

The Influence of Intergovernmental Transfer and Capital Expenditure on Local Government Performance with Total Assets as a Moderating Variable

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ABSTRACT

This study examines how intergovernmental transfer and capital expenditure influence local government performance, with total assets as a moderating variable. Government performance is measured using the Gender Development Index (GDI), reflecting inclusive and equitable development outcomes. Panel data from 27 regencies/municipalities in West Java Province over 2020–2024 (135 observations) were analyzed using Fixed Effect Model regression. Findings reveal that transfer revenue positively and significantly affects government performance, while capital expenditure and total assets show no direct significant effect. Total assets significantly weaken the transfer revenue-performance relationship, though no moderation is found for capital expenditure. Grounded in agency theory, these findings stress the importance of transparent and accountable governance in advancing inclusive local development.

INTRODUCTION

Indonesia's regional autonomy policy, anchored in Law No. 23 of 2014 and its amendment through Law No. 9 of 2015, has expanded local governments' authority to manage their own fiscal resources and public services. However, the effectiveness of this decentralization largely depends on how well local governments translate fiscal capacity into tangible development outcomes (Bersch & Fukuyama, 2023; Iacuzzi et al., 2025). A persistent challenge in this regard is that performance evaluations of local governments have traditionally relied on macroeconomic proxies – such as revenue growth or economic output – that fail to capture the real quality of community well-being (Purba, 2025). This has prompted a paradigm shift toward more inclusive human development indicators (Mariano et al., 2021).

This study adopts the Gender Development Index (GDI) as a proxy for local government performance. Introduced by the UNDP (Mišćević, 2021), GDI measures the equity of development outcomes – across health, education, and living standards – between men and women (Liu, 2020). Its relevance is reinforced by its inclusion in Indonesia's national Gender Mainstreaming (PUG) policy under RPJMN 2020–2024 and 2025–2029 (Juanita et al., 2025), its alignment with SDG 5 on Gender Equality (Roy & Xiaoling, 2022), and its sensitivity to public policies in education, health, and women's economic empowerment – sectors that are directly funded through local budgets (Nurwanti et al., 2021). West Java provides a strategically important empirical context: in 2024, its GDI score of 90.39 fell below the national average of 91.8, with women's average schooling years (8.55) and real per capita expenditure (IDR 8.83 million) both considerably lower than men's (9.19 years; IDR 17.15 million) (BPS Jawa Barat, 2025). As Indonesia's second most populous province, these disparities carry significant national weight.

Two key fiscal variables are examined in this study. First, transfer revenue – comprising DAU, DAK, DBH, DID, Village Funds, and Inter-Regional Transfers – constituted over 60% of West Java's regional income between 2020 and 2024 (BAPPEDA Provinsi Jawa Barat, 2025). Transfer revenue functions as a fiscal equalization mechanism that enables local governments to finance essential services in education, health, and infrastructure (Montes-Nebreda, 2025). Prior studies confirm its positive role in improving public service delivery (Agintha, 2024; Anggraini & Rahayu, 2019; Nugroho & Prasetyo, 2018), though others find that excessive reliance on transfers can suppress local fiscal initiative (AM et al., 2023; Aziz & Kusumawaty, 2024). Second, capital expenditure – spending on fixed assets such as school buildings, Puskesmas, roads, and public facilities – holds significant potential for advancing gender development outcomes, including expanded years of schooling for women and improved maternal health infrastructure (Latifah & Amalia, 2022; Permatasari & Trisnaningsih, 2022). Yet its effectiveness remains contested, with some studies finding little impact due to poor planning and low post-completion asset utilization (Amanda & Praptoyo, 2023; Budiharjo et al., 2024; Wahasusmiah, 2025).

These inconsistencies suggest that fiscal inputs do not operate in isolation. Total assets – reflecting a local government's real capacity to sustain service

delivery through school buildings, health facilities, road networks, and community infrastructure – may play a moderating role in this relationship (Aulia & Rahmawaty, 2020; Haque & Rohman, 2022). When productively managed, total assets can amplify the impact of both transfer revenue and capital expenditure on development outcomes (Kiswanto & Fatmawaty, 2019; Safitri et al., 2023). When underutilized, however, they may weaken these effects regardless of fiscal input levels (Natoen et al., 2020). Despite its theoretical plausibility, this moderating role has received limited empirical attention in the regional fiscal governance literature.

This study makes several contributions. It is among the few studies to use GDI – rather than conventional economic or financial proxies – as the performance measure for local governments (Mariano et al., 2021), offering a more inclusive lens for evaluating fiscal policy effectiveness. It also integrates transfer revenue, capital expenditure, and total assets within a single analytical model, addressing the gap left by studies that examine these variables in isolation (Agintha, 2024). Focusing on 27 regencies/municipalities in West Java over 2020–2024 provides a unique and empirically rich context that has been underexplored in gender-sensitive fiscal research (BPS Jawa Barat, 2025). This study therefore aims to examine the influence of intergovernmental transfer and capital expenditure on local government performance, as proxied by GDI, and to test whether total assets moderate these relationships – with the broader goal of informing more effective and gender-responsive fiscal policy at the regional level.

LITERATURE REVIEW

Theoretical Framework

This study is grounded in three complementary theories. Agency theory explains the contractual relationship between a principal and an agent, characterized by authority delegation and potential conflict arising from divergent interests and information asymmetry (Scott & O'Brien, 2020). In local government, the community and its legislative bodies act as principals who mandate local governments – as agents – to manage public finances and deliver public services. Since local governments hold more complete information than the public, moral hazard risks may emerge through inefficient budget use or misaligned spending priorities (Wijayanti, 2020). Control mechanisms such as fiscal regulations, internal control systems, and external audits are therefore essential to align resource use with principals' interests (Kusnadi, 2023). This theory underpins the study's explanation of how transfer revenue, capital expenditure, and total assets interact to influence local government performance (Ardelia et al., 2022).

Accountability theory complements agency theory by emphasizing agents' obligation to justify their use of public resources (Andriana, 2025). In regional financial governance, accountability is operationalized through budget transparency, reliable financial reporting, and public participation mechanisms. When accountability functions effectively, resource allocation tends to be more targeted and development outcomes improve. Development theory further

reinforces this framework by positioning the accumulation of public physical capital as a key driver of long-run productivity and welfare improvement (Solow, 1956). Capital expenditure, in this sense, represents public investment that creates the physical infrastructure – schools, health centers, roads – necessary to expand service access and advance inclusive development (Rahmayani et al., 2025).

Hypotheses Development

Transfer revenue – comprising instruments such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), Regional Incentive Fund (DID), Village Funds, and Inter-Regional Transfers – constitutes the largest contributor to local budgets across most Indonesian regions (PP No. 71 Tahun 2010). These transfers serve as a fiscal equalization mechanism aimed at reducing inter-regional disparities and ensuring adequate provision of education, health, and public infrastructure (Montes-Nebreda, 2025), measured as the ratio of total transfer revenue to total regional revenue. Drawing on agency theory, transfer revenue reduces information asymmetry between central and local governments, providing regions with sufficient fiscal resources to fulfill service mandates (Sukmadilaga et al., 2024). When transfers are subject to oversight, agents are incentivized toward greater accountability and service quality. Prior studies confirm that larger transfers enable local governments to close spending gaps and expand public service capacity (Nugroho & Prasetyo, 2018), with DAU-based allocations consistently linked to improved governance outcomes (Agintha, 2024; Sedek & Kusumawaty, 2024; Anggraini & Rahayu, 2019).

H1: Transfer revenue has a positive effect on local government performance.

Capital expenditure – defined as budget outlays for fixed assets including school buildings, health centers, roads, bridges, and medical equipment that provide benefits beyond one accounting period (PP No. 12 Tahun 2019) – represents the government's long-term investment in public service capacity, measured as the ratio of capital expenditure to total regional expenditure (Halim, 2014). Grounded in development theory, investment in women-friendly health facilities, classroom expansion, MSME centers, and basic sanitation infrastructure directly advances GDI dimensions (Latifah & Amalia, 2022; Permatasari & Trisnaningsih, 2022). Prior research consistently finds that well-directed capital expenditure improves public service effectiveness and fiscal efficiency (Agintha, 2024; Niswani & Firdaus, 2022; Anggraini & Rahayu, 2019).

H2: Capital expenditure has a positive effect on local government performance.

Total assets encompass all economic resources owned or controlled by local governments – including current assets, long-term investments, fixed assets, and intangible assets – expected to generate economic or social benefits (PP No. 71 Tahun 2010; Mahmudi, 2019), measured as $\ln(\text{Total Assets})$ to normalize scale disparities across regions (Gujarati & Porter, 2009). Total assets reflect a region's real capacity to sustain public service delivery and proxy its fiscal and institutional capability (Haque & Rohman, 2022). From an agency theory

perspective, larger asset holdings raise public accountability expectations, motivating agents to perform more optimally (Botutihe, 2024). Empirically, asset-rich regions demonstrate stronger fiscal flexibility (Adinata & Efendi, 2022), better operational quality (Aulia & Rahmawaty, 2020), and more efficient budget execution (Natoen et al., 2020).

H3: Total assets have a positive effect on local government performance.

The effectiveness of transfer revenue in driving government performance is not uniform – it depends substantially on the internal capacity of the receiving region. Regions with larger asset bases possess stronger organizational systems and administrative infrastructure to convert transfers into development outputs (Adinata & Efendi, 2022; Aulia & Rahmawaty, 2020), while asset-limited regions face institutional constraints that reduce transfer absorption capacity regardless of fund size (Natoen et al., 2020). Evidence shows that transfer effectiveness improves under disciplined budget governance – conditions more readily available in asset-rich regions (Sedek & Kusumawaty, 2024).

H4: Total assets strengthen the relationship between transfer revenue and local government performance.

Capital expenditure's ultimate impact depends on a region's capacity to manage and optimize assets post-completion. Larger asset bases signal institutional readiness – supporting infrastructure, skilled personnel, and fiscal stability – needed to sustain service improvements from capital investment (Haque & Rohman, 2022; Natoen et al., 2020). Without adequate asset support, capital spending risks producing underutilized facilities that fail to deliver meaningful performance gains (Aulia & Rahmawaty, 2020; Adinata & Efendi, 2022).

H5: Total assets strengthen the relationship between capital expenditure and local government performance.

Government performance throughout this study is proxied by the Gender Development Index (GDI), a UNDP-derived indicator comparing women's and men's Human Development Index across health, education, and economic dimensions, with scores ranging from 0 to 100 (BPS, 2023). Its integration into Indonesia's RPJMN 2020–2029 and alignment with SDG 5 on Gender Equality establish GDI as a policy-relevant and theoretically grounded measure of inclusive local governance (Juanita et al., 2025; Roy & Xiaoling, 2022).

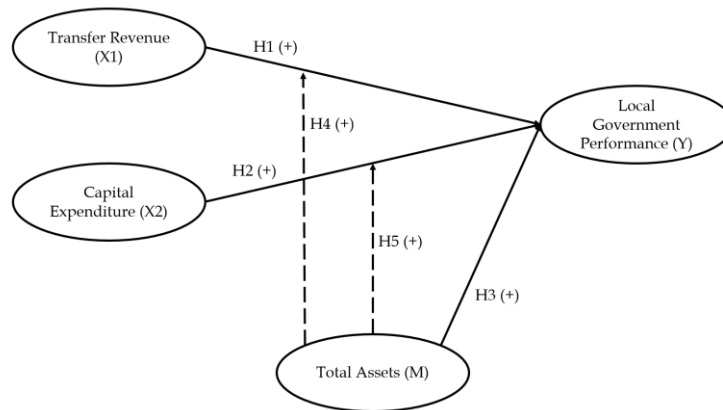


Figure 1. Conceptual Framework

METHODOLOGY

This study employs a quantitative approach with a correlational design to examine the influence of transfer revenue and capital expenditure on local government performance, with total assets as a moderating variable. Secondary data were drawn from two official sources: audited Regional Government Financial Reports (LKPD) published by the Supreme Audit Board (BPK RI) for transfer revenue, capital expenditure, and total asset figures; and the official website of Statistics Indonesia – West Java Province (BPS Jabar, jabar.bps.go.id) – for Gender Development Index (GDI) data as the performance proxy.

The study population covers all 27 regencies and municipalities in West Java Province (18 regencies and 9 cities). A census sampling technique was applied, incorporating the entire population as the study sample given its manageable size and data completeness. With a five-year observation period spanning 2020–2024, the total number of observations is 135 (27 regions \times 5 years).

Data analysis was conducted using EViews statistical software and proceeded through four stages. First, descriptive statistics – including mean, median, standard deviation, minimum, and maximum values – were computed to characterize variable distributions. Second, classical assumption tests were performed. Normality was assessed using the Jarque-Bera (JB) test, though normality testing is theoretically less critical when observations exceed 30, given the Central Limit Theorem (Ajija et al., 2023). Multicollinearity was examined through Variance Inflation Factor (VIF) and tolerance values, with $VIF > 10$ or tolerance < 0.1 indicating problematic multicollinearity; a correlation matrix was also inspected, with inter-variable correlations exceeding 0.85 flagging potential issues.

Third, the appropriate panel data model was selected through sequential specification tests. The Chow test determined whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) was preferable, with a probability value below 0.05 favoring FEM. The Hausman test then compared FEM against the Random Effect Model (REM), with a probability value below 0.05 confirming FEM as the superior specification. Where applicable, the Lagrange Multiplier test was used to choose between CEM and REM.

Fourth, hypothesis testing was conducted using the selected panel model. The F-test evaluated the simultaneous significance of all independent variables, while the t-test assessed each variable's individual effect on the dependent variable, both at a 5% significance threshold. The coefficient of determination (R^2) was also reported to indicate the proportion of variance in government performance explained by the model. To accommodate the moderating role of total assets, interaction terms between total assets and each independent variable were introduced into the regression equation.

RESEARCH RESULT

Descriptive Statistics

Table 1 presents the descriptive statistics for all research variables across 135 observations.

Table 1. Descriptive Statistics

Statistic	Y (GDI)	X1 (Transfer Revenue)	X2 (Capital Expenditure)	Z (Total Assets)
Mean	90.048	2.50E+12	4.98E+11	8.72E+12
Maximum	96.590	6.31E+12	1.99E+12	6.49E+13
Minimum	79.600	6.03E+11	5.03E+10	1.49E+12
Std. Dev.	3.919	1.18E+12	3.53E+11	1.03E+13
Observations	135	135	135	135

Source: Processed by researchers using EViews 9

Government performance (Y), proxied by GDI, averaged 90.05 – falling within the "very high" category (≥ 90) – with values ranging from 79.60 to 96.59, reflecting meaningful variation in gender development achievement across West Java's regencies and municipalities. Transfer revenue (X1) averaged IDR 2.50 trillion per region, ranging from IDR 603 billion to IDR 6.31 trillion, indicating considerable fiscal disparity across regions. Capital expenditure (X2) averaged IDR 498 billion, with a wide range from IDR 50.3 billion to IDR 1.99 trillion, suggesting substantial differences in public investment commitment. Total assets (Z) recorded the highest dispersion, averaging IDR 8.72 trillion but reaching IDR 64.9 trillion at maximum, reflecting concentrated asset ownership among a small number of larger regions.

Multicollinearity Test

Table 2. Multicollinearity Test (Correlation Matrix)

Variable	X1	X2	Z
X1	1.000	0.729	0.506
X2	0.729	1.000	0.629
Z	0.506	0.629	1.000

Source: Processed by researchers using EViews 9

All inter-variable correlations fall below the 0.85 threshold, confirming the absence of multicollinearity in the model (Ajija et al., 2023).

Panel Model Selection

Table 3. Chow and Hausman Test Results

Test	Equation	Statistic	Prob.	Decision
Chow Test	Equation 1	634.049	0.0000	FEM > CEM
Hausman Test	Equation 1	13.682	0.0034	FEM > REM
Chow Test	Equation 2	660.605	0.0000	FEM > CEM
Hausman Test	Equation 2	16.703	0.0051	FEM > REM

Source: Processed by researchers using EViews 9

Both the Chow and Hausman tests consistently confirm the Fixed Effect Model (FEM) as the most appropriate estimator for both regression equations. The Lagrange Multiplier test was therefore not required.

Regression Results

Table 4. Regression Results – Equation 1 (Direct Effects)

Variable	Coefficient	t-Statistic	Prob.	Decisions
C	88.334	390.704	0.0000	-
X1 - Y (H1)	7.61E-13 (+)	8.211	0.0000	Accepted
X2 - Y (H2)	-4.82E-13 (-)	-1.653	0.1013	Rejected
Z - Y (H3)	2.76E-15 (+)	0.141	0.8884	Rejected

Source: Processed by researchers using EViews 9

Table 5. Regression Results – Equation 2 (Moderation Effects)

Variable	Coefficient	t-Statistic	Prob.	Decisions
C	86.849	233.496	0.0000	-
X1 - Y	1.23E-12 (+)	9.712	0.0000	-
X2 - Y	-6.64E-13 (-)	-1.672	0.0975	-
Z - Y	1.47E-13 (+)	4.118	0.0001	-
X1×Z → Y (H4)	-3.28E-26 (-)	-4.789	0.0000	Rejected*
X2×Z → Y (H5)	8.77E-27 (+)	0.378	0.7063	Rejected

*Significant moderation found but direction is opposite to hypothesis

Source: Processed by researchers using EViews 9

From Equation 1, transfer revenue (X1) positively and significantly influences government performance (prob. 0.0000), supporting H1. Capital expenditure (X2) shows a negative and insignificant effect (prob. 0.1013), leading to the rejection of H2. Total assets (Z) exhibit no significant direct effect on government performance (prob. 0.8884), rejecting H3. From Equation 2, the interaction term X1×Z is statistically significant (prob. 0.0000) but carries a negative coefficient, indicating that total assets significantly weaken rather than strengthen the transfer revenue–performance relationship, rejecting H4 in terms of directional expectation. The interaction term X2×Z is statistically insignificant (prob. 0.7063), providing no support for H5.

Table 6. Coefficient of Determination

	Equation 1	Equation 2
Adjusted R-squared	0.9913 (99.13%)	0.9929 (99.29%)

Source: Processed by researchers using EViews 9

Equation 1 explains 99.13% of the variation in local government performance through transfer revenue, capital expenditure, and total assets, while the remaining 0.87% is attributed to factors outside the model. The inclusion of moderation interaction terms in Equation 2 marginally improves explanatory power to 99.29%, confirming that total assets contribute additional explanatory value when modeled as a moderating variable.

DISCUSSION

The Influence of Transfer Revenue on Local Government Performance

Transfer revenue is found to positively and significantly influence local government performance, as proxied by GDI. This finding reflects the fundamental role of fiscal transfers in expanding the capacity of local governments to finance development programs and deliver public services. Transfer revenue – encompassing DAU, DAK, DBH, and other instruments – constitutes the primary funding source for most regional budgets in Indonesia (Fernandes & Putri, 2022), and its availability directly determines the scope of programs that local governments can plan and implement. When transfer funds are sufficient and consistently disbursed, regional governments gain the fiscal space needed to make more strategic, targeted, and impactful spending decisions (Sedek & Kusumawaty, 2024).

From an agency theory perspective, this finding is consistent with the view that fiscal transfers serve as a principal-controlled mechanism to ensure that agents – local governments – have adequate resources to fulfill their public service mandate (Setiawan, 2024). The larger the transfer received, the smaller the risk of resource-driven misalignment between principal and agent, as local governments are better positioned to meet community expectations and development targets without resorting to suboptimal budget trade-offs. Accountability theory further reinforces this dynamic: as the volume of public funds under local government management increases, so does institutional pressure to ensure transparent, responsible, and outcome-oriented budget governance (Andriana, 2025). Transfer revenue, in this sense, does not merely add fiscal capacity – it also heightens accountability expectations that drive performance improvement.

The relevance of this finding is further amplified when GDI is used as the performance measure. Improving GDI requires sustained investment in women's access to education, maternal and child healthcare, and economic empowerment – all of which depend heavily on consistent public funding (Ramadhani & Yuliani, 2022). Transfer revenue provides local governments with the fiscal instrument to expand educational services for women, strengthen health infrastructure for mothers and children, and finance economic empowerment programs that advance gender equality (Huda et al., 2024). In this context, fiscal transfer is not only a driver of general public service quality but also a direct enabler of inclusive, gender-responsive governance. These results are consistent with prior studies confirming the positive role of transfer revenue in improving local government performance (Agintha, 2024; Anggraini & Rahayu, 2019; Nugroho & Prasetyo, 2018; Sedek & Kusumawaty, 2024).

The Influence of Capital Expenditure on Local Government Performance

Capital expenditure does not show a significant effect on local government performance in this study. This finding suggests that the magnitude of capital budget allocation alone is insufficient to drive measurable improvements in GDI within the observation period. One key explanation lies in the long-term nature of capital investment: infrastructure and public facilities generally yield visible development benefits only several years after project completion (Fernandes & Putri, 2022). Since GDI is measured annually, the lagged impact of capital spending may not yet be captured within the 2020–2024 observation window.

Beyond timing, the quality of capital expenditure management plays a decisive role. Capital spending that is poorly planned, misaligned with community needs, or inadequately supervised tends to produce suboptimal outputs regardless of its budgetary scale (Mulia & Widiatmoko, 2025). When procurement processes are inefficient or when post-completion asset utilization is weak, the intended service improvements fail to materialize in ways that influence development indicators such as GDI. Prior research has similarly documented that capital expenditure does not automatically translate into performance gains when planning quality and implementation capacity are constrained (Anggraini & Rahayu, 2019; Latifah & Amalia, 2022; Maulina et al., 2021; Bilqis & Priyono, 2023).

From an agency theory standpoint, this result may reflect the presence of agency problems in capital budget management. Local governments, as agents, may prioritize politically visible or short-term spending over strategically impactful infrastructure investments that align with principals' long-term development goals (Setiawan, 2024; Nugroho & Prasetyo, 2018). When agency problems are present, the allocation of capital expenditure may not fully reflect community priorities, weakening its connection to measurable performance outcomes. This finding therefore underscores that the effectiveness of capital expenditure is not determined by its volume but by the quality of governance, accountability mechanisms, and institutional capacity that govern its implementation.

The Influence of Total Assets on Local Government Performance

Total assets do not show a significant direct effect on local government performance. This finding challenges the conventional assumption that a larger asset base automatically translates into stronger service delivery capacity. In practice, a substantial portion of local government assets may remain underutilized – either physically idle or functionally disconnected from service delivery – while simultaneously generating maintenance obligations that absorb significant portions of the operational budget (Pradana et al., 2022). When asset maintenance costs crowd out productive spending, the presence of large assets becomes a fiscal burden rather than a performance enabler.

Accountability theory provides a useful lens for interpreting this result. The mere existence of assets does not constitute accountability or performance – what matters is how effectively those assets are managed to generate public value (Andriana, 2025). Large asset inventories without productive utilization or

quality governance do not improve service outcomes. From an agency theory perspective, this finding may also reflect a form of agency problem: local governments may not optimize asset use in line with principals' interests, particularly when asset management systems are weak, institutional capacity is limited, or assets are misaligned with current service priorities (Wijayanti, 2020). Supporting evidence from prior studies shows that large asset holdings without adequate operational capacity or managerial quality do not contribute to fiscal or service performance improvements (Millenia, 2022; Siregar, 2020; Aziz & Kusumawaty, 2024).

The Moderating Role of Total Assets on the Relationship Between Transfer Revenue and Government Performance

Total assets significantly moderate the relationship between transfer revenue and government performance, but in a weakening rather than strengthening direction – a finding that contradicts the initial hypothesis. This result suggests that local governments with larger asset bases derive less performance benefit from transfer revenue than their smaller-asset counterparts. The central mechanism behind this finding is the fiscal burden imposed by large asset holdings: regions with extensive physical assets must allocate a disproportionately large share of their budgets to asset maintenance, operational costs, and administrative obligations, leaving less transfer revenue available for productive, performance-enhancing programs (Aziz & Kusumawaty, 2024; Pradana et al., 2022).

Rather than serving as an amplifier of transfer effectiveness, large asset holdings constrain the fiscal flexibility that transfer revenue is designed to provide. Funds that could otherwise finance education expansion, health facility upgrades, or women's economic empowerment programs – all of which directly advance GDI – are instead redirected toward sustaining existing asset infrastructure (Millenia, 2022; Wahasusmiah, 2025). This dynamic is captured well by agency theory: the central government, as principal, disburses transfers with the expectation that agents will deploy them toward inclusive development outcomes (Sedek & Kusumawaty, 2024). However, agents encumbered by extensive asset management obligations face structural constraints that limit their ability to translate transfers into performance gains – a condition that can be described as agency slack (Maulina et al., 2021).

Prior research corroborates this interpretation, showing that large asset capacity does not consistently enhance the effectiveness of fiscal transfers when management quality is lacking (Anggraini & Rahayu, 2019; Nugroho & Prasetyo, 2018; Fernandes & Putri, 2022). These findings collectively point to a critical policy implication: the effectiveness of transfer revenue in driving government performance depends not only on the quantum of transfers but also on the structural fiscal environment of the receiving region, particularly the degree to which asset maintenance obligations compete with development spending. Asset management reform – including improved asset utilization strategies and rationalization of idle assets – is therefore essential for ensuring that transfer revenue achieves its intended performance impact.

The Moderating Role of Total Assets on the Relationship Between Capital Expenditure and Government Performance

Total assets do not significantly moderate the relationship between capital expenditure and local government performance. This finding indicates that the size of a region's asset base neither amplifies nor attenuates the impact of capital spending on GDI. While prior literature and agency theory suggest that larger asset holdings should provide supporting infrastructure and institutional readiness to maximize capital investment returns (Haque & Rohman, 2022; Natoon et al., 2020), this study finds no empirical support for that mechanism in the West Java context.

A plausible explanation is that the effectiveness of capital expenditure is more fundamentally determined by the quality of the budget planning and implementation process than by the existing asset endowment. Well-designed capital projects, rigorous procurement governance, and robust post-completion monitoring drive performance outcomes far more directly than the size of the asset base inherited from previous periods (Amalia et al., 2024; Bilqis & Priyono, 2023; Fernandes & Putri, 2022). When these governance elements are absent or weak, even large asset holdings fail to provide the institutional leverage needed to strengthen the capital expenditure–performance link. This finding aligns with evidence showing that bureaucratic capacity constraints, technical limitations, and inefficient asset integration can neutralize the potential moderating advantage of large asset portfolios (Wambrauw et al., 2025; Maulina et al., 2021).

From an agency theory standpoint, this result points to an agency mismatch: despite holding larger asset bases, local governments do not appear to leverage those assets as complementary inputs that enhance the productive impact of new capital investment (Poulis et al., 2021; Setiawan, 2024). Large assets may even generate integration challenges – where newly built assets through capital expenditure are poorly coordinated with existing infrastructure – reducing overall service delivery efficiency (Anggraini & Rahayu, 2019; Aziz & Kusumawaty, 2024). This underscores that asset quantity alone is not a reliable indicator of institutional capacity. Effective asset management – including systematic utilization planning, maintenance scheduling, and alignment of new capital investment with existing asset strategies – is more critical than asset volume in determining whether capital expenditure translates into meaningful performance improvements for local communities.

CONCLUSIONS AND RECOMMENDATIONS

This study examined the influence of intergovernmental transfer and capital expenditure on local government performance – proxied by GDI – with total assets as a moderating variable, drawing on panel data from 27 regencies and municipalities in West Java Province over 2020–2024. Six conclusions emerge from the findings.

Transfer revenue positively and significantly influences local government performance. Larger fiscal transfers expand regional capacity to finance development programs, while accountability pressures from both the public and central government incentivize effective fund utilization – directly improving

development outcomes. This aligns with agency and development theory, which emphasize the importance of adequate resource flows for agents to pursue inclusive growth. Capital expenditure does not significantly influence government performance, indicating that budget allocation for capital spending alone is not a primary determinant of regional development outcomes. Total assets show no significant direct effect on government performance, suggesting that asset size does not directly represent governance quality or service delivery capacity.

Total assets significantly weaken the relationship between transfer revenue and government performance. Although transfer revenue directly improves performance, its effectiveness diminishes as total assets grow – consistent with accountability theory, which recognizes that large, poorly managed asset holdings generate maintenance burdens that divert transfer funds away from productive programs. Total assets do not significantly moderate the capital expenditure–performance relationship, indicating that asset size provides no meaningful amplification of capital investment effectiveness. Finally, the improvement in Adjusted R-squared following the inclusion of total assets as a moderating variable confirms its relevance in enhancing the model's explanatory power.

Based on these findings, local governments should strengthen the targeted and transparent management of transfer revenue, directing allocations toward gender-responsive programs in education, health, and women's economic empowerment. Asset rationalization – including redeployment or disposal of idle assets – is recommended to restore fiscal flexibility and maximize transfer effectiveness. Capital expenditure planning must be improved through needs-based prioritization and systematic post-completion monitoring to ensure infrastructure investments translate into measurable performance gains.

ADVANCED RESEARCH

This study carries several limitations that future research should address. First, the sample is confined to 27 regencies and municipalities in West Java Province over a five-year period (2020–2024), yielding 135 observations. This scope limits the generalizability of findings to the broader Indonesian local government population. Future studies are encouraged to expand the sample across multiple provinces or adopt a national-level dataset to produce more representative conclusions. Second, the quantitative approach adopted here does not capture qualitative dimensions that may influence government performance, including political and budgetary dynamics, bureaucratic capacity, geographical conditions, and prevailing economic cycles. A mixed-method approach in future research would help capture these contextual factors more comprehensively. Third, this study employs only total assets as the moderating variable. Future research could incorporate additional moderating variables – such as governance quality, fiscal capacity, bureaucratic capability, and audit opinion – to generate richer empirical evidence on the conditions under which transfer revenue and capital expenditure most effectively drive local government performance.

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