THE IMPACT OF COVID-19 PANDEMIC ON THE CAPITAL EXPENDITURES OF PROVINCES IN INDONESIA

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Abstract

This study aims to compare the capital expenditure of the province of Indonesia between pre and post Covid-19. The data type used was secondary data for 2019 and 2020, obtained from the official website of the Directorate General of Regional Fiscal Balance. The paired sample t-test was applied to test the hypothesis. This study concludes that the Covid-19 pandemic affects the capital expenditure of the provinces in Indonesia. The negative impact of the Covid-19 pandemic on capital expenditure by refocusing and reallocation budgeting were in terms of capital expenditure experiencing a slowdown due to the budget being used for priorities aimed at health, social assistance, and economic recovery. The government did not stop activities and capital expenditures during the Covid-19 pandemic, wherein a crisis, the government had to intervene primarily for health spending. The government cannot delay until it has sufficient state revenues. Regional governments continue improving economic recovery while consistently prioritizing fundamental sectors in handling Covid-19 as the key to economic recovery. The utilization of this capital expenditure budget should be more focused on supporting priority programs, promoting the efficiency of the community's basic needs, and keeping the implementation of activities and capital expenditure budgets based on results.

Keywords: covid-19, provincial government, capital expenditure

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INTRODUCTION

The coronavirus spread has a terrific influence on economic activity, resulting in a decrease in state revenue and governmental spending (Silalahi & Ginting, 2020). The Covid-19 health crisis has not only caused the loss of many human lives tragically but has also given a crushing blow to market confidence and economic activity. The magnitude speed of the contraction that followed the economic activity was unlike anything experienced in our lives. Rising fears and global economic shutdowns are a crushing blow to the economy (Song & Zhou, 2020). In a highly connected and integrated world, the impact of the disease has become apparent since the outbreak. Limited and restricted transportation between countries has slowed global economic activity. Most importantly, some panic among consumers and companies has distorted usual consumption patterns and created market anomalies so that the global economy has also been responsive to changes (McKibbin & Fernando, 2020).

The onset of the Covid-19 pandemic created challenges for governments across the globe. Virtually overnight they were forced to organize, implement, and finance responses to both public health and economic crises (Green & Loualiche, 2021). The regional financial aspect has affected the Covid-19 pandemic. The provincial government

accepted a fairly difficult situation regarding the increasing need for health spending, decreased revenue receipts, and an impact on the allocation of capital expenditures (Sugiri, 2021). In the spending aspect, the central government gave orders to regional governments to rationalize capital expenditures by up to 50 percent by cutting the budget for the procurement of official vehicles, machinery and heavy equipment, land, room or building renovations, building construction, and another infrastructure spending that could still be postponed until the following year.

In addition to reallocating and refocusing the Regional Revenue and Expenditure Budget (APBD) for Covid-19, the central government also emphasizes local governments to make comprehensive budget adjustments. This order is contained in a Joint Decree of the Minister of Home Affairs and the Minister of Finance, stipulated in 2020. It is proven that the Covid-19 pandemic has had an impact that consists of the decrease in national economic growth and state revenues and an increase in state spending and financing. For this reason, government efforts are needed to save health and the national economy, focusing on spending on health, safe social net, and economic recovery, including the business environment and affected communities (Juliani, 2020).

The Covid-19 pandemic, which requires extraordinary policies from the Government, will undoubtedly impact the composition of the 2020 State Budget. Investors' anxiety over Covid-19 has also influenced the pressure from tax revenues, non-tax revenues, customs, and excise due to the condition of economic actors and the decline in commodity prices, which resulted in state revenues being reduced (Sudaryanto, 2020). However, at the same time, state spending must be increased for health, social assistance, and helping business actors avoid massive layoffs. This has caused the widening deficit to 5% with an estimate of a 10% decrease in income, an increase in spending to support the health sector of IDR 75 trillion, and a safety social net of IDR 110 trillion.

This study discusses the challenges of the provincial governments in terms of efforts to minimize regional finances, which have decreased significantly due to the coronavirus, especially in the capital expenditures aspect. This study offers the current and future context in understanding how the pandemic will affect local governments, including provincial governments, in making policies when the capital expenditures are affected. The discussion section focuses on overcoming the challenges caused by the pandemic and recognizing changes in capital expenditures due to this extraordinary event, and suggesting directions for future discussions. This research has a mix where the realization of the capital expenditure budget is compared to events before and after Covid-19.

LITERATURE REVIEW

Capital expenditures are the expenditures made in terms of capital formation, which are in nature to add fixed assets or inventories that provide benefits for more than one accounting period, including expenditures for maintenance costs to maintain or increase the useful life, increase capacity and quality of assets (Syaiful, 2006). The use of local government capital expenditure can be done by expanding the development of productive fixed assets (Tuna, Kayacan & Bektaş, 2015). This may support provincial government spending, especially for construction. Although the high level of provincial government spending is not proportional to the resulting economic growth, it is necessary to have a targeted fiscal policy to increase economic growth (Leasiwal, 2021). Capital expenditures made by local governments will affect regional economic development.

Moreover, capital expenditure will also be leveraged in moving the wheels of the regional economy (Dincă et al., 2019; Schnellenbach & Schubert, 2015).

The efficiency of capital expenditure allocation is represented by comparing the amount of investment issued and the target of local revenue (Chapman & Gorina, 2012). The independence of local governments can be described by the value of regional debt and the allocation of regional government capital expenditures (Rochmatullah, Hartanto, & Arifin, 2016). The success of local government investment in the realization of capital expenditures requires an analysis of the situation and conditions of each region. The analysis process is expected to provide accurate information for decision-making purposes. Accuracy of information is very much needed by members of the regional people's representative council and local government in making decisions (Nogueira & Jorge, 2016). Based on this discussion want to observe whether their differences before and after Covid-19 in capital expenditure, are hypothesized as follows:

H_1: There is a difference in capital expenditure before and after the Covid-19 pandemic

RESEARCH METHOD

This comparative research type through a quantitative approach is carried out in this study. Comparison by giving references from one time to another and the purpose of having a desire to know something is comparative research (Sekaran & Bougie, 2016; Seto & Septianti, 2019). This study obtains data from the General Directorate of Fiscal Balance by matching how capital expenditures were in Indonesia's provinces before the Covid-19 outbreak was announced as a pandemic in Indonesia. This type of research is event study research that is used to observe the impact of an event on other variables. The researcher uses event study research because event study research is in accordance with the purpose of this study namely, to identify and explain the differences between capital expenditure.

Secondary data is used as the type and source of this study. Data collection was carried out by collecting it from various existing literature and the latest information about Covid-19, especially concerning capital expenditures that occurred in the Provincial Government in Indonesia. The research instrument used in this research is documentation by viewing, studying, and analyzing the information obtained related to capital expenditure data in the realization of the 2019 and 2020 fiscal years both before and after the Covid-19 pandemic because 2021 data is not yet available. The analysis carried out is prioritized on the normality test of the data. If the data is normally distributed, the Parametric Test Paired Sample t Test is used, which can perform a t-test (paired sample) to check differences in the same group before and after treatment (Sekaran & Bougie, 2016).

RESULTS AND DISCUSSION

The results of the descriptive analysis are shown that in Table 1., the average pre-and-post Covid-19 capital expenditure level is 1485861153553.09 and 1524728416923.74. The standard deviation value of post-covid-19 in Indonesia is 2983272345538.846, which means that the size of the data spread is 2983272345538.846. The standard deviation value is higher than the average, so it can be concluded that the post-covid-19 capital expenditure data of provinces in Indonesia are heterogeneous. The mean value of pre-Covid-19 1485861153553.09 < 1524728416923.74 post-Covid-19 means differences in average capital expenditure of areas in Indonesia before and after Covid-19.

Table 1. Paired Sample Statistics

	Mean	n	Std. Deviation
Pre Covid-19	1485861153553.09	34	1908186002526.449
Post Covid-19	1524728416923.74	34	2983272345538.846

Based on Table 2., the information regarding "Mean Paired Differences" is 38867263370.65. This value shows the difference between the average capital expenditure before and after Covid-19 in Indonesia for the first time of 38867263370.65 and the difference between 1485861153553.09 to 1524728416923.74 (95% Confidence Interval of the Difference Lower and Upper). Information from other tables is known that the t-statistic is 2.167 and the df (degree of freedom) value is 33, and the value 0.05/2 is equal to 0.025; this value will be a reference in finding the t table value in the t table value distribution. The t-table weight was found to be 2.042.

Table 2. Paired Sample t-Test

Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
	Lower	Upper			
38867263370.65	1485861153553.09	1524728416923.74	2.167	33	0.000

From the results of the Paired t-Test carried out on capital expenditures before and after the first case of Covid-19 occurred in Indonesia using SPSS, the sig value is obtained. $0.000 < 0.05$ and also the t-count value is $2.167 >$ t-table 2.042. Based on these results, it can be said that the capital expenditure coefficient is significant, so that there is a significant difference between the provincial government's capital expenditure before and after the announcement of the first case of Covid-19 in Indonesia. The results of this study show that the Covid-19 pandemic is affecting capital expenditures of the provinces in Indonesia. Some priorities are more directed at health, social assistance, and economic recovery resulting in capital expenditure a decrease in its realization.
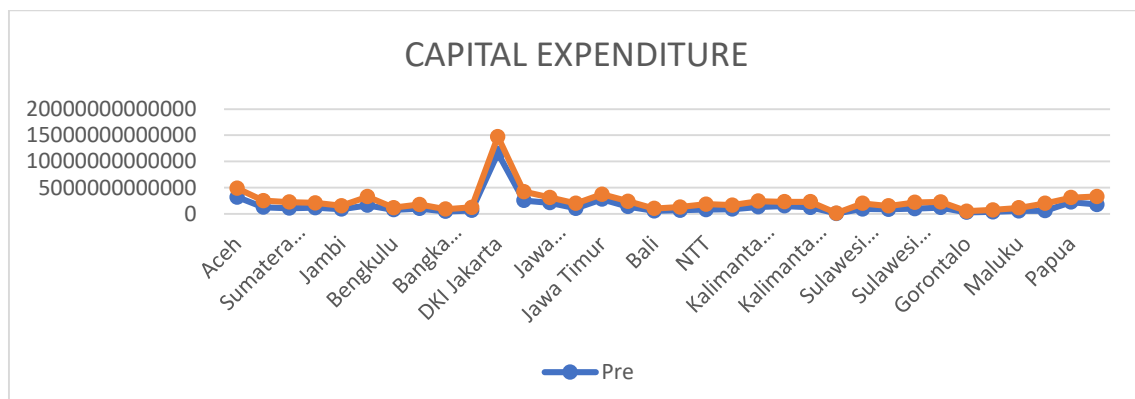
Figure 1. Graphics Form

Based on Figure 1. is a figure that contains capital expenditure on provinces in Indonesia pre and post Covid-19 data in 2019 and 2020. According to this data, almost all provinces in Indonesia experienced a decrease in capital expenditure. Government capital expenditure will be allocated for various strategic regional development activities planned in the next year. As for some efforts to refocus and reallocate the budget, which consists of cutting off official travel expenditure posts, meeting costs, honorariums, and non-operational expenditures, goods expenditures are handed over to the local government/community that are not related to the Covid-19 countermeasures or are not relevant with the duties and functions of the Ministries/Agencies, as well as capital expenditures for projects/activities that can be postponed to the following year, or extended time completion (from single-year to multi-year, and multi-year projects extended to the next year). From an economic perspective, through government spending, we help ensure its position in the regions to be spent immediately, especially capital expenditures, in addition to the regional government continuing to encourage investment into the provincial government (Ishak, 2022).

Since its appearance at the end of 2019, Covid-19 has spread all over the world. With the rapid spread of Covid-19, the impact of the global economic slowdown is starting to be felt domestically (Amri, 2020). The government did not stop activities and capital expenditures during the Covid-19 pandemic, wherein a crisis, the government had to intervene mainly for health spending. Government spending reflects government policies in which the consumption of goods and services by the government and financing by the government for the purposes of government administration and development activities (Silalahi & Ginting, 2020). The government cannot delay until they have sufficient state revenues. Despite the importance of invaluable contribution of expenditures to the national economy, the items in which those expenditures are spent also become more of an issue (Tuna et al., 2015). Government policies in handling the Covid-19 pandemic related to state spending policies, including policies in regional finance issued to provide social protection for the community, are not a state loss even though they result in loss or reduction of state finances because they are used to save the economy from the crisis (Juliani, 2020).

Delaying these purchases will only result in higher costs in the future. Various efforts have been made by the Regional Government to maintain government stability during the Coronavirus pandemic. Meanwhile, related to the economic recovery amid the Covid-19 pandemic, the Regional Government continues to encourage regional expenditures, especially capital expenditures, so that the circulation of money in the community is more significant and smoother (Ishak, 2021). The criteria for spending that can be accommodated in unexpected expenditure for Covid-19 in a local government is to use it for activities that are unusual in nature and are not expected to be repeated, such as dealing with natural disasters, social disasters, and other unexpected expenditures that are indispensable for the implementation of local government authority (Sugiri, 2021).

In addition to refocusing and reallocating the government, the government also implements austerity strategies. Spending savings that are not related to dealing with the pandemic, such as meeting costs, honorariums, shopping for goods, non-operational expenditures, and other expenditures are postponed in advance. Some project activities that are still negotiable have also been postponed by the government to save the budget. In addition, spending related to Covid-19 prevention, stunting, prevention of communicable diseases (HIV-AIDS, TB, Dengue Fever), and prevention of maternal and infant mortality remain in their share, no reduction or savings are made (Mirani et al., 2021).

CONCLUSION AND SUGGESTION

This study concludes that the Covid-19 pandemic affects the capital expenditure of the provinces in Indonesia. The negative impact of the Covid-19 pandemic on capital expenditure by refocusing and reallocation budgeting were in terms of capital expenditure experiencing a slowdown due to the budget being used for priorities aimed at health, social assistance, and economic recovery. The Covid-19 pandemic is not over yet, and everyday life is still not allowed. Regional governments continue to improve economic recovery while consistently prioritizing fundamental sectors in handling Covid-19 as the key to economic recovery. Strengthening efforts on capital expenditures is carried out through spending control to make it more efficient, more productive, and produce a strong multiplier effect on the community's economy. The utilization of this capital expenditure budget should be more focused on supporting priority programs, promoting the efficiency of basic community needs, and keeping the implementation of activities and capital expenditure budgets to be result-based. Even though this research found such essential in formations, this research has limitations. The limitations of this study provide opportunities for further investigation. It is hoped that future research can add new variables such as balancing funds and original regional income, considering that this research has not been discussed. This study only examines the Provincial Government, further analysis can add to the Regency Government and City Government, and Central Government under the survey so that the research could be more extensive. The addition of the number of years of study can explore how capital expenditures affect government spending.

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