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Literature review on sustainable development in Bali province through the lens of financial aspects

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Abstract

This literature review discusses the relationship between regional financial performance, capital expenditure, and environmental expenditure and their role in sustainable development. Sustainable development is defined as development that is able to meet current needs without sacrificing the ability of future generations to meet their needs. Previous studies have shown that the allocation of regional spending, especially environmental spending, is still low despite having an important contribution to preserving ecosystems and reducing the impact of climate change. This review emphasizes that regional financial performance plays a significant role in determining capital expenditure and environmental allocation. Unbalanced spending policies can hinder the achievement of sustainable development. In addition, effective allocation of environmental spending is key to supporting various climate change mitigation programs and maintaining environmental quality in the future. The results of this study conclude that improving financial performance needs to be accompanied by appropriate budget policies, especially in capital expenditure and the environment. Efforts to ensure sustainable development require synergy between economic growth and environmental concern so that long-term development goals are achieved.

Keywords: Financial performance; Capital expenditure; Environmental spending; Sustainable development; Climate change mitigation; SDGs.

1. Introduction

Environmental and sustainability issues are increasingly becoming an important concern in Bali. As one of Indonesia's main tourist destinations, Bali is under great pressure due to excessive use of space for tourism purposes. The rapid development of tourism not only brings economic impacts, but also causes environmental degradation and reduced quality of natural resources [1]. This imbalance in space use worsens the condition of the ecosystem, while sectors such as agriculture and fisheries that play an important role in maintaining the environment do not develop optimally [2].

In addition to ecological challenges, Bali also faces limitations in budget management. Based on the 2022 Bali Provincial LPPD report, the budget allocation for environmental functions is still very limited, which only ranges from 1-3% of the total APBD [3]. Most of the regional budget is focused on the public service and infrastructure sectors that support the tourism industry. This makes environmental and climate change mitigation programs a lower priority, even though the impact of climate change in Bali is increasingly felt. Bali's reliance on transfer funds from the central government has also narrowed the budget space for environmental programs. Budget fluctuations, especially during shocks such as the COVID-19 pandemic, have forced local governments to refocus their budgets to other sectors, such as health and economic recovery [1]. This condition shows that improving budget allocation for the environment is an urgent need so that development is not only oriented to short-term profits, but also maintains environmental and social sustainability. Previous research has shown the importance of increasing the allocation of environmental spending to achieve long-

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term sustainability. [4] found that despite the impact of environmental budget allocations on small economic growth, such spending is critical to ensuring ecosystem sustainability. In addition, [5] emphasized that environmental programs require a considerable budget and must be adapted to local conditions in order to be effective. Unfortunately, without improvements in budget allocation priorities, sustainable development targets are difficult to achieve.

This study will review various literature related to the relationship between regional financial performance, capital expenditure allocation, and environmental spending. The focus of this study is not only to look at trends in regional budget management, but also to understand the factors that affect the success of environmental programs in the framework of sustainable development. Thus, this literature review aims to provide an in-depth understanding of the linkages between regional financial performance and environmental policy implementation, as well as identify opportunities for improvement that can be applied in Bali and other regions with similar challenges.

2. Theoretical Framework

2.1. Theory

This literature review discusses theories related to financial performance, capital expenditure, environmental expenditure, and sustainable development. Financial performance measures the effectiveness of regional budget management, while capital expenditure focuses on infrastructure investment. Environmental spending includes programs to preserve nature, and sustainable development emphasizes the balance between economic, social, and environmental in fiscal policy.

2.1.1. Financial Performance

Regional financial performance is one of the important indicators in assessing the effectiveness and efficiency of local government budget management. Some commonly used financial performance indicators are effectiveness, efficiency, financial independence, and budget harmony based on Permendagri 19/2020. Good financial performance allows the regions to be more self-reliant, reduce dependence on transfer funds from the central government, and increase fiscal capacity in funding various priority programs [1]. In addition, financial performance significantly affects the allocation of capital expenditure and environmental expenditure. Regions with good financial performance tend to be able to allocate more budget for long-term investment through capital expenditure and support sustainability programs through environmental spending [6]. However, limited fiscal space is still an obstacle for many local governments, including Bali, in increasing spending on environmental programs.

2.1.2. Capital Expenditure

Capital expenditure reflects local government spending to increase fixed assets and improve public infrastructure. According to PP 19/2019, capital expenditure aims to create long-term economic and social benefits, such as the development of public facilities and basic service infrastructure [1]. Although capital expenditure is essential for economic growth, research shows that budgets for capital expenditure tend to be prioritized over expenditure on environmental functions. This makes programs related to environmental sustainability often neglected in regional budget planning [3].

2.1.3. Environmental Expenditure

Environmental expenditure is part of the local government budget allocated for environmental protection and management. Environmental programs financed through this expenditure include pollution control, climate change mitigation and adaptation, waste management, and natural resource conservation. Unfortunately, the allocation of environmental expenditure in Bali only ranges from 1-3% of the total APBD every year [3]. This percentage is relatively low compared to other sectors, such as public services and tourism infrastructure, which receive a larger budget allocation. Local governments' reliance on tourism also affects budget priorities, where more funds are allocated to infrastructure and public services that support the tourism sector. This causes environmental and climate change mitigation programs not to be a top priority in budget planning [1].

2.1.4. Challenges and Opportunities in Sustainable Development

Bali faces challenges in striking a balance between economic growth and environmental sustainability. The high dependence on tourism makes regional budget allocations more focused on infrastructure development and tourism services. In situations such as the COVID-19 pandemic, when budgets must be diverted to the health sector and economic recovery, the allocation for environmental programs is increasingly marginalized [1]. In addition, low fiscal space and dependence on central transfer funds narrow the ability of local governments to adequately allocate budgets

for environmental programs. However, the literature shows that there are opportunities to increase the effectiveness of environmental spending through improving regional financial performance. Regions with good financial performance are better able to allocate budgets for environmental and sustainability programs. Cooperation with the private sector and the community can also open up alternative financing opportunities to support these programs [6].

2.2. Methods

This research uses the study method literature. Literature study is a research approach that includes the comprehensive collection and analysis of literature, publications and other written sources related to a research topic. Previous studies have made an important contribution to understanding the relationship between financial performance, capital expenditure allocation, environmental expenditure, and development sustainability at the regional level.

Table 1 Previous studies

Authors (Year)	Title	Methods	Results
Sularso & Restianto (2011) [7]	The Effect of Financial Performance on Capital Expenditure Allocation in Regencies/Cities in Central Java	Regression analysis on regency/city data in Central Java	Independence and effectiveness of PAD are significant to capital expenditure
Hermawan (2015) [4]	The Effect of Central Government Expenditure on Environmental Functions on Indonesia's Economic Growth	Regression analysis on central government spending on the environment and its impact on GDP	Environmental spending has a positive but small effect on GDP
Prihastuti et al. (2015) [8]	The Effect of Financial Performance on Capital Expenditure in Regencies/Cities of Riau Province	Regression analysis on regency/city data in Riau Province	Financial performance drives capital expenditure and infrastructure quality
Syapsan & Taryono (2020) [5]	Revenue Sharing Fund and Environmental Function Budget on Decentralization of Resource and Environmental Management in the Riau Coastal Region	Qualitative analysis related to profit-sharing funds and environmental spending in coastal Riau	The management of the coastal environment requires special fiscal calculations
Ishak (2021) [6]	The Impact of Regional Government Financial Performance on Capital Expenditure	Multiple regression using provincial data from 2012-2020	Positive financial performance affects regional capital expenditure

3. Results and discussion

Previous research has shown that although the allocation of environmental spending has a positive effect on economic growth, the impact is still relatively small. [4] found that increased central government spending on environmental functions only resulted in GDP growth of 0.01% for every 10% increase in the budget. This shows that despite the positive impacts, the allocation of environmental spending is still not prioritized and must be further increased to make a significant contribution to economic growth.

In addition, research [5] provides a perspective that regions with unique environmental characteristics, such as Riau, need specific fiscal policies. In coastal areas, the cost of environmental management is higher and the results are not always visible in the near future. Therefore, fiscal policies in the region must be adjusted to local needs to be effective in supporting sustainability. This is relevant to Bali, which also faces challenges in balancing tourism growth and environmental protection, given budget constraints and development priorities. Research [6] emphasizes the importance of good financial performance in increasing capital expenditure. Regions with optimal financial performance have a greater capacity to allocate budgets for infrastructure development and public assets that are beneficial in the long term. However, increased capital expenditures are often not followed by increased allocations for environmental programs. This indicates that while capital expenditure plays an important role in economic development, environmental programs are often a lower priority in budget planning.

Similar findings were expressed by [7], which showed that indicators of financial independence and PAD effectiveness had a significant influence on capital expenditure allocation. However, they also found that increasing PAD does not necessarily increase spending on environmental programs. This highlights that regions often prioritize short-term economic development over environmental programs, even though both aspects are equally important for long-term sustainability. Research [8] reinforces the idea that financial performance has a direct effect on capital expenditure and the quality of public infrastructure. However, this study also shows that the increase in capital expenditure is not enough to ensure the sustainability of development without adequate environmental expenditure support. This shows that local governments need to focus more on balancing infrastructure investment and environmental programs so that development is not only economically oriented, but also considers environmental sustainability. Overall, the results of this literature review show that there is a priority gap in regional budget management. Although improved financial performance and capital expenditure have been proven to drive economic growth, the allocation for environmental spending is still very limited. This is relevant for Bali, which faces major challenges in ensuring environmental sustainability amid its dependence on the tourism sector. Therefore, a more balanced fiscal policy is needed so that environmental programs are no longer seen as secondary priorities.

In the context of sustainable development, this literature shows that improving financial performance must be accompanied by adequate allocation of environmental spending. Regions with good fiscal conditions need to ensure that environmental programs receive balanced attention with infrastructure investment. In addition, fiscal policies that are responsive to local characteristics can help regions like Bali overcome challenges in maintaining a balance between economic growth and environmental sustainability.

4. Conclusion

Financial performance, capital expenditure, and environmental expenditure play an important role in supporting sustainable development at the regional level. Good financial performance increases fiscal capacity and allows regions to allocate more budget for infrastructure, but allocation for environmental programs is still limited. Dependence on certain economic sectors, such as tourism, causes budget priorities to be more focused on short-term economic growth than environmental protection. Environmental programs are often considered secondary, even though their role is crucial in maintaining the balance of ecosystems and reducing disaster risk. In addition, fiscal policies that are not responsive to local needs worsen budget allocation, especially in regions with specific environmental challenges. Budget limitations and dependence on central funds narrow the flexibility of regions in determining spending priorities. To achieve sustainable development, more balanced budget planning is needed, by integrating environmental and economic programs. Adaptive fiscal policy support and cross-sectoral cooperation are key in ensuring that economic growth goes hand in hand with environmental sustainability for long-term well-being.

Compliance with ethical standards

Disclosure of Conflict of Interest

The author confirms that they have no identifiable conflicts of interest, financial interests, or personal affiliations that could have influenced the research reported in this article.

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