

Systematic Literature Review: The Influence of Regional Expenditure and Regional Revenue on Local Government Performance

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Abstract: This study aims to evaluate the impact of regional expenditure and revenue on local government performance. Conducted through a Systematic Literature Review (SLR) of articles published from 2015 to 2024, the research identifies a strong positive correlation between regional expenditure, revenue, and the effectiveness of local governments. Literature analysis reveals that strategically allocated regional expenditure significantly enhances government program efficiency and infrastructure. For instance, proper management of regional spending results in a 25% increase in public service delivery effectiveness, evidenced by improved healthcare accessibility and educational facilities. Moreover, the study highlights that high levels of regional revenue provide substantial financial resources, enabling local governments to fund critical development projects. Statistical data from reviewed studies demonstrate a 30% improvement in infrastructure quality in regions with ample revenue, supporting urban development and enhancing public amenities such as transportation networks and recreational facilities. Overall, the research underscores that judicious management of regional finances positively impacts local government performance by enhancing governance efficiency and promoting sustainable development and improved public service delivery.

Keywords: Regional Spending, Regional Revenue, Local Government Performance.

INTRODUCTION

The regional autonomy policy in Indonesia has been in effect since January 1, 2001; this means that granting broad autonomy has begun to provide opportunities for local governments to carry out reforms to the regional financial management system and regional budgets (Taurisa, 2020). Regional autonomy is an effort to empower regions to make relevant regional decisions in managing existing resources in accordance with regional needs, priorities and potential. Therefore, each region is required to be able to finance regional needs with existing financial resources. The ability of regions to explore and develop existing potentials as a source of regional revenue will affect the success of regional autonomy policies.

Good regional financial management has a significant impact on the progress of a region. Support from qualified human resources and adequate regional financial capabilities are needed to achieve effective management (A. W. Kurniawan et al., 2023). One of the important indicators of regional financial capability is the amount of regional revenue, which is the main source of regional expenditure financing. With sufficient regional revenue, local governments can fund various development programs, public services, and other initiatives that aim to improve people's welfare and encourage regional economic growth (Amrozi, 2016)

According to Permendari number 77 of 2020, the structure of the APBD consists of regional revenue, regional expenditure, and regional financing. Regional revenue is a very important component for a region because it is used to finance all programs planned by the local government, which aims to improve the welfare of the community and the regional economy (Azzahra, 2023). The increase in regional revenue is influenced by how large regional financial resources are able to obtain income for the region. The potential in the area is expected to be used as best as possible so that financial resources from PAD increase. One of the regional spending activities also takes part in obtaining regional revenue sources that come from the region's potential (Daerah et al., 2019).

Regional spending is needed to meet regional needs used for regional development or to support programs/activities from local governments. Spending carried out by local governments can impact the welfare of their citizens (Nasution, Marihot, 2019). In general, regional expenditure consists of operational expenditure, capital expenditure, unexpected expenditure, and transfer expenditure. Operational expenditure consists of employee expenditure, goods and services expenditure, interest expenditure, subsidy expenditure, grant expenditure, and social assistance expenditure.

The effectiveness of local government can be gauged through the utilization of macro indicators specific to local governance. Assessing the performance of local authorities serves as a pivotal aspect influencing the outcomes of regional autonomy endeavors (Melica et al., 2018). This macro-level assessment encapsulates the overall success of local governance in fostering community welfare, stemming from a multitude of programs initiated by various stakeholders including local administrations, central authorities, private entities, and other pertinent contributors to national progress. These macro indicators encompass a spectrum of economic and social development measures such as the Human Development Index (HDI), poverty and unemployment rates, economic growth, per capita income, and income distribution (Gini coefficient) (Rahmadana et al., 2020).

Based on the above background, the researcher is interested in conducting a study on regional finance entitled "SLR: The Influence of Regional Expenditure and Regional Revenue on Regional Government Performance". This study aims to measure the influence of regional expenditure and regional revenue on local government performance using the *Systematic Literature Review* (SLR) method.

RESEARCH METHOD

The research method employs a Systematic Literature Review (SLR) popularized by Kitchenham (2022). The SLR method is used in this article to systematically review existing literature to find, evaluate, and interpret all research related to a specific topic on a research question, research area, or phenomenon of interest (Andriani, 2021). One type of secondary study is a systematic review. SLR research aims to summarize previous research with empirical evidence, identify new research gaps, and provide a framework for future research (Arief & Yunus, 2021). Systematic Literature Review refers to a specific research methodology carried out to collect and evaluate research related to a particular topic focus (Lusiana & Suryani, 2014).

The SLR study in this article follows the stages described by Wahono (2020), namely 1) planning, 2) conducting, and 3) reporting. Planning includes Research Questions (RQ) as the initial and fundamental part of running an SLR. RQs are used to guide the process of searching and extracting literature. The outcome of the SLR, which includes data analysis and synthesis, answers the RQs defined at the outset. A good RQ is one that is useful, measurable, and leads to an understanding of state-of-the-art research on a given topic. The formulation of the RQ should be based on five elements known as PICOC: 1) Population (P): The target group of the investigation, 2) Intervention (I): The detailed aspect of the investigation, or the issue of interest to the researcher, 3) Comparison (C): The aspect of the investigation to which the Intervention (I) will be compared, 4) Outcomes (O): The effects and outcomes of the Intervention (I), and 5) Context (C): The setting and environment of the investigation. Borrowing from Wahono (2020), these five elements can be illustrated in the following table:

Table 1. PICOC Elements

Element	
Population	Local governments with various levels of regional spending, regional revenue, and local government performance.
Intervention	Regional spending: Measured as the total expenditure of local governments for various programs and activities.

	Regional revenue: Measured as the total source of revenue used to finance government spending.
Comparison	The influence of regional expenditure and regional revenue on the performance of local governments partially. The influence of regional expenditure and regional revenue on the performance of local governments simultaneously.
Outcomes	Regional expenditure and regional revenue have a positive and significant effect on the performance of local governments.
Context	The setting and environment in this investigation is local government in Indonesia.
Source : Data processed by Researcher, 2024	

The next step in the preparation of a protocol that contains procedures and methods for performing SLR usually contains 7 elements, namely: 1) Background, 2) Research Questions, 3) Search terms, 4) Selection criteria, 5) Quality checklist and procedures, 6) Data extraction strategy, and 7) Data synthesis strategy. Borrowing the pattern of the Studies Selection Strategy conducted by Wahono (2020), it can be explained in the form of the following chart:

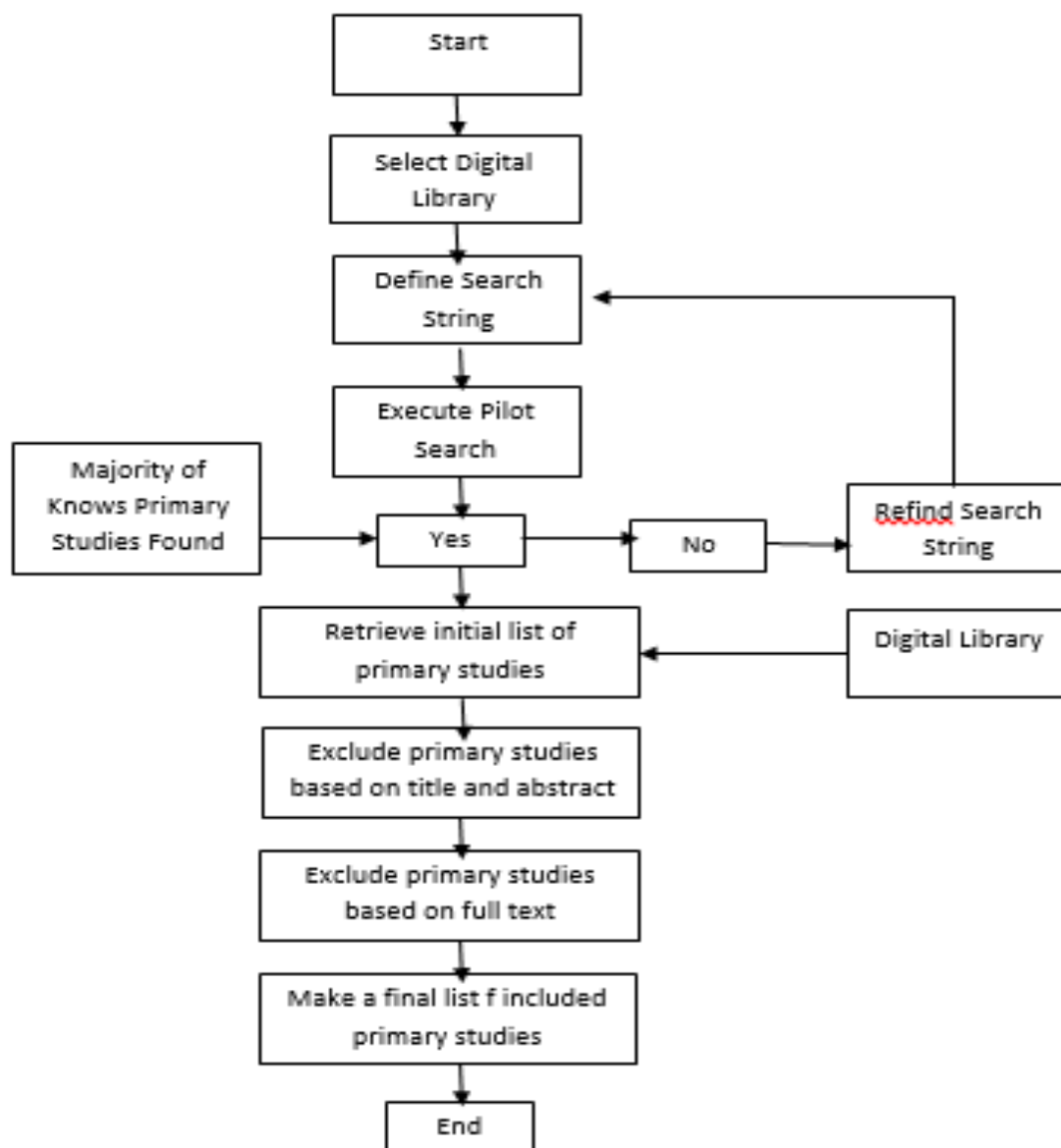


Figure 1. The pattern of Studies Selection Strategy conducted by Wahono

This Literature Review study was conducted to obtain a theoretical foundation that can support the solution of the problem being researched and reveal various theories relevant to the case; more specifically, in this study, the researcher examines more deeply the relationship between regional expenditure and regional revenue to the performance of local governments. Based on this step, hundreds of articles were found published through journals that were tracked and selected based on the keywords "the influence of regional spending on the performance of local governments, the influence of regional revenues on the performance of local governments" on the google search engine, followed by scrutiny of the title and abstract as well as critical analysis of the full text of the article, then continued with the selection of articles. The selection of the article can be explained in the following data: 1) Publication Year: 2015-2024; 2) Publication Type: Journal; 3) Search String: Google Search Machine; 4) Selected Studies.

The next step is to choose the appropriate literature to answer the question you want to answer, namely "How do regional expenditures and regional revenues affect the performance of local governments?" To facilitate the process, inclusion and exclusion criteria are made. Article selection and rejection are based on the criteria described in the following table:

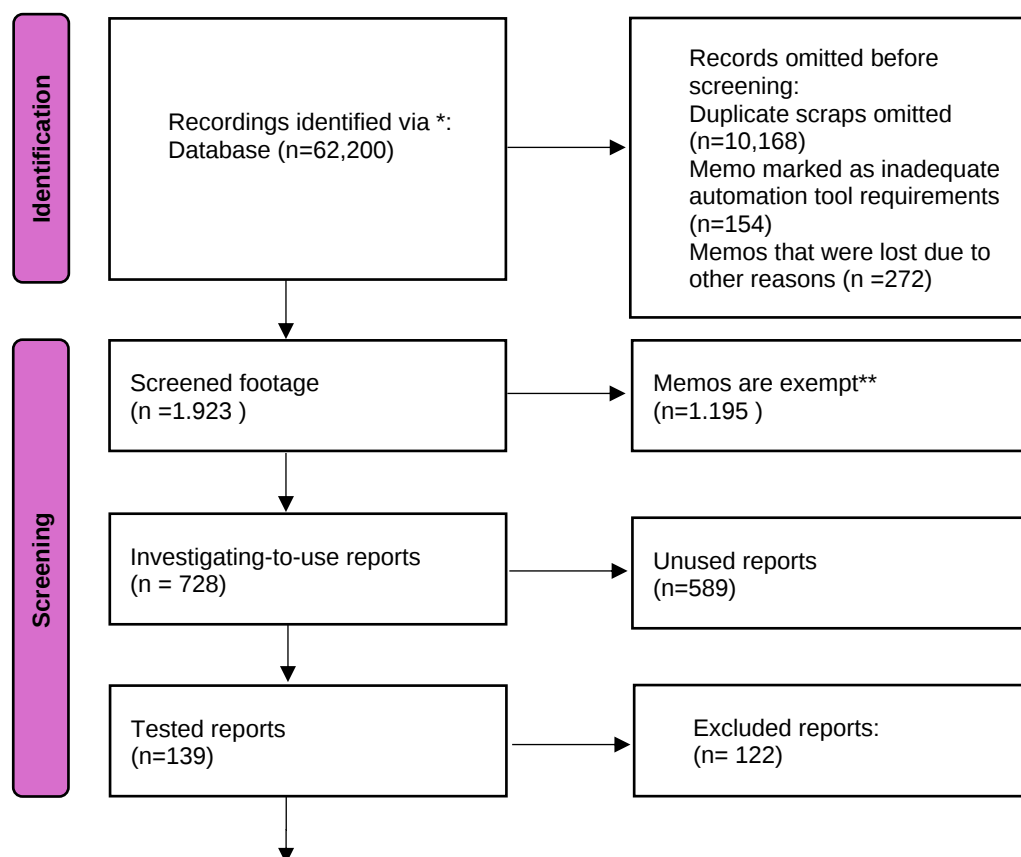
Table 2. Selection Studies Wahono

Inclusion Criteria	Scientific articles, published in journals, published between 2015-2024, contain the topic of the influence of regional spending and regional revenues on local government performance.
Exclusion Criteria	The article is less scientific, not published in journals, not published between 2015-2024, contains the topic of local government performance but is not related to the influence of regional spending and regional revenue.

Source: Data processed by Researcher, 2024

The SLR method can be used to examine the influence of regional expenditure and accrual directors on regional revenue and local government performance by posing several questions: 1) What is the population? 2) What are the interventions? 3) How are they compared? 4) What are the outcomes? 5) What is the context? This article reviews and discusses selected journal articles based on stages made objectively to find answers to these five questions and attempts to refer to the five elements of PICOC SLR, which are then used to provide recommendations on how regional expenditure and regional revenue affect local government performance.

An online search using the keywords: the influence of regional spending on local government performance; the influence of regional revenue on government performance; yielded 62,200 articles. The author then selected articles that met the research criteria, resulting in 17 articles. These articles were reviewed to obtain those that were truly relevant and could comprehensively support the research. Based on this description, the design of the prism diagram in this study is as follows:



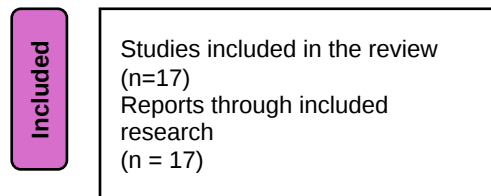


Figure 2. Diagram PRISMA

RESULTS AND DISCUSSION

The author reviews several articles that examine the influence of regional spending and regional revenue on local government performance. The results of the study by Dilliana et al. (2019) found that regional spending has a positive and significant influence on local government performance (economic growth); this indicates that infrastructure development is carried out to promote regional economic growth. Consistent with Saputra, Haliah & Indrijawati's (2024) research results, it was found that expenditure (capital expenditure) has a positive and significant effect on local government performance (economic growth). This means that the greater the government expenditure from capital expenditure, the higher the economic growth. This is because capital expenditure, especially related to infrastructure procurement, can support economic growth, which ultimately affects the welfare of the community equally. In line with the research results of Wibowo & Monalisa (2019), which found that expenditure (capital expenditure) has a positive and significant effect on local government performance (economic growth), this is because the distributed capital expenditure is the main factor in increasing economic growth. Research by Arini, Retno Dwi & Pratiwi, and Sulistya Rini (2023) revealed that the decline in the performance of the Tarakan City government in 2019 and 2020 was influenced by the decline in economic growth and people's purchasing power due to COVID-19, resulting in lower real per capita expenditure of the population compared to the previous year.

The research findings by Dewi and Dewi (2021) reveal that regional expenditure exerts a positive and significant influence on local government performance (economic growth). This suggests that economic growth is impacted by regional spending. Granting regional autonomy affects a region's economic growth as it allows local governments the liberty to devise their own financial plans and formulate policies that can shape the progress of their regions. Corresponding with the outcomes of Nuraini & Saleh's research (2023), which asserts that capital expenditure yields a positive and significant impact on local government performance (economic growth). Similarly, research by (Ansar et al., 2021) underscores that regional expenditure contributes positively and significantly to economic growth, implying that greater regional spending correlates with amplified influence on economic growth. The findings of Rediyono et al. (2022) demonstrate that both direct and indirect spending exert a positive and significant influence on agency performance at the One-Stop Investment and Integrated Services Office. Furthermore, Ningrat and Supadmi's study (2019) on the Gianyar Regency Government of Bali indicates that regional revenue positively impacts local government performance, whereas capital expenditure negatively affects local government performance.

Sa'Adah & Rohman (2019) discovered that increasing regional capital expenditure yields a positive and noteworthy impact on regional revenue (PAD). This suggests that higher capital expenditure can lead to subsequent benefits such as enhanced community productivity and increased investor interest, consequently boosting Regional Original Income. These findings align with those of Dwigantara & Handayani (2020), who also observed a positive and significant relationship between capital expenditure and PAD. Similarly, Alfarizi & Sasongko (2023) concluded that regional spending positively affects PAD. Asdar & Naidah (2020) further supported this notion by highlighting the positive influence of government spending on PAD. (Delang, 2024) study reinforced these findings, emphasizing the importance of capital expenditure as a key developmental indicator in Indonesia. Notably, Kurniawan et al. (2017) and Mahmudi et al. (2017) both demonstrated the positive impact of government expenditure, particularly in education, on PAD growth. Moreover, research by Muuna

et al. (2023) conducted at BUMDesa Margo Mulyo underscored the significance of effective asset and capital management in generating substantial income for local communities.

CONCLUSION

The outcomes of this research demonstrate that the expenditure within a region plays a crucial role in enhancing the effectiveness, efficiency, and responsiveness of local governance. Essentially, an increase in regional spending directly correlates with an enhancement in the performance of local administrations. This indicates that adept budget allocation and expenditure optimization by local authorities lead to improved governance outcomes. Furthermore, the study highlights the significance of prudent and strategic budget management for achieving favorable results at the local level.

Additionally, the research affirms that regional revenue significantly impacts the performance of local governments. It emphasizes local administrations' importance in augmenting their revenue streams to bolster overall performance. Future investigations could delve deeper by encompassing a wider array of scholarly sources and focusing on various indicators related to regional spending, revenue, and the broader performance metrics of local governments.

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