then give a multiplier effect on the economy, especially in the trade and services sector which will ultimately encourage economic growth (Karlinda *et al.*, 2015).

The results of this study are generally in accordance with the results of research Devarajan *et al.*, (1996), Samsuri (2016), and Paramita (2012) which indicate that operating spending has a positive influence on economic growth. However, this result is different from the results of Attari and Javed (2013) and Hasnul (2015) which state that routine spending has no significant effect on economic growth.

Operating expenditures in districts / cities in Aceh in general have a positive effect on economic growth allegedly because operating expenditures in district / city governments in Aceh generally consist of personnel expenditure, goods and services expenditure, grants, and social assistance which are included in the type of productive expenditure. Productive spending will be able to increase consumption which can provide a multiplier effect on the economy which will ultimately drive economic growth. This is consistent with Attari and Javed's (2013) statement that the composition of routine expenditure consisting of productive expenditures will have a positive effect on economic growth.

In addition, the amount of operating expenditure in regencies / cities in Aceh is quite significant when compared to other types of spending, which is thought to be able to boost economic growth. With the existence of significant operating expenditures, district / city governments in Aceh can provide better public services that will create a favorable and conducive investment climate so as to

increase economic activity which will ultimately increase regional economic growth.

#### ***Effect of Capital Expenditures on Economic Growth***

Based on this study it can be concluded that capital expenditure in the previous two years (CE-2) has the highest influence on the economic growth of regencies / cities in Aceh in one year compared to capital expenditure in the same period (CE), one previous year (CE-1), three years before (CE-3), and four years earlier (CE-4).

From the results of this study it can also be concluded that capital expenditure in a year will have a positive effect on economic growth in the same year, then negatively affect economic growth in the year after that, have the highest positive effect on economic growth in the two years following, and re-influence negative on economic growth in the third and fourth years thereafter.

In general, the results of this study indicate that capital expenditure has a negative influence on economic growth. This is contrary to the theory that capital expenditure has an effect on economic growth.

The results of this study in general are also not in accordance with the results of Benos (2009), Roşoiu (2015), Attari and Javed (2013), Sularso (2011) which states that capital expenditure has a positive influence on economic growth. Noting Roşoiu's findings (2015), the negative influence of capital expenditure on economic growth is possible because of inefficiencies in the use of capital expenditures which in this case are largely determined by the way the government budget is managed and the level of corruption that occurs.

This research is in line with the results of research conducted by Hasnul (2015) which states that government development spending has a significant effect on reducing economic growth. This is presumably because government development spending as an investment has not been allocated to productive sectors.

Capital expenditure in districts / cities in Aceh in general has a negative effect on economic growth allegedly caused by two things. First, there is an inefficiency in the realization of capital expenditure which can be seen from the leakage of capital expenditure usage in the district / city government in Aceh. This leak has actually started since the planning process, where planning documents have been made in such a way that the price is more than reasonable or price markup. The misappropriation of the capital expenditure budget is then smoothed with the process of procuring goods and services that have been engineered to win certain candidates who are deemed able to cooperate in committing fraud. The Corruption Eradication Commission (KPK) revealed that there are

general norms on government projects where there is a demand for fees of almost 10 percent for each project (Tribun Kaltim, 2017). This condition is also confirmed by the Aceh Transparency Society data (MATA) which states that between the period of 2013 to. 2015 there were more than 201 corruption cases handled by law enforcement officers in Aceh with a loss of Rp1,207.6 billion (Serambi News, 2017).

Secondly, the allocation of capital expenditure in districts / cities in Aceh is carried out to sectors that are less productive. Aceh's economic observer, Rustam Efendi, said that the quality of Aceh's spending is still relatively low, the existing budget tends not to be directed at strengthening the regional economic structure. And it seems a lot allocated to things that are less productive. This can be seen from the budget disbursed for the agricultural sector as the biggest contributor to GRDP which is only a few percent and is very limited, even though it is a strategic driver for Aceh's economic growth if optimized through downstream sub-systems both along with other support systems (AJNN, 2018).

#### ***Influence of Transfer to Economic Growth***

Based on this study it can be concluded that the transfer in the previous two years (TR-2) has the highest influence on the economic growth of districts / cities in Aceh in a year compared to the transfer of the same period of time (TR), one year earlier (TR-1), three years before (TR-3), and four years before (TR-4).

From the results of this study it can also be concluded that the transfer in one year will negatively affect economic growth in the same year, then have a positive effect on economic growth one year later, two years later and three years thereafter with the most significant influence two years later, and again had a negative effect on economic growth four years later.

In general, the results of this study indicate that transfers have a positive influence on economic growth. This is consistent with the theory that transfers have a positive effect on economic growth. Transfers as a consequence of the fiscal decentralization policy provide more freedom to governments at lower levels in order to manage budgets and finances. The government at a lower level is believed to have better information in order to allocate available resources.

The results of this study are in line with the results of Zou (1994) and Lin and Liu (2000). However, the results of this study differ from those conducted by Saputra and Mahmudi (2012).

Transfers made by regencies / cities in Aceh are thought to have a positive influence on economic growth because the village government as the recipient of transfers through the village apparatus has allocated funds received at expenditures that match the needs of



the region. This is because village officials as budget executors have good information about the needs in their area. The allocation of spending in the end is more focused on financing productive sectors that are able to encourage regional economic growth.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

1. Operational expenditure, capital expenditure and transfer simultaneously affect economic growth.
2. Operational expenditure in one year will have the highest positive impact on economic growth in the same year, then have a positive effect but decline towards economic growth in the following year, negatively affect economic growth in the next two years, and return a positive influence on economic growth in the third and fourth years thereafter. In general, the results of this study indicate that operating expenditures in the same time period and over a period of four years have a positive influence on economic growth in a year. This is presumably because operating expenditure in district / city governments in Aceh has a significant value compared to other expenditures and consists of personnel expenditure, goods and services expenditure, grants, and social assistance which are included in the type of productive expenditure.
3. Capital expenditure in one year will have a positive effect on economic growth in the same year, then negatively affect economic growth in the following year, have the highest positive influence on economic growth in the two years following, and again have a negative influence on economic growth in the year third and fourth after that. In general, the

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results of this study indicate that capital expenditure has a negative influence on economic growth. This is allegedly due to inefficiencies in the realization of capital expenditure and the allocation of capital expenditures made to sectors that are less productive.

4. Transfers in a year will negatively affect economic growth in the same year, then have a positive effect on economic growth one year later, two years later and three years thereafter with the most significant influence two years later, and again have a negative effect on growth economy four years later. In general, the results of this study indicate that transfers have a positive influence on economic growth. This is presumably because the village government has better information to be able to allocate funds received in spending that is appropriate to the needs of the region.

### Recomendations

District / city governments in Aceh can maximize the role of government spending in encouraging economic growth, among others by addressing the problems of inefficiency in the realization of government spending by: evaluating the standards of goods and services, increasing supervision in the procurement of goods and services by internal inspectors, and implement a whistleblower program to overcome fraud in the procurement of goods and services. In addition, the government can coordinate with stakeholders so that regional spending can be allocated to productive sectors that can drive economic growth.

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