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The Impact of Local Tax Realization and the Quality of Capital Expenditure on Rural Economic Growth

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ABSTRACT

Purpose: This study examines the causal impact of local tax realization and the quality of capital expenditure on rural economic growth in Dompu Regency, partially and simultaneously.

Research Method: An explanatory quantitative approach was used. Primary data from village financial apparatuses and community representatives in Dompu Regency were collected through questionnaires via purposive sampling and analyzed using PLS-SEM in SmartPLS.

Results and Discussion: Results reveal that local tax realization has no significant partial effect on rural economic growth. Conversely, capital expenditure quality has a positive, highly significant effect. Simultaneously, both variables substantially drive rural economic growth, explaining 62.7% of its variance.

Implications: Local governments must prioritize transparent, efficient, and well-targeted capital expenditure on vital rural infrastructure, rather than merely chasing administrative revenue targets, to effectively stimulate grassroots productivity.

Originality: The novelty lies in shifting the fiscal evaluation focus from macro-level nominal budget volumes to the essential "quality" of expenditure specifically within a rural socio-geographical locus.

Keywords: local tax realization; capital expenditure quality; rural economic growth; fiscal decentralization.

1. Introduction

Rural economic development is the cornerstone of maintaining regional economic stability, particularly for agrarian areas such as Dompu Regency. Economic growth at the village level is highly dependent on the region's ability to independently manage local resources through fiscal decentralization mechanisms (Todaro & Smith, 2020). Local tax revenue collection is the primary indicator of a local government's fiscal autonomy in funding strategic programs. However, a common practical challenge is the gap between tax revenue targets and actual collections, resulting from bureaucratic obstacles and fluctuating taxpayer compliance rates. Every rupiah of local tax revenue that is not collected optimally directly results in the loss of opportunities to allocate capital expenditures to building productive infrastructure. Without adequate capital expenditures, the engine driving economic growth for farmers and MSME operators in remote villages will not function optimally.

Several previous studies have examined the relationship between fiscal policy and regional development, helping to establish the state of the art in this literature. Kuntadi *et al.,* (2022), Ramlan *et al.,* (2016) and Murti & Trisnawati (2021) confirm that local tax revenue realization is positively correlated

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with, and serves as a significant primary source for, local governments to increase capital expenditure allocations. This view is supported by Pratama and Wiagustini (2017), who empirically demonstrated that local own-source revenues and capital expenditure directly stimulate macro-level regional economic growth. Nevertheless, recent studies have also revealed weaknesses in fiscal governance in developing countries. An evaluation study by Rahayuanti *et al.,* (2018) highlights that frequent fluctuations in local tax revenue cause instability in the planning and execution of local infrastructure projects. Furthermore, Mulyani *et al.,* (2022) emphasized that the effectiveness of government interventions is measured not only by the amount of funding but also by the "quality" of allocated public spending, which is strongly correlated with boosting real productivity at the grassroots (rural) level. There is a significant research gap between previous literature and the current context of rural development. Most previous studies, such as (Saputra *et al.,* 2021; Karpriana, 2024; Majid *et al.,* 2025), tend to assume that high nominal capital expenditure figures will automatically boost the aggregate economy and focus solely on macro-level analysis at the district/provincial level. These studies have not evaluated the quality aspects of capital expenditure—namely, its targeting accuracy and efficiency in developing rural-specific infrastructure such as irrigation and farm access roads—nor how this quality interacts with the effectiveness of tax collection. This study challenges these conventional assumptions by arguing that in agrarian regions, the quality of capital expenditure is more urgent than mere budget volume.

Based on the gap analysis above, this study aims to answer three main research questions: (1) How does local tax collection affect rural economic growth in Dompu Regency?; (2) How does the quality of capital expenditure affect rural economic growth in Dompu Regency?; and (3) How do both factors simultaneously affect rural economic growth? The novelty of this study lies in the conceptualization and operationalization of the "quality of capital expenditure" variable, as well as the definition of the research locus, which is sharply focused on the rural economy. This approach is expected to enrich the theoretical literature on regional economic growth with socio-geographic characteristics in eastern Indonesia.

The structure of this article is as follows: Part One is the introduction, which outlines the problem context, the literature review, and the study's novelty. Part Two presents a literature review and the formulation of hypotheses based on the theoretical framework of agency theory and regional growth. Part Three explains the research methodology, including secondary data sources and multiple linear regression. Part Four presents the results of the empirical tests and their discussion. Finally, Part Five contains the conclusions, policy implications for local governments, and the study's limitations.

2. Literature Review and Hypothesis Development

2.1 *Agency Theory*

The agency theory proposed by Jensen & Meckling (1976) is applied in public sector governance to explain the delegation of authority from the public (principal) to local governments (agent) in managing public resources. From this perspective, the public grants a mandate to collect Local Taxes (X1) with the expectation that these funds will be transparently and accountably converted into Capital Expenditures (X2) to support local infrastructure development. To address potential agency problems that often arise from information asymmetry and bureaucratic inefficiencies, the government is required to optimize tax

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collection and manage capital expenditures in a targeted manner so that the principal's mandate can be fulfilled and the ultimate goal of accelerating Rural Economic Growth (Y) achieved.

2.2 *Public Finance Theory*

Public finance theory examines the government's role in the economy through local revenue and expenditure instruments, with local taxes serving as the primary fiscal instrument that provides financial autonomy to fund the provision of public goods (Ramlan *et al.,* 2016). Within this theoretical framework, the collection of local taxes not only serves a budgetary function by raising local government revenue but also stimulates community economic activity through government spending. Therefore, allocating high-quality capital expenditures is an effective form of public investment for creating new jobs and increasing real productivity in rural areas, ultimately accelerating comprehensive regional economic growth.

2.3 *Neoclassical Economic Growth Theory (Solow-Swan)*

The Neoclassical Theory of Economic Growth, proposed by Solow (1956) and Swan (1956), emphasizes that capital accumulation and technological progress are essential determinants in driving long-term economic growth. Within the framework of this study, Rural Economic Growth (Y) is represented as the output of capital investment made by local governments, where Capital Expenditures (X2) for the development of rural physical infrastructure—such as irrigation networks and farm access roads—serve to increase the stock of real capital (capital stock), thereby enhancing the efficiency and productivity of the agricultural sector. This economic transmission mechanism aligns with the findings of (Handayani *et al.,* 2021), which concluded that accelerated regional economic growth is a key indicator of development success, fundamentally driven by the synergy between the optimization of local fiscal capacity (tax revenue realization) and the targeted allocation of public expenditures (capital expenditures).

2.4 *Rural Economic Growth*

Economic growth is an essential macroeconomic indicator that reflects a region's development by increasing the capacity to produce goods and services year after year. In the context of regional autonomy, economic development at the city/regency and rural levels serves as the starting point for fiscal decentralization, where local governments collaborate with all segments of society to manage local resource potential and stimulate economic activity to create new jobs (Miswar *et al.,* 2021). The broad authority held by local governments in formulating public spending policies is specifically aimed at strengthening the local economic structure, so that an increase in Regional Gross Domestic Product (RGDP) is not merely a statistical figure but makes a tangible contribution to national growth (Haryati *et al.,* 2025). Ultimately, the synergy between financial management policies and development partnerships is expected to lead to a comprehensive improvement in community well-being, marked by expanded employment opportunities, increased per capita income, and a higher quality of life in rural areas.

2.5 *Local Tax Revenue Collection*

Local tax collection is the realization of local government cash receipts from mandatory contributions by citizens and business entities, and its success is measured by comparing the actual amount in rupiah

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to the target set in the Regional Revenue and Expenditure Budget (APBD). This collection figure serves as a key indicator of fiscal autonomy and the effectiveness of tax collection agencies in managing Local Original Revenue (PAD) to expand local financing capacity. Based on the provisions of Law No. 32 of 2004 (Republic of Indonesia, 2004) on Regional Government, local taxes play a crucial role as an instrument of self-financing to consolidate broad, tangible, and responsible regional autonomy. Therefore, optimizing these revenues is not merely an administrative achievement but an essential prerequisite for local governments to fund development programs, stimulate economic growth, and achieve equitable distribution of public welfare (Rahayuanti *et al.,* 2018).

***2.6** Quality of Capital Expenditures*

Pursuant to Regulation of the Minister of Finance of the Republic of Indonesia No. 214/PMK.05/2013, capital expenditures are defined as budgetary expenditures to acquire or add fixed assets that provide economic benefits over more than one accounting period (12 months) and exceed the minimum capitalization threshold, which are specifically intended for government operations and not for resale. Furthermore, this allocation covers maintenance costs that substantially preserve or extend the useful life of, and enhance the capacity and quality of, such public assets. Within the framework of regional development governance, the quality of capital expenditures is a vital component of spending; this quality is assessed not merely by the nominal amount absorbed, but because its efficient and productive implementation has the direct ability to significantly stimulate and drive the region's economic growth structure (Kuntadi *et al.,* 2022).

***2.7** The Impact of Local Tax Collection on Rural Economic Growth*

Local tax collection is a fundamental tool that reflects the capacity of local governments to optimize Local Own-Source Revenue (PAD) in order to achieve fiscal autonomy and finance rural development programs. A high tax collection rate not only signifies a strong economic foundation and the effectiveness of tax administration but also expands the government's fiscal space to allocate funds for the provision of basic infrastructure and public services in a responsive manner, without absolute dependence on the central government. As demonstrated in a study (Rahayuanti *et al.,* 2018), local tax revenue contributes positively to increasing PAD, ultimately leading to the achievement of broad-based community welfare. Increased economic activity and money circulation resulting from this optimal tax administration will generate a spillover effect that directly accelerates the local economy.

***H1:** Local tax revenue has a positive and significant impact on rural economic growth.*

***2.8** The Impact of Capital Expenditure Quality on Rural Economic Growth*

The quality of capital expenditure is a form of long-term public investment essential for acquiring productive fixed assets with sustainable economic impact. The quality of this allocation is measured not merely by nominal budget absorption, but by its targeting accuracy and efficiency in creating economic transmission channels in rural areas—such as reducing logistics costs through road improvements, increasing value-added through village markets, and strengthening human resource capacity. This is consistent with the findings of Kuntadi *et al.,* (2022), who state that the efficient implementation of capital expenditure directly stimulates local business activity and creates new jobs. From the perspective of endogenous growth theory, well-targeted infrastructure investment will increase the marginal productivity of other factors of production, thereby triggering a cycle of inclusive growth.

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H2: *Capital Expenditures have a positive and significant impact on Rural Economic Growth.*

2.9 *The Simultaneous Effects of Local Tax Revenue and the Quality of Capital Expenditures on Rural Economic Growth*

Rural economic growth is the result of the synergistic and complementary interaction between revenue and expenditure instruments within the local government's budget constraint mechanism. Optimal collection of local taxes provides the liquidity and expands the fiscal capacity needed to execute high-quality capital expenditure allocations sustainably. When these two fiscal policy instruments operate simultaneously, their interaction creates a virtuous cycle. It generates a fiscal multiplier effect that is far more significant than the sum of their individual partial effects. This integrated combination of funding autonomy and well-targeted infrastructure investment is an absolute prerequisite for accelerating the transformation of the rural economy from a subsistence-based system to a productive, market-based economy.

H3: *Local tax revenue and the quality of capital expenditures simultaneously have a positive and significant impact on rural economic growth*

3. Research Method

This explanatory quantitative study aims to test the causal relationship between fiscal instruments and rural macroeconomics in Dompu Regency through structured empirical data analysis (Creswell, 2018). The study population includes relevant stakeholders in the rural administrative areas of Dompu Regency (such as village financial management officials and other community members), with purposive sampling (Sugiyono, 2019) based on criteria related to respondents' understanding of and involvement in budget management. Data collection relied entirely on primary data gathered through the distribution of a Likert-scale questionnaire. According to Sekaran & Bougie (2016), the use of structured questionnaires is the most effective and efficient method for measuring perceptual variables and collecting large-scale empirical information with high validity and precision.

The primary data from the questionnaire were subsequently analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software, which was selected for its robustness in processing scaled primary data without requiring strict assumptions about normality (Hair *et al.,* 2014). The use of a questionnaire instrument necessitates a measurement model evaluation phase (outer model) to ensure the validity and reliability of the constructs (statement items), in which discriminant validity was rigorously evaluated using the criteria (Fornell & Larcker, 1981) and the Heterotrait-Monotrait (HTMT) ratio (Henseler & Sarstedt, 2013). Once the instrument was deemed valid, a structural model evaluation (inner model) was conducted by assessing the coefficient of determination (R2) and the effect size f2 (Cohen, 1988). The final hypothesis testing was performed using a bootstrapping procedure to generate path coefficients, t-statistics (>1.96), and p-values (<0.05) to determine the significance of the relationships between variables.

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Table 1. Variables and Measurements (Questionnaire Instrument)

Variable	Code	Statement Items (Questionnaire Indicators)	Source
Local Tax Revenue (X1)	X1.1	Local tax collections (such as PBB-P2) in the village consistently meet or exceed the annual target.	(Rahayuanti *et al.*, 2018)
	X1.2	Raising public awareness (among taxpayers) greatly contributes to achieving better local tax collection results.	
	X1.3	The enforcement of strict tax penalties has proven effective in improving compliance and increasing local tax revenue.	
	X1.4	Local tax revenue makes a significant contribution to the village's total revenue and funding.	
	X1.5	Intensive tax outreach efforts by the village government have increased the tax revenue collection rate.	
Quality of Capital Expenditures (X2)	X2.1	Village capital expenditures are appropriately focused on priority projects for vital infrastructure, such as roads and irrigation.	(Halim, 2016; Kuntadi *et al.*, 2022)
	X2.2	The allocation and execution of the village capital expenditure budget are carried out efficiently and in a targeted manner.	
	X2.3	Capital expenditure projects are implemented on time with a high degree of transparency.	
	X2.4	The quality of development outcomes resulting from capital expenditures is evaluated periodically to facilitate future improvements.	
	X2.5	Accountability in managing village capital expenditures supports high-quality financial reporting.	
Rural Economic Growth (Y)	Y.1	There has been a noticeable increase in economic activity and transaction volume in the village every year.	(Todaro & Smith, 2020)
	Y.2	New job opportunities for rural communities are becoming increasingly widespread.	
	Y.3	Productivity levels in the village's key sectors (such as agriculture or trade-related MSMEs) have increased significantly.	
	Y.4	The average income of the rural population (per capita) has increased sufficiently to meet their basic needs.	
	Y.5	Overall, the well-being and quality of life of rural communities have been improving year after year.	

Source: *Compiled by researchers from various sources, 2026*

4. Results and Discussion

4.1 Analysis Results

The primary focus of this study is on rural macroeconomic dynamics in Dompu Regency, specifically examining the causal effects of fiscal instruments—namely, local tax revenue and the quality of capital expenditures—on economic growth at the village level. Meanwhile, the study's respondents include parties directly involved in the administrative affairs of these rural areas, such as village financial management officials or relevant community representatives. The sample of respondents was selected using a purposive sampling technique, specifically based on criteria of adequate understanding and active involvement in budget management mechanisms.

Based on Table 2, the evaluation of the outer model demonstrated that all questionnaire items met the criteria for convergent validity and ideal reliability (Hair *et al.*, 2014). Convergent validity was strongly confirmed by outer loading values > 0.70 and Average Variance Extracted (AVE) values > 0.50.

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At the same time, the instruments' internal consistency (reliability) was found to be very robust, as the overall Cronbach's Alpha and Composite Reliability values exceeded the minimum threshold of 0.70.

Table 2. Results of the Convergent Validity and Construct Reliability Tests

Variable	Item	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
Local Tax Revenue (X1)	X1.1	0.795	0.871	0.906	0.660
	X1.2	0.833			
	X1.3	0.840			
	X1.4	0.781			
	X1.5	0.811			
Quality of Capital Expenditures (X2)	X2.1	0.768	0.869	0.905	0.657
	X2.2	0.769			
	X2.3	0.839			
	X2.4	0.841			
	X2.5	0.834			
Economic Growth (Y)	Y.1	0.860	0.882	0.914	0.680
	Y.2	0.849			
	Y.3	0.840			
	Y.4	0.828			
	Y.5	0.742			

Source: *Processed primary data, 2026*

Figure 1. Path Analysis

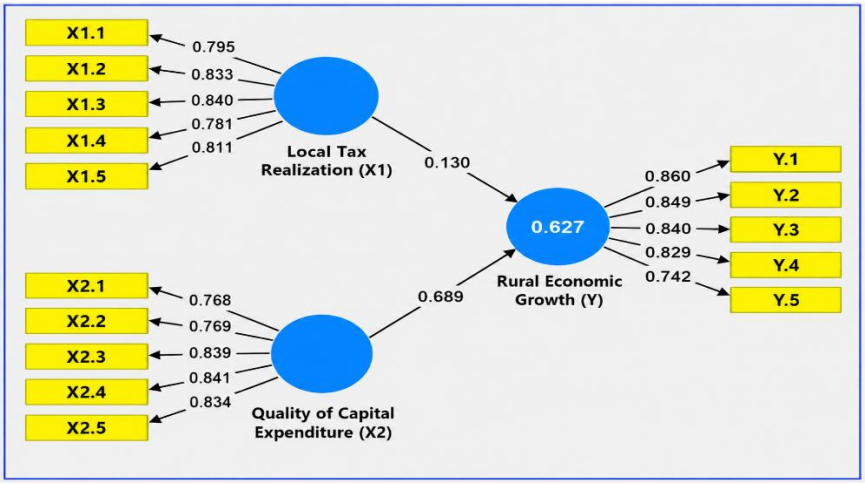

Table 3. Results of the Discriminant Validity Test (Fornell-Larcker Criterion)

Variable	Local Tax Collection	Quality of Capital Expenditures	Economic Growth
Local Tax Revenue	0.812		
Quality of Capital Expenditures	0.755	0.811	
Economic Growth	0.650	0.787	0.825

Source: *Processed primary data, 2026*

Based on the criteria established by Fornell & Larcker (1981), Table 3 confirms that the discriminant validity criteria have been met. This is evidenced by the square root of the Average Variance Extracted (AVE) values on the diagonal—Local Tax Revenue (0.812), Quality of Capital Expenditures

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(0.811), and Economic Growth (0.825)—which are consistently larger than all inter-construct correlation values. Thus, all instruments are deemed valid because they have been shown to measure specific concepts without overlap between variables.

Table 4. Results of the Discriminant Validity Test (HTMT Ratio)

Variable	Local Tax Revenue	Quality of Capital Expenditures	Economic Growth
Local Tax Revenue			
Quality of Capital Expenditures	0.873		
Economic Growth	0.738	0.893	

Source: *Processed primary data, 2026*

As a follow-up test, based on Henseler & Sarstedt (2013), Table 4 presents an evaluation of discriminant validity using the Heterotrait-Monotrait (HTMT) ratio. The results of the analysis show that all HTMT values across constructs—the highest being 0.893 for the relationship between Capital Expenditure Quality and Economic Growth—are below the required maximum threshold of 0.90. These findings reinforce the results of previous tests, confirming that each variable instrument is discriminatively valid and can be empirically distinguished from the others.

Table 5. Evaluation of the Coefficient of Determination (R2) and Effect Size (f2)

Dependent Variable	R2	Adjusted R2	Predictor Relationships	f2
Economic Growth (Y)	0.627	0.607	X1 ➔ Y	0.019
			X2 ➔ Y	0.548

Source: *Processed primary data, 2026*

Based on Table 5, the evaluation of the inner model shows that Local Tax Revenue and Capital Expenditure Quality together explain 62.7% of the variance in Economic Growth (R2 = 0.627). Furthermore, according to Cohen's (1988) guidelines for evaluating effect sizes, the analysis shows that the quality of capital expenditures has a strong predictive effect (f2 = 0.548). In contrast, local tax revenue has a very weak predictive effect (f2 = 0.019).

Table 6. Hypothesis Test Results (Path Coefficients)

Hip.	Structural Relationships	Original Sample (β)	T-Statistics	P-Values	Info
H1	Local Tax Revenue Collection ➔ Economic Growth	0.130	0.784	0.433	Rejected
H2	Quality of Capital Expenditures ➔ Economic Growth	0.689	4.566	0.000	Accepted
H3	Local Tax Revenue Collection and the Quality of Capital Expenditures ➔ Economic Growth	0.627	81.530	0.000	Accepted

Source: *Processed primary data, 2026*

Partial hypothesis testing (H1 and H2) was evaluated using the T-statistics values from the SmartPLS bootstrapping output. Meanwhile, to test the simultaneous effect (H3), the analysis was conducted by converting the Coefficient of Determination (R2 = 0.627) to an F-value. The results show a calculated F-value of 81.530 with a significance level of 0.000 ($p < 0.05$), confirming that Hypothesis 3 is accepted.

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4.2 Discussion

4.2.1 *The Effect of Local Tax Revenue Collection on Rural Economic Growth (H1)*

The test results indicate that local tax revenue has no significant effect on rural economic growth in Dompu Regency, as evidenced by an original sample value of 0.130 with a probability value (p-value) of 0.433, which exceeds the 0.05 threshold. This finding explicitly rejects the first hypothesis (H1) and contradicts initial expectations based on Public Finance Theory, which holds that taxes are meant to stimulate community economic activity through expenditure interventions. This lack of impact can be analyzed through the lens of Agency Theory, in which the public (principal) has fulfilled its tax obligations. However, the local government (agent) appears to face structural constraints in proportionally channeling those funds into village development programs. The mandate to collect taxes risks being confined purely to a budgetary function to cover the operational costs of the bureaucracy, so that the expected spillover effect—which could create jobs at the village level—does not actually materialize.

This finding is particularly intriguing because it directly contradicts prior studies, such as those by Kuntadi *et al.,* (2022) and Ramlan *et al.,* (2016), which generally concluded that local tax revenue collection is always positively correlated with macroeconomic growth. On the other hand, the results of this analysis provide strong confirmation of the evaluative findings of Rahayuanti *et al.,* (2018), which highlight that fluctuations in taxpayer compliance and revenue collection, amounting to little more than administrative achievements, often cause regional infrastructure planning to be delayed or become unstable. The reality in Dompu Regency supports the claim that achieving tax target percentages (such as PBB-P2) is not robust enough to serve as a single variable driving the rural economy if the resulting revenue is not efficiently allocated to expenditure components.

4.2.2 *The Effect of Capital Expenditure Quality on Rural Economic Growth (H2)*

In contrast to the findings on revenue instruments, the analysis shows that the quality of capital expenditure has a positive and highly significant effect on rural economic growth, with an original sample value of 0.689 and a p-value of 0.000. These processed data empirically support the acceptance of the second hypothesis (H2) and are fully consistent with the Neoclassical Economic Growth Theory (Solow-Swan). This theory emphasizes that the accumulation of real capital stock is an essential determinant of agricultural sector productivity and of spurring long-term growth. In the rural context of Dompu Regency, capital expenditures executed to a high standard—that is, efficiently, transparently, and precisely targeted at rural-specific infrastructure such as irrigation networks and farm access roads—directly function as an increase in real capital stock (capital stock) for the community. These high-quality government interventions logically facilitate the smooth flow of logistics and reduce agricultural production costs, ultimately increasing the value added of local products.

These results provide crucial support for the main argument of this study and align with the findings of Mulyani *et al.,* (2022), who emphasized that the effectiveness of government spending interventions fundamentally depends on the quality of such public spending, not merely on the percentage of the budget absorbed. These findings also support the conclusion of Kuntadi *et al.,* (2022) that implementing capital expenditures oriented toward efficiency targets has a direct causal effect on stimulating local business activity and creating new jobs in rural areas. The novelty of this research is empirically demonstrated: in agriculture-based geographic regions, relying on high nominal budget

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figures will not automatically improve the rural macroeconomy. The well-being of rural communities can be tangibly accelerated only when capital allocation is held accountable, and funds are directed to support the economic lifelines of microeconomic actors.

4.2.3 *The Simultaneous Effect of Local Tax Revenue and the Quality of Capital Expenditures on Rural Economic Growth (H3)*

For the testing of the third hypothesis (H3), the evaluation of the structural model's (inner model) validity showed that local tax revenue and the quality of capital expenditures together (simultaneously) have a very substantial effect on rural economic growth. This is represented by a coefficient of determination (R2) of 0.627, which corresponds to a calculated F-value of 81.530 at a probability level of 0.000. The ability of these two fiscal policy instruments to explain nearly 63% of the variance in rural macroeconomic outcomes reflects the operation of an integrated budget constraint mechanism. Based on macroeconomic transmission logic, the synergistic interaction between instruments that mobilize public funds (through the optimization of tax compliance) and productive spending (through the management of capital expenditures) has proven successful in creating a positive growth cycle (virtuous cycle). Local taxes function as an independent source of fiscal space. At the same time, the quality of capital expenditure transforms that fiscal space into investments in physical fixed assets that sustainably multiply the volume of rural transactions.

These simultaneous findings offer a new perspective on the discourse: the stagnation or very weak predictive effect of local tax revenue alone (as found in H1) can be fully mitigated when this instrument is combined with high-performing infrastructure spending management. These synthesized results reinforce the view put forward by Handayani *et al.,* (2021), who concluded that the acceleration of development in an autonomous region is predominantly driven by the synchronization between the ratio of fiscal capacity to collect local revenue (PAD) and the accuracy of public expenditure allocation. Although administrative gaps often hamper tax collection, this integrative combination of funding capabilities and capital expenditure effectiveness is an absolute prerequisite for accelerating the transformation of the rural economy—which was initially highly subsistence-based—toward a market-competitive economic system. Thus, this study provides a critical foundation: local governments cannot merely prioritize achieving Local Revenue (PAD) targets; they must ensure that these revenue streams are channeled into productive village assets.

5. Concluding Remarks and Recommendation

This explanatory quantitative study analyzes the impact of local tax revenue and the quality of capital expenditures on rural economic growth in Dompu Regency using the PLS-SEM approach. Primary data were collected using a questionnaire through purposive sampling targeting village financial management officials and community representatives. The results of the analysis demonstrate that, when examined individually, local tax revenue has no significant effect on rural economic growth. Conversely, the quality of capital expenditures was found to have a positive and highly significant effect. However, when considered simultaneously, the interaction between these two fiscal instruments makes a substantial contribution, explaining 62.7% of the variance in economic trends at the rural level.

The originality of this research lies in a shift in the evaluation of fiscal policy—from a focus on the volume of the macro budget to an assessment of the quality of spending in agrarian rural areas.

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Theoretically, these findings enrich the literature on regional decentralization by affirming that fiscal autonomy will not optimally stimulate the economy unless it is converted into targeted real capital stock. The policy implications urge local governments not merely to pursue administrative cash revenue targets but to ensure transparent and efficient allocation of expenditures for vital rural infrastructure to accelerate productivity and expand employment opportunities for the community.

The main limitations of this study lie in its restricted geographic scope to Dompu Regency and its reliance on perceptual primary data, which limit the level of generalizability and leave 37.3% of the variance unexplained by the model. Future researchers are advised to broaden the scope of their studies and integrate their findings with secondary time-series data (time-series reports on the Regional Budget [APBD] and Village Budget [APBDes]) to enhance the objectivity of their results. In addition, integrating other public financial management variables—such as the effectiveness of the Village Fund, the contribution of local levies, and the optimization of Village-Owned Enterprises (BUMDes)—is highly recommended to develop a more comprehensive architecture for rural macroeconomic resilience.

Statement of Use of Generative AI

During the preparation of this work, the author used generative artificial intelligence tools to support the scientific writing process. Grammarly was used to check grammar, refine writing style, and improve clarity in scientific writing. All interpretations, analyses, and conclusions presented in this study are the sole responsibility of the author.

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