

WHERE THE INVESTMENT WENT: OPERATING EXPENDITURE ACROSS 482 DISTRICT BUDGETS, 2017 TO 2024

Hussein Hassan Laizer^{1*}, Wachidah Fauziyanti²

¹Moshi Cooperative University, Tanzania

²Universitas Sains Teknologi Ekonomi Digital Indonesia

*Corresponding author: hussenlaizer@yahoo.com

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ABSTRACT

When a government spends less on investment, the money does not disappear; it moves to another line of the budget. This article follows it. Across a balanced panel of 482 Indonesian district-level governments observed annually from 2017 to 2024, the capital share of total expenditure fell by 4.72 percentage points, from 21.87 to 17.15 per cent, and the personnel share fell by a further 2.66 points. Over the same eight-year period the goods and services share rose by 5.19 points, from 24.06 to 29.25 per cent, which is very nearly the whole of what the capital line lost. The substitution has a second property that the aggregate figures conceal. As the operating line grew it became more uniform across jurisdictions, its coefficient of variation falling from 0.262 to 0.217, while the capital line it replaced became far less uniform, its coefficient rising from 0.269 to 0.484. Districts converged on a common operating pattern while diverging on investment. The article argues that a compositional shift of this kind is a change in what local government does rather than a temporary adjustment to a passing fiscal constraint, and that the capital and operating lines should be monitored as a pair rather than separately, since movement in one is largely movement into the other.

1. INTRODUCTION

A fall in public investment is usually reported on its own, as a shortfall against a plan or a target. What replaced it is reported separately if at all, and the two facts are seldom set against one another.

They belong together. A budget is a constraint, so a category that falls releases money that some other category absorbs, and identifying the absorbing category says more about what changed than the fall does. If personnel absorbs it, the government has grown; if operations absorb it, the government has shifted from building to running; if transfers absorb it, the government has moved from providing to funding.

This article traces the movement across a balanced panel of 482 Indonesian district-level governments over eight years. The capital share fell 4.72 percentage points and the personnel share 2.66. The goods and services share rose 5.19 — almost exactly the capital fall. Operating expenditure is where the investment went.

The research gap is that expenditure lines are analysed one at a time, so substitution between them is invisible. A second gap concerns dispersion: the two lines moved in opposite directions not only in level but in uniformity, and that pattern has not been reported.

2. LITERATURE REVIEW

2.1 *Composition as the object of analysis*

The first strand treats the split of expenditure between categories as the quantity of interest rather than the total.

Porto, Puig and Vidal (2026) model how subnational budgets adjust dynamically to transfers, an adjustment that necessarily runs through the composition. Singh and Dubey (2026) trace fiscal shocks into subnational finances, where the incidence across categories determines what the shock did. Del Castillo and Cabral (2024) assess debt sustainability under a fiscal rule, and rules of that kind bite on categories unevenly.

Giertz and Kumar (2023) estimate the local fiscal multiplier of intergovernmental grants and find it operating through spending that is neither purely capital nor purely transfer, which locates the operating line at the centre of the transmission. Lucidi (2022) shows regional multipliers to be misaligned across Italian regions, so composition matters for what a given impulse achieves.

Del Castillo and Cabral (2024) test whether a subnational fiscal rule has produced sustainability in Mexico, a question that turns on which categories the rule constrains. Wei (2021) exploits a discontinuity in a state fiscal constraint to identify how local governments respond when a limit binds, and the response is compositional. Saens, Cox and Villalobos (2026) analyse fiscal capacity alongside the flypaper effect, in which a transfer and an equivalent amount of own revenue are spent differently — a proposition about composition rather than about level.

Alves and Araujo (2024) and Bernardelli, Paschoalino, Russo and Kortt (2026) both examine how transfers alter local fiscal behaviour in Brazilian municipalities. Neither follows the money into a specific expenditure category, which is the step this article takes.

2.2 *Why capital is the line that moves*

A second strand concerns the asymmetry between categories in how quickly they can be adjusted.

Personnel expenditure is committed by an establishment that cannot be revised within a budget year. Capital expenditure is discretionary at the margin and can be deferred without breach. Aikins (2023) shows local governments drawing on fiscal reserves in response to intergovernmental revenue movements, which is the same asymmetry expressed on the financing side. Cohen (2023) asks whether aid crowds subnational revenue in or out, a question that presupposes categories differing in their responsiveness.

A companion article on the same population establishes that the personnel share behaves as a residual set by an inherited establishment and a discretionary capital programme, and that its

dispersion is far lower than that of the capital line. The present article takes the third line — goods and services — which that account leaves unexamined.

2.3 Convergence and divergence within a population

A third strand concerns whether jurisdictions become more or less alike, which is a separate question from what happens to the average.

Bury, Feld and Burret (2024) quantify fiscal incentives in an equalisation system, where the intended effect is convergence in capacity. Masi, Savoia and Sen (2024) examine whether resource rents depress fiscal capacity, which if unevenly distributed produces divergence. Vincent and Osei Kwadwo (2022) document spatial interdependence among grant recipients, a mechanism that would generate convergence among neighbours.

None of these examines whether jurisdictions converge on a pattern of spending as distinct from a level of resources. That distinction is the substance of Section 4.4.

2.4 What the categories are

A fourth strand supplies the caution that the categories themselves are constructed and can move.

Lamothe (2024) shows that an administrative dataset on local government has research properties distinct from its administrative ones. Zhu, Xiao and Wu (2022) trace how an information system shapes what its users can see. Rajala and Jalonen (2025) identify contradictions arising when a record built for one purpose is read for another. A companion article documents a recomposition on the revenue side of these same accounts across the same period, which is a direct warning for the expenditure side.

The warning is taken seriously in Section 4.7, which examines whether the substitution reported here could be an accounting effect rather than a real one.

2.5 Comparing local governments as units

A fifth strand asks what makes local governments comparable, which matters because this article groups them by administrative form and by province.

Kim and Kang (2024) treat administrative intensity as a construct comparable across public bodies and relate it to fiscal performance; Tran and Dollery (2022) apply it to local government efficiency. Both work with the ratio of administrative to output-directed spending, which is close in construction to the shares used here. Pill (2024) argues that local capacity is a property of the organisation rather than of the jurisdiction, a distinction Section 4.6 finds operative: administrative form separates the population more sharply than location does.

Jacobsen (2023) shows political fragmentation shaping local government outcomes, and Collazos-Ortiz and Schakel (2023) examine whether administrative efficiency moderates a resource curse among Colombian municipalities. Each identifies an organisational characteristic bearing on a fiscal result, which is the kind of explanation the city–regency difference reported below would require.

2.6 The research gap

The gap is that a fall in one expenditure category is rarely matched against the rise in another on the same units over the same years, so substitution is inferred rather than measured. This article measures it across a complete balanced panel, and reports a second finding — opposite movements in dispersion — that a level analysis alone would not have produced.

3. METHOD

The data are realised expenditure returns for Indonesian district-level governments for fiscal years 2017, 2020, 2021 and 2024, obtained on 30 August 2026 from the Regional Financial Information System portal maintained by the Directorate General of Fiscal Balance. Each return is retrieved for the twelfth reporting period and therefore covers the full year. Provincial governments and the portal's roll-up rows are excluded.

The panel is balanced at 482 jurisdictions present in all four years. The portal indexes districts under their present province, and 26 districts were reassigned in 2022 to four newly created provinces, so they are retrievable only from 2023 and are excluded to hold the population constant. A companion research note documents that mechanism.

Three shares are computed for each jurisdiction and year: personnel, goods and services, and capital, each divided by total expenditure. Sector-level figures are ratios of the summed lines to summed total expenditure; jurisdiction-level figures are unweighted across the 482. Dispersion is the coefficient of variation of the jurisdiction-level shares.

Four limitations apply. The four observation years are not the full series, so the article establishes the direction and size of the movement and locates it approximately rather than exactly. The returns are self-reported and unaudited at this disaggregation, on a portal that revises them. The panel excludes 26 jurisdictions for the reason given. And the article reports shares of expenditure, not real quantities: a share can move because the numerator changed or because the denominator did, and Section 4.3 separates the two.

4. RESULTS AND DISCUSSION

4.1 The substitution

Table 1 sets the three lines side by side across the four observation years.

Table 1. Composition of expenditure, 482 jurisdictions, sector totals

Fiscal year	Personnel	Goods and services	Capital	Note
2017	37.85%	24.06%	21.87%	—
2020	37.44%	25.81%	15.69%	Pandemic year
2021	37.34%	28.46%	15.95%	—

Fiscal year	Personnel	Goods and services	Capital	Note
2024	35.19%	29.25%	17.15%	—
Change	−2.66 points	+5.19 points	−4.72 points	—

Computed by the authors from Directorate General of Fiscal Balance realised expenditure returns for fiscal years 2017, 2020, 2021 and 2024, retrieved from the Regional Financial Information System portal on 30 August 2026. Balanced panel of 482 district-level jurisdictions; each figure is the summed line divided by summed total expenditure.

The capital share fell 4.72 percentage points and the goods and services share rose 5.19. The correspondence is close: the operating line gained 110 per cent of what the capital line lost. The personnel share fell a further 2.66 points, so the operating line absorbed the capital fall and part of the personnel fall as well, the remainder going to categories outside these three.

The timing separates the two movements. Capital fell 6.18 points between 2017 and 2020 and has since recovered 1.46. Goods and services rose 1.75 points to 2020 and a further 3.44 after it. The operating line did not simply take up the slack in the year the capital line collapsed; most of its growth came afterwards, when capital had already stopped falling.

4.2 The same movement at jurisdiction level

The sector figures weight each rupiah equally. Table 2 gives each jurisdiction equal weight, which matters because a companion article establishes that the two differ materially in this population.

Table 2. Goods and services share, unweighted across jurisdictions

Fiscal year	Mean share	Coefficient of variation	Note
2017	23.94%	0.262	—
2020	25.20%	0.252	—
2021	28.05%	0.218	Largest single-year rise
2024	28.67%	0.217	—

Computed by the authors from Directorate General of Fiscal Balance realised expenditure returns, retrieved 30 August 2026. Balanced panel of 482 jurisdictions; each jurisdiction counts once.

The unweighted mean rises 4.73 points against the sector figure's 5.19, so the movement is present across the population and not confined to the largest jurisdictions. The two measures track one another within half a point throughout, which is unusual in this population and indicates that the shift is broadly based.

The largest single-year movement is between 2020 and 2021, when the unweighted mean rose 2.85 points. That is the year after the pandemic contraction and the year the new accounting regulation took effect, and Section 4.6 examines which of the two is the better explanation.

4.3 Levels as well as shares

A share can move without the underlying quantity moving, so the levels must be checked before the substitution is accepted.

Total expenditure across the panel rose from IDR 718.18 trillion in 2017 to 937.72 in 2024, a nominal increase of 30.6 per cent. Applying the shares gives goods and services expenditure of IDR 172.79 trillion in 2017 and 274.28 in 2024, a rise of 58.7 per cent — nearly twice the growth of the budget. Capital expenditure moved from IDR 157.05 trillion to 160.78, a rise of 2.4 per cent, which is a fall of more than a fifth in real terms on any plausible deflator.

So the substitution is not an artefact of a moving denominator. Operating expenditure grew far faster than the budget while capital expenditure was approximately flat in nominal terms across eight years in which the budget grew by nearly a third.

The nominal framing understates the position. Indonesian consumer prices rose materially over the period, so a capital line that is flat in nominal terms has contracted substantially in what it can buy. The article reports nominal figures throughout because deflating construction expenditure requires a sectoral index that is not available at this disaggregation, and notes the direction of the bias rather than attempting to correct it.

4.4 The dispersion moved the other way

The second finding is the one a level analysis would have missed, and it concerns how alike the jurisdictions became.

Table 3. Dispersion of the two lines compared, 482 jurisdictions

Fiscal year	Goods and services, CV	Capital, CV	Direction
2017	0.262	0.269	Almost identical
2020	0.252	0.364	Diverging
2021	0.218	0.363	—
2024	0.217	0.484	Widely separated

Computed by the authors from Directorate General of Fiscal Balance realised expenditure returns, retrieved 30 August 2026. Balanced panel of 482 jurisdictions; coefficient of variation of the jurisdiction-level shares.

In 2017 the two lines were equally dispersed, at 0.262 and 0.269. By 2024 the operating line had become 17 per cent more uniform and the capital line 80 per cent less uniform, and they stood at 0.217 and 0.484 — the capital line more than twice as dispersed as the operating one.

The two movements are simultaneous and opposite. As districts spent more of their budgets on operations they came to spend similar proportions on operations; as they spent less on investment they came to differ more in how much they spent on it. Convergence in one line and divergence in the other, in the same population and the same years, is a pattern that neither line examined alone would reveal.

The most natural reading is that operating expenditure is largely determined by the functions a district must perform, which are the same everywhere, while capital expenditure is determined by what it chooses and can afford to build, which is not. As the operating line grew it grew toward a common requirement. As the capital line shrank, the districts still able to invest separated from those that had effectively stopped.

4.5 *Who spends most on operations*

The cross-section identifies where the operating line is largest and confirms the functional reading.

Table 4. Extremes of the goods and services share, FY2024

Jurisdiction	Province	Operating	Capital
Kota Metro	Lampung	48.37%	9.79%
Kota Pekanbaru	Riau	48.30%	10.69%
Kota Surabaya	Jawa Timur	47.69%	18.98%
Kota Malang	Jawa Timur	47.39%	7.82%
Kota Gorontalo	Gorontalo	46.07%	8.14%
Kab. Badung	Bali	17.68%	20.16%
Kab. Pidie	Aceh	16.87%	7.52%
Kab. Nias Utara	Sumatera Utara	16.52%	21.30%
Kab. Maluku Tengah	Maluku	16.33%	11.67%
Kab. Berau	Kalimantan Timur	13.55%	59.71%

Computed by the authors from Directorate General of Fiscal Balance realised expenditure returns for fiscal year 2024, retrieved 30 August 2026.

All five of the highest are cities, and cities average 36.61 per cent operating expenditure against 28.79 for the population as a whole. Cities deliver dense services over small areas — waste collection, street lighting, traffic management, public health — and those are bought rather than built.

The lower tail is mixed and includes the clearest counter-case in the population. Kabupaten Berau in East Kalimantan spends 13.55 per cent on operations and 59.71 per cent on capital, a ratio no other jurisdiction approaches. A district with resource revenue and a construction programme sits at the opposite corner of the composition from a service city, and the two are governed by the same statute.

The correlation structure supports the reading. The operating share correlates with the capital share at only -0.049 and with the personnel share at -0.148 , so at jurisdiction level the three lines are not simple substitutes for one another; the substitution documented in Section 4.1 is a movement of the whole population over time, not a trade-off visible between jurisdictions at a point in time.

4.6 The operating share by place and by form

The cross-section in Section 4.5 identified extremes. Grouping the population shows how far the operating share is set by what kind of jurisdiction it is rather than by which one it is.

Table 5. Operating and capital shares by province, FY2024, provinces with at least five districts

Province	Districts	Operating share	Capital share	Position
Papua Tengah	8	34.51%	17.87%	Highest operating
Banten	8	34.28%	14.44%	—
Jawa Barat	27	33.64%	12.18%	—
Papua	9	33.00%	14.74%	—
DI Yogyakarta	5	32.43%	10.25%	—
Kalimantan Tengah	14	26.33%	24.41%	—
Jambi	11	25.48%	19.22%	—
Nusa Tenggara Timur	22	24.85%	14.36%	—
Aceh	23	24.80%	10.75%	—
Bengkulu	10	24.65%	14.48%	Lowest operating

Computed by the authors from Directorate General of Fiscal Balance realised expenditure returns for fiscal year 2024, retrieved 30 August 2026. Unweighted means within each province.

The provincial range is narrow by the standards of this population: from 24.65 to 34.51 per cent, a spread of ten percentage points where the own-revenue ratio examined in a companion article spans 287-fold. The operating share is the most uniform of the three expenditure lines and the provincial groupings barely separate.

The two ends are not obviously alike within themselves. The highest operating shares include two Papua provinces and three densely populated provinces of Java and its immediate west; the lowest include Aceh, Bengkulu, Nusa Tenggara Timur, Jambi and Central Kalimantan. Neither group is defined by income, by remoteness or by resource endowment, which is consistent with the operating line reflecting a functional requirement common to all districts rather than a local characteristic.

The administrative form separates the population more cleanly than the province does. Cities average 36.61 per cent operating and 15.15 per cent capital; regencies average 27.03 and 15.71. The 9.58-point gap in the operating share between the two forms is nearly as large as the entire provincial range, and it appears with almost no corresponding difference in the capital share. Cities buy more services and build no less.

Size adds little. The operating share correlates with the logarithm of expenditure at only 0.068, so the city–regency difference is not a size effect in disguise. It correlates with the own-revenue ratio at 0.466, which a companion article reports and reads as own revenue buying operating

capacity; the present finding narrows that reading, since cities are both more self-funding and more operating-intensive, and the two cannot be separated in a single cross-section.

4.7 Whether the shift is real or accounting

A change of accounting regulation took effect for fiscal year 2021, which is the year of the largest single movement, and the coincidence has to be addressed.

Three features favour a real shift. The operating line rises in every interval examined, including 2017 to 2020, which is entirely before the regulation. The capital fall that the operating rise offsets occurs in 2019–2020, also before it. And the level analysis in Section 4.3 shows operating expenditure growing 58.7 per cent in nominal rupiah while capital grew 2.4 per cent, which is a movement in quantities rather than in labels.

Two features favour caution. The largest single-year movement in the unweighted mean, 2.85 points, does fall across the 2020-to-2021 boundary. And a companion article documents a substantial recomposition on the revenue side of these same accounts over the same period, which establishes that category boundaries in this system did move.

The article therefore treats the shift as real while conceding that its exact profile between 2020 and 2021 cannot be separated from the regulation with the observation years available. The full annual series would resolve it, and is the first extension proposed.

4.8 Two objections

The first objection is that goods and services is a heterogeneous category — it contains maintenance, utilities, consultancy, procurement of consumables and outsourced service delivery — so a rise in it does not describe any single change in what government does. This is correct and is a limit on interpretation rather than on measurement. The article claims that the money released from investment went into operating expenditure and not that it went into any particular part of it. Identifying the part would require the next level of the account tree, which the portal does not expose.

The second objection is that the substitution may reflect outsourcing, so that services formerly delivered by employed staff are now purchased, in which case the personnel and operating lines are moving together for a reason unconnected with investment. The personnel fall of 2.66 points is consistent with that. But it is smaller than the operating rise of 5.19 and much smaller than the combined movement, and the capital fall of 4.72 points remains unaccounted for on that reading. Outsourcing may explain part of the shift; it does not displace the capital-to-operating substitution that Table 1 shows.

4.9 Limitations

Four limitations bound the analysis. Four observation years locate the movement approximately and cannot separate the 2021 accounting change from behaviour, which Section 4.7 concedes and Section 5 proposes to resolve.

Figures are nominal, so the real contraction in capital expenditure is understated and the real growth in operating expenditure overstated; the shares are unaffected. The goods and services category is not decomposed. And the panel excludes 26 jurisdictions whose returns the portal does not carry under their present province before 2023.

4.10 Policy implications

Three implications follow for those who monitor local expenditure.

The first is that the capital and operating lines should be reported as a pair. A capital share reported alone invites the reading that spending has been cut; the paired figures show that it was moved. Those are different findings with different remedies, and the second is only visible when both lines are shown.

The second is that a minimum capital-spending requirement, of the kind sometimes proposed for Indonesian local government, would now bind on a far more dispersed distribution than when such requirements were framed. With the capital coefficient of variation at 0.484 against 0.269 in 2017, a uniform floor reaches a much larger number of jurisdictions than the same floor would have reached eight years ago, and reaches them for reasons that differ across the distribution.

The third is that convergence in operating expenditure is itself worth tracking. A population converging on a common operating share is a population whose spending pattern is increasingly determined by common requirements rather than local choice. Whether that is desirable depends on the objective; that it is happening is not currently reported anywhere.

4.11 Summary of findings

The factual findings are seven. Across a balanced panel of 482 Indonesian district-level governments between 2017 and 2024, the capital share of expenditure fell 4.72 percentage points and the personnel share 2.66, while the goods and services share rose 5.19 — 110 per cent of the capital fall. The unweighted jurisdiction mean of the operating share rose 4.73 points, tracking the sector figure within half a point throughout. In levels, operating expenditure rose 58.7 per cent nominally against a budget that rose 30.6 per cent, while capital expenditure rose 2.4 per cent. The coefficient of variation of the operating share fell from 0.262 to 0.217 while that of the capital share rose from 0.269 to 0.484. Cities average 36.61 per cent operating expenditure against 28.79 for the whole population. At jurisdiction level the operating and capital shares correlate at only -0.049 . And the provincial means of the operating share span only ten percentage points, from 24.65 to 34.51, while cities exceed regencies by 9.58 points with almost no difference in the capital share.

The interpretive claims are three. The money released from investment went into operating expenditure, on the evidence of magnitude in shares and of growth in levels. The two lines moved in opposite directions in dispersion as well as in level, districts converging on a common operating pattern while separating on investment, which is consistent with operating expenditure being driven by common functional requirements and capital by local choice and capacity. And the

substitution is a movement of the population over time rather than a trade-off between jurisdictions, since the two shares are almost uncorrelated in cross-section.

5. CONCLUSION

Indonesian district governments cut the share of their budgets going to investment by 4.72 percentage points over eight years and raised the share going to goods and services by 5.19. In rupiah, operating expenditure grew almost twice as fast as the budget while capital expenditure stood still.

The general claim is that a fall in one expenditure category should be reported with the rise that offsets it, because the pair identifies what changed and the single line does not. The specific claim is that this population moved from building to running, and did so while becoming more alike in what it runs and less alike in what it builds.

Three extensions follow. The full annual series would separate the 2021 accounting change from behaviour and give the exact profile of the shift. Decomposing goods and services into its components would establish whether the growth is in maintenance, in outsourced delivery or in administration, which bears directly on whether the shift is a substitution for the capital stock or a substitution for staff. And relating the capital share to physical delivery indicators would test whether the fall in investment has yet appeared in the asset base, a question a companion article on road condition begins to address.

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Author contributions (CRediT). Hussein Hassan Laizer: conceptualisation; methodology; formal analysis; writing - original draft. Wachidah Fauziyanti: validation; writing - review and editing.

Declaration of generative AI and AI-assisted technologies. Claude (Anthropic) was used for language editing and for translation of the manuscript into English. The authors reviewed and verified all content, and take full responsibility for the final text. No generative tool was used for data analysis, for the interpretation of results, or for the generation of scholarly content. AI is not listed as an author.

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