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Factors affecting regional government capital participation in Aceh Regional Banks

Mugtafillah RM
Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia
mugtafillahrm@gmail.com

Indayani*
Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia
indayani@usk.ac.id

Fifi Yusmita
Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia
fifiyusmitaaceh@usk.ac.id

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Mugtafillah RM, Indayani*, Fifi Yusmita

Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia

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***Corresponding Author:**
Indayani@usk.ac.id

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Abstract

This study aimed to examine the affect of fiscal capacity, profit sharing funds, excess budget financing, and dividends from regional government capital participation on regional development Aceh bank with the size of the legislature as moderating variable. The unit of research analysis is amount of regional government capital participation in Aceh Bank. Research population are 23 districts in Aceh. Hypothesis was analyzed using multiple linear regression method. It was concluded that fiscal capacity, profit sharing funds, excess budget financing and regional bank dividends had a positive effect on regional government capital participation. Meanwhile, the size of the legislature has a negative effect on government capital participation. The size of the legislature negatively and insignificantly moderates fiscal capacity but negatively and significantly moderates profit sharing funds in government capital participation. The size of the legislature has a positive and insignificant moderation of excess budget financing but has a positive and significant moderation of regional bank dividends in terms of government capital participation.

Introduction

Before the district/city government invests capital in a Regional Bank, there are things that need to be considered in determining whether there will be additional capital in the following year or not to increase capital participation at all. There are 4 dominant variables that regional governments balance in capital participation, namely fiscal capacity, profit sharing funds, excess budget financing, and dividends from Regional Banks. Four dominant variables that will be applied to research in Regency/City Governments in Aceh Province. Apart from these four factors, the large number of legislative members or the size of the legislature as an institution which is obliged to supervise budgeting in the Regional Government in moderating the fiscal capacity, DBH, SilPA and Dividends of Regional Banks is also considered to affect the decision of regional government capital participation in Regional Banks (Palupi et al., 2016; Novianti et al., 2016; Firdaus, 2017).

There is previous research related to the fiscal capacity, profit sharing funds, SiLPA, and dividends of Regional Banks and the size of the legislature. Research by Palupi et al. (2016) identified investment regulations in local governments, identified Bank BJB's business and investment environment, identified a comparison of the feasibility of investing in Bank BJB compared to other banks and identified the position of XYZ's series A shares in Bank BJB. Research by Jikwa et al. (2017) tried to find out whether excess budget financing (SiLPA) had a positive effect on capital expenditure in Central Mamberamo Regency. Lewis's (2016) research aimed to examine the impact of the size of the legislature on regional public financial results in

Indonesia. Junita et al. (2018) research tested the effect of budget variances on changes in regional budgets using legislative size as a moderator.

This study presents a novel exploration into the factors influencing regional government capital engagement in Aceh's Regional Bank, focusing on an unprecedented combination of variables: fiscal capacity, profit-sharing funds (DBH), excess budget financing (SiLPA), dividends from Regional Banks, and the size of the legislature. While previous research has individually examined some of these factors in various contexts, no study to date has analyzed their collective impact within a single model. Furthermore, the unique socio-economic and political landscape of Aceh provides a distinctive backdrop that has not been thoroughly explored in existing literature. This research fills a critical gap by integrating these variables into a comprehensive analysis, offering new insights into the financial decision-making processes of regional governments in Aceh. The findings are expected to contribute significantly to the broader understanding of regional financial governance and capital investment strategies, particularly in emerging economies with similar regional dynamics.

Literature Review

Regional Government Capital Participation

Based on Government Regulation of the Republic of Indonesia Number 1 of 2008 on Government Investment, capital participation defined as Government Investment in Business Entities with ownership rights, including the establishment of Limited Liability Companies and/or takeover of Limited Liability Companies. According to Antari and Sedana (2018) capital participation is the process of investing money in the form of company shares which can be used to produce something that increases wealth. In practice, capital participation is mostly done by means of share ownership. In this way, there is a cooperation contract in capital participation and management. Yusuf (2018) stated that capital participation is a form of budgeting in terms of economic and social infrastructure provision services.

Aceh Regional Government Capital Inclusion is regulated in Aceh Qanun Number 5 of 2019 concerning Aceh Government Capital Inclusion in Aceh-Owned Business Entities. In the Qanun it is explained that capital participation can be interpreted as the transfer of ownership of Aceh's wealth, which was originally unseparated wealth into separated wealth, to be calculated as Aceh's capital in an Aceh-owned business entity, which is domiciled in Aceh with the principle of mutual benefit.

The Aceh Regional Government distributed a number of its funds to Aceh-owned business entity, i.e. Aceh Syariah Bank. Strong capital involved to improve bank financial performance, therefore government capital participation will strengthen bank capital. With strong capital, banks will be able to increase their business and continue to work efficiently, which will affect bank's profits (Abdullah, 2012). Verinica et al. (2017) stated that in addition of receiving dividends as the owner of Bank Aceh Syariah, Aceh Regional Government also expect that regional bank will support Aceh's people and local micro small and medium enterprises along by their development under government capital participation.

Affect of Fiscal Capacity on Regional Government Capital Inclusion

Based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 54 of 2014 concerning Regional Fiscal Capacity Maps, fiscal capacity is a reflection of a region financially through general budget revenues, regional income and expenditure in terms of government financing minus personnel expenditure and the number of poor people in the region. Rauf (2016) states that fiscal capacity is a description of the financial capacity of each region which is reflected through general revenues from regional income and expenditure budgets (excluding special allocation funds, emergency funds, old loan funds, and other revenues whose use is limited to financing certain expenses) to fund government tasks after deducting personnel expenditure and relating it to the number of poor people.

A region's fiscal capacity is determined by locally-generated revenue and profit sharing funds as well as other revenues which are then deducted from personnel expenditures. Thus, capital participation is closely related to fiscal capacity. The higher the locally-generated revenue, profit sharing and other income of a region, the higher the fiscal capacity. Whether regional income is large or small will influence regional government policy in making capital investment decisions (Antari and Sedana, 2018).

Before determining what and how much capital they will invest in Regional Banks, Regional Governments must pay attention to their fiscal capacity. region in BUMD, it is necessary to first conduct a study of the region's financial capacity. If the regional capacity is classified as medium or high, then the region can freely innovate through various development programs, including investing in capital in BUMD. If the regional financial capacity is relatively low, then the local government will have little difficulty meeting all the expenditure it has planned.

Before determining what and how much capital they will invest in Regional Banks, Regional Governments must pay attention to what their fiscal capacity is. This is supported by the results of research by Sjamsulrijal and Suarsa (2017) which states that if a region plans to make regional investment, both initial investment and additional regional investment in regionally owned enterprises, it is necessary to first study the region's financial capacity. If the regional capacity is classified as medium or high, then the region can freely innovate through various development programs, including investing in capital in regionally owned enterprises. If the regional financial capacity is relatively low, then the local government will have little difficulty meeting all the expenditure it has planned. It's posited that regions with greater fiscal capacity are more likely to invest in the Regional Bank, as they possess the financial resources necessary for such engagements.

Affect of Profit Sharing Funds on Regional Government Capital Inclusion

Based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 19/PMK.07/2020 concerning the Distribution and Use of Profit Sharing Funds, General Allocation Funds, and Regional Incentive Funds for Fiscal Year 2020 in the Context of Combating Corona Virus Disease 2019 (Covid-19), profit sharing funds Regional Revenue and Expenditure Budget is defined as funds originating from Regional Revenue and Expenditure Budget revenues which are allocated to regions based on a certain percentage figure to fund regional needs in the context of implementing decentralization. Jannah et al. (2017) stated that profit sharing funds is a regional right to manage sources of State revenue generated from each region, the amount of which is determined by the producing region based on applicable statutory provisions. Meanwhile, Wiliantara and Budiasih (2016) explained that profit sharing funds is one part of the balancing fund whose allocation is intended for regional governments.

Profit sharing funds come from taxes and natural resources, namely profit sharing funds originating from taxes consisting of land and building tax (PBB), land and building rights acquisition fees, income tax domestic personal tax. Profit sharing funds are used to finance regional needs in the context of implementing regional autonomy with the aim of reducing vertical fiscal inequality between levels of government by equalizing fiscal capacity between regional governments in order to stimulate regional spending in financing activities which has an impact on national development, achieving public infrastructure, and spurring regional income (Wiliantara and Budiasih, 2016).

Jikwa et al. (2017) show that central government transfers through profit sharing funds funding sources, general allocation funds, special allocation funds and special autonomy have a positive influence on capital expenditure, one of which is used for capital investment. Furthermore, it is stated that the source of profit sharing funds has the most dominant influence compared to other sources of funds.it's posited that higher allocations of profit-sharing funds are expected to positively correlate with increased capital engagement, as these funds provide additional financial support to the regions.

Affect of Excess of Budget Calculation on Regional Government Capital Inclusion

Based on the Summary of the 2017 Regional Revenue and Expenditure Budget prepared by the Directorate General of Financial Balance, the excess budget calculation is defined as the difference in excess budget between actual revenues and expenditures. Iqbal and Mulyani (2016) stated that excess budget calculation is the difference between the realization of budget revenues and expenditures during one budget period and is recorded in the excess budget calculation post. The excess budget calculation includes excess of balance fund receipts, excess of financing receipts, spending savings, obligations to third parties that have not been resolved until the end of the year, and remaining funds for follow-up activities.

Excess budget calculation occurs as a result of the realization of revenues (State Revenue, Grants and Financing) being greater than the realization of State Expenditures. For example, when the budget year ends, the realization of State Revenue and Grants exceeds the set target, while on the other hand the realization of State Expenditures is lower than what has been allocated in the National Revenue and Expenditure Budget. However, if the realization of financing causes a National Revenue and Expenditure Budget surplus, then this condition is called excess budget calculation (Ministry of Finance, 2014).

Research by Jikwa et al. (2017) found that excess budget calculation had a positive effect on capital expenditure in the Central Mamberamo Regency Government, one of which was the excess budget calculation source used for capital investment. The Ministry of Finance (2017) stated that excess budget calculation is not completely an idle fund considering that the characteristics of the causes vary. Excess budget calculation can be used to cover the regional revenue and expenditure budget deficit and/or for financing expenditures (investment and reserve funds) in the current year. So far the regional government has a preference for using excess budget calculation to cover the regional revenue and expenditure budget deficit. Meanwhile, the use of excess budget calculation for investment (capital participation) is still relatively low.

Affect of Regional Bank Dividends on Regional Government Capital Inclusion

Dividends are a portion of profits paid by the company to shareholders (Mahmudah, 2019). Therefore, dividends are part of the income expected by shareholders. Local governments carry out long-term investment activities called capital participation and expect dividends from these investment activities (Abdullah, 2020).

Things that are included in the dividend category are distribution of profits either directly or indirectly in any name and in any form, repayment due to liquidation that exceeds the amount paid up, bonus shares made without deposits including bonus shares originating from capitalization of share premium. , distribution of profits in the form of shares, registration of additional capital carried out without a deposit, amounts exceeding the amount of the share deposit received or obtained by shareholders due to the buyback of shares by the company concerned (Mahmudah, 2019).

Apart from that, what is included in the dividend category is the repayment of all or part of the capital paid in if in previous years the said dividend was a profit, unless the repayment was the result of a reduction in authorized (statutory) capital which was made legally, payment in relation to signs of profit, including those received as your redemption of said profits, the share of profits in connection with bond ownership, the share of profits received by policy holders, distribution in the form of remaining business results to cooperative members, and company expenses for the shareholders' personal needs which are charged as company costs (Mahmudah, 2019). It is anticipated that regions receiving substantial dividends from the Regional Bank are more likely to reinvest in the institution, viewing it as a profitable and sustainable venture.

Affect of Legislative Size on Regional Government Capital Participation

The size of the legislature is an assessment of the performance of regional government, which can be seen from the number of Regional People's Representative Assembly members, the more Regional People's Representative Assembly members, the greater the regional government's performance or vice versa, the smaller the number of Regional People's Representative Assembly members, the smaller the regional government's performance (Pramanta, 2017). The size of the legislature can also be interpreted as the number of legislative members tasked with supervising regional government so that regional government can allocate the existing budget so that it can be used properly (Novianti et al., 2016).

The legislative institution is an institution that has an advisory nature, is usually elected or elective, and functions to change laws both state and regional (Junita et al., 2018). Making public policy in the concept of democracy involves the community represented by their representatives in government, with legislative functions, so it is also called the legislature (Marbun, 2006).

The size of a legislature is a reflection of the number of people in a region. The larger the size of the legislature, the greater the population and the more problems the legislature must address as representatives of the people and the more consideration the legislators have in determining budget allocation decisions (Abdullah, 2020). It is hoped that the large number of Regional People's Representative Assembly members will increase supervision of regional government so that it will have an impact on improving regional government performance (Pramanta, 2017).

Law Number 17 of 2003 concerning State Finance states that investment in state/regional companies must obtain prior approval by the House of Representatives or Regional People's Representative Assembly. The size of the legislature is a reflection of the population of an area, this means that the number of council members is determined based on the number of residents, areas with a small population have only 20 council members, while areas with a large population can have as many as 45 council members. Thus, the size of the legislature indicates the complexity of a region's decision making. The more council members, the more complex the decisions involved in making budget decisions because the budget is decided politically, the larger the size of the council members, the more complex the problems and the bigger the budget and the more complicated the decision to invest because the more council members there are, the more aspirations there are that must be borne (Abdullah, 2020). The size of the regional legislature is hypothesized to have a positive relationship with capital engagement, under the assumption that larger legislatures may support more robust investment decisions due to a broader representation of regional interests.

Affect of Legislative Size on Fiscal Capacity, Profit Sharing Funds, Excess of Budget Calculation and Regional Bank Dividends on Regional Government Capital Participation

The role of the legislature is in making public policies, including regional budgeting (Shulthoni, 2017). Johnson (1994) shows that bureaucratic activities respond to pressure exerted by the legislature in the policy and budget making process. Dobell and Ulrich (2002) state that important role of the legislature is to represent the interests of the community, empower the government, and monitor government performance. These three roles place the legislature with the ability to exert significant influence on government policy. Mohamed and Schwienbacher (2016) state that there are two possible changes that the legislature can make to the budget proposal submitted by the executive, i.e. changing the budget amount and changing the distribution of spending/expenditure in the budget.

Budget plan cannot be realized without approval from the ratifying institution, i.e. the legislative institution. Excess of Budget Calculation is a result arising from a surplus. Quoting the statement from Law Number 17 of 2003 concerning State Finance, in the event that the APBN is estimated to be in surplus, the central government submits a plan for using the budget surplus to the People's Representative Council (legislative institution). This statement is reinforced by Winarna and Murni (2007), the People's Representative Council (legislative institution) is an institution that has a strategic position and role related to regional financial supervision. Legislative members has supervisory duties over regional governments as they can allocate existing budgets to be optimized properly.

The number of legislative members (legislature size) is a reflection of the population in a region. The more council members, the more people's demands must be aspired to and the more complex decisions involved in making budget decisions because the budget is decided politically (Abdullah, 2020). In addition, the large number of legislative members is expected to increase supervision of the regional government budget process (Sumarjo, 2010). Based on the explanation above, a framework was obtained which was then used as a discussion in this research (Figure 1).

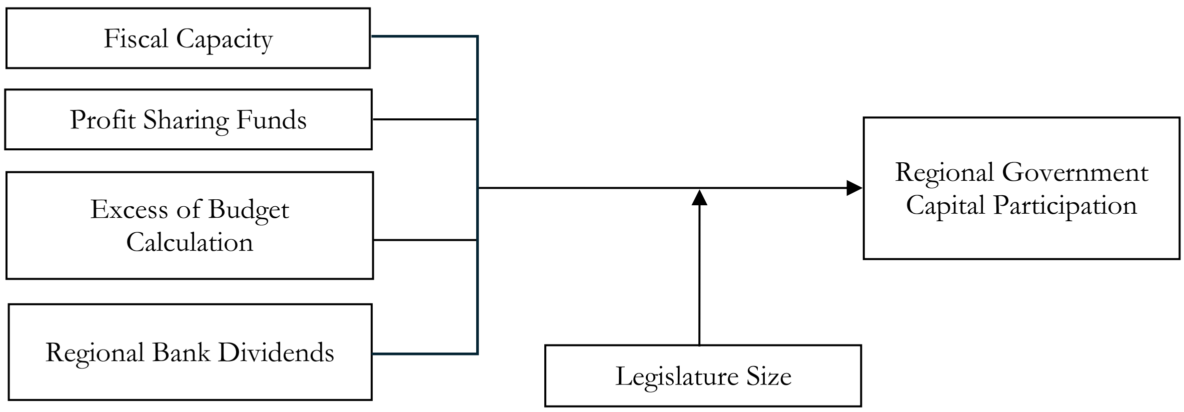

Figure 1. Research Framework

Research Method

The population in this study were all 23 districts/cities in Aceh Province. Census techniques used as data collection techniques. In this research there are 3 research variables, i.e. dependent variable, independent variable and moderating variable. The dependent variable in this research consist of Investment. The independent variable was fiscal capacity, profit sharing funds, budget calculation excess, regional bank dividends and the moderating variable was legislature size. Data analysis was carried out using descriptive statistics, then continued with the classic assumption test, normality test, multicollinearity test, autocorrelation test and heteroscedasticity test. Hypothesis was analyzed with multiple linear regression method using IBM SPSS Version 26 application.

Results and Discussion

Regression analysis used to determine whether there is an influence between the independent variables on the dependent variable. The results of the multiple linear regression analysis can be seen in Table 1. Hypothesis testing shows that fiscal capacity has a positive effect on capital participation of Regency/City Governments in Aceh in 2015-2019. This result is supported by the research results of Herdaleny et al. (2016), Fiona et al. (2016) and Sjamsulrijal and Suarsa (2017) which state that regions that has medium or high fiscal capacity can freely innovate, including in investment capital in Regional Banks. However, if regional financial capacity is low, regional governments will have difficulties on implementing all planned expenditure.

Table 1. Multiple Linear Analysis Test Results

Variable	Coefficient Value	t Value	Sig. Value	F Value/Sig.	$R/R^2/Adj.R^2$
Fiscal Capacity	1698835387,484	1,080	0,282		
Profit Sharing Funds	0,194	9,636	0,000		
Excess of Budget Calculation	0,006	0,469	0,640	56,895/0,000	0,821 /0,674 /0,662
Regional Bank Dividends	0,885	6,595	0,000		
Constanta	4583338383,547	1,772	0,079		

The results of testing the second hypothesis show that the regression coefficient value for profit sharing funds is 2 = 0.194. Hypothesis testing shows that profit sharing fund has a positive effect on capital participation of the Aceh Regional Government in 2015-2019. The results of this research are supported by Jikwa et al. (2017), Astuti (2018) and Firdaus (2018) which shows that profit sharing funds are a source of funding that has a significant positive effect on participation in regional government capital participation activities. It was also explained that profit sharing funds are a potential source of regional income and are one of the basic capital for regional governments to obtain development and financing funds in addition to original regional income.

The results of testing the third hypothesis show that the regression coefficient value for the Excess of Budget Calculation variable is 3 = 0.006. Hypothesis testing shows that Excess of Budget Calculation has an effect on capital participation of the Aceh Regency/City Government in 2015-2019. The results of this research are supported by Novandy (2015), Jikwa et al., (2017), Ilma and Rahayu (2019) and Sumantri (2020) which states that Excess of Budget Calculation has a positive effect on local government. capital expenditure. The local government also deliberately increases the Excess of Budget Calculation from year to year due to higher Excess of Budget Calculationcould motivated the local government to invest in productivity-based capital in Regional Bank so the outcome of this process could increase local original income in the next fiscal year.

The results of testing the fourth hypothesis show that the regression coefficient value of the BPD dividend variable is 4 = 0.885. Hypothesis testing shows that dividends have a positive effect on capital participation in Aceh Regency/City in 2015-2019. The results of this research are supported by Firdaus (2017) and Nikah (2018) which states that dividends from regional bank have a positive effect on regional government capital participation when dividends are recognized as regional original income. An important element in original regional income is the result of separate regional wealth management, in this case in the form of profit sharing from capital participation. If there is an increase in dividends in that year, there will also be an increase in local revenue and the potential for local governments to carry out capital investment activities will also increase.

The results of testing the fifth hypothesis show that the regression coefficient value for the variable size of the legislative body is 5 = -5493933420.007. Hypothesis testing shows that legislature size has a negative effect on the Aceh Regency/City Government in 2015-2019. This statement supported by Lewis (2016), Dewi (2017) and Hohfman (2017) which states that legislature size has a negative effect on local government budgeting, which includes equal participation policies. The larger the legislature size, the larger the number of citizen in an area. This induce more problems that must be concerned by the legislature which will have an impact on more considerations in determining budget allocation decisions. In other words, the larger the size of the regional legislature, the smaller the regional government's capital participation in Regional Banks. In this study, regression analysis was also carried out to determine whether the moderating variable had an effect or not on the relationship between the independent variable and the dependent variable. The results of data processing using multiple linear regression can be seen in Table 2.

Table 2. Moderation Test Results

Variable	Coefficient Value	T Value	Sig. Value	F Value /Sig.	R/R²/Adj.R²
Fiscal Capacity	-755987135.294	-0.315	0.754	60.302	0,915/0,838
Profit Sharing Funds	0.191	3.432	0.001	/0,000	/ 0,824
Excess of Budget Calculation	-0.008	-0.320	0.749		
Regional Bank Dividends	-1.379	-5.163	0.000		
Legislature size	-5493933420,007	-1.883	0.062		
Fiscal Capacity * Legislature size	-328099918.516	-0.216	0.830		
Profit Sharing Funds * Legislature size	-0.075	-3.152	0.002		
Excess of Budget Calculation * Legislature size	0.013	0.783	0.435		
Regional Bank Dividends * Legislature size	1.929	8.606	0.000		
Constanta	16420530166.242	3.801	.000		

The testing results of sixth hypothesis show that the type of moderation that occurs is potential moderation (homologous moderator). From the results of the next test, the regression coefficient 6 was obtained at -5493933420.007. If it is connected to a significance level of 6, it is not significant (sig. 0.830 > 0.05) so it means that the sixth hypothesis is rejected. This is likely due to the lack of programs or innovations from Regional Banks that qualify to become capital participation target by regional governments, so that even if there is an increase in legislative size, the fiscal capacity for investment will not increase.

The results of testing the seventh hypothesis show that the type of moderation that occurs is pure moderator. From the test results, the regression coefficient 7 value is -0.075 when associated with a significance level of 7 which is significant (sig. 0.02 < 0.05). This result means that the seventh hypothesis is accepted, the size of the legislature size negatively and significantly moderates profit sharing funds on regional government capital participation. This may be due to the increasing of legislation that will increase the number of regions receiving revenue sharing funds from the government. This will automatically affect the amount of profit sharing funds obtained which will also has an impact on the amount of profit sharing funds allocated for capital participation in regional owned enterprises.

The results of the regression test for the eighth hypothesis show that there is potential moderation (homologous moderator) between excess of budget calculation and capital participation with legislative size as the moderating variable. The next test results show that the regression coefficient 8 is 0.013, if it is related to the significance level 8 which is not significant (sig. 0.435 > 0.05). This means that the eighth hypothesis is rejected. The results of this study are supported by Novandi et al. (2015), Jikwa et al. (2017), Ilma and Rahayu (2019) and Sumantri (2020) which showed that excess of budget calculation has a positive effect on regional government capital expenditure. The regional government also deliberately increases the excess of budget calculation from year to year, due to the higher the budget calculation excess. The regional government encouraged to make productivity-based investments in regional bank, as well as investments so that the results can increase local original income in next fiscal year.

The results of testing the ninth hypothesis show that the regression coefficient 5 is not significant because the sig value is 0.062 > 0.05 and the value 9 is significant because the sig value. 0.00 <0.05. This shows that there is a pure moderator between dividends from BPD on capital participation and legislative action as moderating. The test results show that the value of regression coefficient 9 is 16420530166.242, when associated with a significance level of 9 which is significant (sig. 0.00 < 0.05). This result means that the ninth hypothesis is accepted. This is likely due to the high dividends offered by Regional Banks which will attract members of the legislature to invest in these Regional Banks. The greater the legislature size interested in investing makes the government's capital participation in regional bank will increase. This will automatically increase the amount of dividends received by the Regional Government, which will later be used as funds for the aspirations of the legislature members so that all community needs can also be fulfilled optimally.

Conclusion

Based on the result of this study, concluded that fiscal capacity, profit sharing funds, excess budget calculation, and Regional Bank dividends have a positive influence on capital participation of the Aceh Regency/City Regional Government in 2015-2019. Meanwhile, the size of the Legislature has a negative effect on the equal distribution of Aceh district/city government participation in 2015-2019. Regarding the influence of the moderating factor in the form of legislative size, it is known that legislative size has a negative and insignificant moderation on fiscal capacity but has a negative and significant moderation on profit sharing funds in Aceh district/city government capital participation in 2015-2019. It is also known that the size of the legislature has a positive and insignificant moderation of excess budget calculation but has a positive and significant moderation of Regional Bank dividends in terms of Aceh district/city government capital participation in 2015-2019.

This study on the drivers influencing regional government capital engagement in Aceh's Regional Bank has several significant implications, i.e. The findings can provide crucial insights for policymakers in Aceh and similar regions. Understanding how fiscal capacity, profit-sharing funds, excess budget financing, dividends, and legislature size impact capital investment decisions can guide the development of more effective financial policies that align with regional economic goals. For regional governments, this study highlights the importance of considering a wide array of financial and institutional factors before committing to capital investments in regional banks. By doing so, they can optimize resource allocation, ensuring that investments are both sustainable and aligned with broader developmental objectives. The study contributes to a deeper understanding of how regional financial decisions can drive economic growth. By identifying the key drivers of capital engagement, regional governments can better strategize to support local economies, boost public sector profitability, and enhance the overall financial health of the region. The findings may encourage regional banks to align their operations and strategies with the identified drivers, thereby strengthening their role as crucial financial institutions that support regional development. This could lead to better collaboration between regional banks and governments, fostering a more resilient financial ecosystem. This study opens avenues for further research into how these variables interact in different contexts, such as in other regions or countries. It also suggests the potential for exploring additional variables that might influence capital engagement, such as political stability, public trust in financial institutions, and regional economic diversity.

Based on the findings of this study, the following recommendations, i.e. It is recommended that regional governments conduct thorough assessments of their fiscal capacity and financial resources before engaging in capital investments. These assessments should include projections of long-term benefits and risks associated with such investments. Develop policies that support sustainable capital engagement by regional governments, taking into account the specific financial capacities and economic contexts of different regions. Policies should also encourage transparency and accountability in investment decisions to build public trust and ensure the effective use of public funds. To attract more capital from regional governments, Regional Banks should consider aligning their dividend policies with the financial goals of these governments. Providing clear, stable returns on investment could incentivize further capital engagement. Legislatures should be actively involved in the decision-making process regarding capital investments in regional banks. A well-informed legislature can help ensure that investments are made in the best interest of the region, balancing innovation with financial prudence. Future studies should explore the role of additional factors that may influence regional government capital engagement, such as regional economic policies, intergovernmental relations, and the impact of external economic conditions. Comparative studies across different regions or countries would also be valuable in understanding the broader applicability of the findings.

This study has limitations, i.e. this research only takes the perspective of the legislature institution. Meanwhile, as previously discussed, there are 2 institutions involved in budgeting activities (including capital participation), namely the People's Representative Council which is tasked with supervising and the regional government which is tasked to implementing it. It is necessary to add variables related to this involvement for the next research.

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