

The Influence of Regional Income on Economic Growth and its Implications for the Human Development Index in East Java



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ABSTRACT: Financing of government administration based on the principle of decentralization is carried out at the expense of the APBD. In the context of implementing government and services to the community based on the principle of decentralization, the regions are given the authority to collect taxes / levies and manage natural resources, the source of funds for the regions consists of Regional Original Revenue, General Allocation Funds, and Special Allocation Funds. This study aims to determine the effect of PAD, DAU, DAK, Village Funds and Revenue Sharing Funds on Economic Growth and its impact on the Human Development Index in East Java Province. This research was conducted using quantitative description analysis and analyzed using path analysis. The data used in this study used secondary data obtained from the financial statements of the East Java Provincial Government or the website of the East Java Provincial Government and the Regional Statistics Planning Agency of East Java Province. The results of this study indicate that PAD, DAU, DAK, Village Funds and Revenue Sharing Funds on Economic Growth in East Java Province means that there are 5 factors that can affect economic growth the higher and the value of funds obtained can increase economic growth. PAD, DAU, DAK, Village Funds and Revenue Sharing Funds affect the Human Development Index in East Java Province where the higher the value of funds obtained by the city / district area can increase the human development index in the area itself. Economic Growth affects the Human Development Index, meaning that economic growth that occurs due to economic activity in a region affects the human development index due to economic activity. PAD, DAU, DAK, Village Funds and Revenue Sharing Funds affect Economic Growth and the impact of the increase in the Human Development Index, this happens because the 5 factors that are the source of funds in each region are managed to increase economic growth and are accompanied by an increase in the human development index.

KEYWORDS: Regional Original Revenue, General Allocation Fund, Special Allocation Fund, Village Fund, Revenue Sharing Fund, Economic Growth, Human Development Index

I. INTRODUCTION

The current government system in Indonesia is regional autonomy based on Law Number 23 of 2014. Regional autonomy means that the central government gives some of its authority to local governments. The law on regional autonomy has undergone two changes, namely Law Number 9 of 2015, As a consequence of implementing regional autonomy, the Regency government is required to be able to finance the administration of government, development and society which is its authority. This indicates that the region must try to be able to increase Regional Original Revenue (PAD) which is a benchmark for the region in organizing and realizing regional autonomy. In principle, the greater the contribution of Regional Original Revenue to the Regional Budget (APBD) will show the smaller the dependence of the region on the center. Financing of government administration based on the principle of decentralization is carried out at the expense of the APBD. In the context of governance and services to the community based on the principle of decentralization, the regions are given the authority to collect taxes / levies and manage natural resources, the source of funds for the regions consists of Regional Original Revenue, General Allocation Funds, and Special Allocation Funds.

In order to determine the development of economic activity in a region, it can be reviewed through economic growth, so that local governments can measure the effectiveness of the steps or policies taken to accelerate economic growth. Economic development aims to increase the prosperity of society in order to improve the quality of life (Makarin, 2021). Gross Regional Domestic Product is the total production of goods and services produced in a region produced by all components of the economy in a region as in East Java Province, currently there are many MSMEs ranging from handicrafts to food which can

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ultimately improve the economy in East Java Province. The East Java economy in the first quarter of 2023 against the first quarter of 2022 (y-on-y) experienced growth of 4.95 percent. All business fields experienced positive economic growth. Business fields that experienced significant growth were Electricity and Gas Procurement which grew by 19.39 percent, followed by the Transportation and Warehousing business field which grew by 11.74 percent, and the Accommodation and Drinking Food Provision business field which grew by 9.43 percent.

One way to measure the level of welfare beyond GRDP is through the Human Development Index (HDI). As a measure of quality of life, the HDI is constructed through a three-dimensional approach, namely long and healthy life (health), knowledge (education), and a decent life (economy). To measure the health dimension, life expectancy at birth is used. Furthermore, to measure the knowledge dimension, a combination of literacy rate and average years of schooling indicators is used. Meanwhile, to measure the dimension of a decent life, an indicator of the purchasing power of the community towards a number of basic needs is used, which is seen from the average amount of expenditure per capita as an income approach that represents the achievement of development for a decent life. There is an increase in HDI from 2018 to 2022, from 69.40 to 71.08. On average, East Java Province experienced an increase in HDI every year in the period 2018 - 2022, but none of the HDI achievements of East Java Province were more than 80 but the highest HDI achievement was close to that figure. If the HDI achievement obtained by a region is more than 80, it can be said that the HDI of the area can be classified as very high.

Lugastoro (2013) in his research states that the ratio of Regional Original Revenue and Special Allocation Funds to capital expenditures has a significant positive effect on the Human Development Index of districts / cities in East Java where the greater the ability of PAD and DAK to finance capital expenditures will be able to increase HDI, while the ratio of the General Allocation Fund to capital expenditures has a significant negative effect on the Human Development Index so that the greater the ability of DAU to finance capital expenditures, the lower the HDI, and the ratio of Revenue Sharing Funds to capital expenditures has a positive effect on HDI but is not significant, which means that the greater the DBH to finance capital expenditures will increase HDI but not significant. In line with Irwanti's research (2014) shows that DAU and DAK have a positive effect on HDI, but there are differences in research results in DBH where in this study DBH is said to have no effect on the Human Development Index.

Ardiansyah et al. (2014) in their research showed that PAD had a significant positive effect, while DAU had an insignificant negative effect and DAK had a significant negative effect on HDI. However, the results of this study differ from research conducted by Setyowati and Yohana (2012) which both examined district / city governments in Central Java Province showing PAD, DAU, DAK had a positive effect on the Human Development Index.

Previous research still shows differences in research results on the relationship between PAD, DAU, DAK, and DBH on HDI. Based on this description, researchers feel the need to re-examine the effect of PAD, DAU, DAK, DBH and Village Funds on the HDI of East Java Province. The difference between this research and previous research is that it uses all components of the Balance Fund consisting of DAU, DAK, DBH and PAD and Village Funds from 2018-2022 to better describe the overall effect of Fiscal Decentralization on HDI and to strengthen the results of this study will add the GRDP component as a moderating variable, this research was conducted at the East Java Provincial government. Whereas in the research of Ardiansyah et al. (2014), Setyowati and Yohana (2012) both examined Regency / City governments in Central Java Province, then in Lugastoro's research (2013) examined Regency / City Governments in East Java Province and Irwanti (2014) examined Regency / City Governments in West Papua Province.

Based on the problems that have been described, this study aims to determine the effect of PAD, DAU, DAK, Village Funds and DBH on HDI through GRDP in East Java Province. GRDP is used as a tool to predict HDI because GRDP describes the economic growth of a region and the welfare of the community which continues to increase as evidenced by the increasing HDI. In line with this, this study is expected to determine the extent of the influence of GRDP on increasing the Human Development Index. Humans in their role are the subject and object of development, which means that humans, apart from being the actors of development, are also the targets of development. Public facilities and infrastructure can encourage the role of humans in development so as to create productive human resources.

II. LITERATURE REVIEW

A. Human Development Index (HDI)

According to BPS (2009), the Human Development Index (HDI) is a measure of development achievements based on a number of basic quality of life components. The Human Development Index is calculated based on data that can describe the four components, namely life expectancy which measures success in the field of health, literacy rate and average length of schooling which measures success in the field of education, and the purchasing power of the community towards a number of basic needs

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seen from the average amount of expenditure per capita as an income approach that measures success in the field of development for a decent life.

B. Regional Original Revenue (PAD)

According to (Halim, 2012) Regional Original Revenue is a source that can finance or source of financing for local governments in creating regional development. Therefore, the central government hopes that local governments can develop and increase the results of PAD to the maximum to finance all development or infrastructure, regional infrastructure facilities in the APBD.

C. General Allocation Fund (DAU)

The General Allocation Fund (DAU) is a fund sourced from APBN revenue allocated with the aim of equalizing regional financial capacity, to fund regional needs in the context of implementing decentralization (Law No. 33 of 2004). The General Allocation Fund is a fund derived from the APBN which is allocated with the aim of equalizing the financial capacity between regions to finance expenditure needs (Ernayani 2017).

D. Special Allocation Fund (DAK)

The Special Allocation Fund is a fund sourced from APBD revenue allocated to certain regions with the aim of helping to fund special activities that are regional affairs and in accordance with national priorities (Fadilah & Helmayunita, 2020).

E. Village Fund

According to Government Regulation No. 60 of 2014, Village Funds are funds sourced from the State Revenue and Expenditure Budget designated for Villages that are transferred through the Regency / City Regional Revenue and Expenditure Budget and used to finance governance, development implementation, community development, and community empowerment.

F. Revenue Sharing Fund (DBH)

According to Government Regulation No. 55/2005 on Balancing Funds article 1 paragraph 9, Revenue Sharing Funds, hereinafter referred to as DBH, are funds sourced from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization.

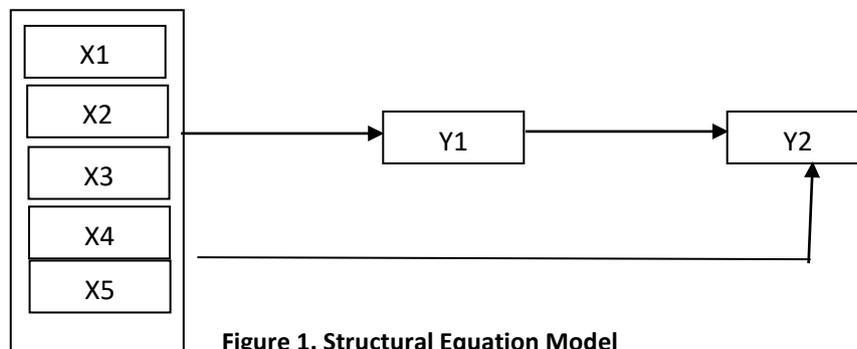


Figure 1. Structural Equation Model

Notes:

X1 = Regional Original Revenue (PAD)

X2 = General Allocation Fund (DAU)

X3 = Special Allocation Fund (DAK)

X4 = Village Fund

X5 = Revenue Sharing Fund (DBH)

Y1 = Economic Growth

Y2 = Human Development Index (HDI)

III. RESEARCH METHODS

A. Research Design

This research design is quantitative with two research hypotheses. Descriptive analysis is used to explain the description of each variable studied and multiple linear regression analysis is used to determine the effect between the variables tested. The type of data in this study is secondary data in the form of quantitative data (numbers) including Regional Original Revenue, General Allocation Fund, Special Allocation Fund, Village Fund, Revenue Sharing and Economic Growth and Human Development Index. The data is sourced from the financial statements of the East Java Provincial Government or the East Java Provincial Government website and the Regional Planning and Statistics Agency of East Java Province.

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B. Population and Sample

The population in this study is East Java Province in 2018-2022. The method used in the research is saturated sampling method. The sample in this study is the government of East Java Province in 2018-2022.

C. Variables and Indicators

The data collection technique used in this study is the documentation technique sourced from the financial statements of the East Java Provincial Government or the East Java Provincial Government website and the Central Bureau of Statistics of East Java Province / BAPEDA of East Java Province in 2018-2022. The operational definition of research is presented in Table 1.

Table 1. Operational Definition of Variables

Variable	Indicator
Regional Original Revenue (PAD) (X1)	PAD = Regional Tax + Regional Retribution + Results of Separated Regional Management + Other Legal PAD
General Allocation Fund (DAU) (X2)	DAU = Fiscal Gap + Basic Allocation
Special Allocation Fund (DAK) (X3)	DAK = (APBD General Revenue – Regional Employee Expenditures)
Village Fund (X4)	Village Fund = Basic Allocation + Formula Allocation
Revenue Sharing Fund (DBH) (X5)	DBH = Tax Revenue Sharing Fund + Non-Tax Revenue Sharing Fund
Economic Growth (Y1)	PDRB = Total value of final goods and services produced by all economic activity units in carrying out government activity programs
Human Development Index (IPM) (Y2)	$IPM = \sqrt[3]{I_{Health} \times I_{Knowledge} \times I_{Expenditue}}$

IV. RESEARCH RESULTS

A. Results of Description Analysis

Data processing analysis using the SPSS (Statistical Package for Social Science) program. To find out that the total effect of regional own-source revenue (PAD), general allocation funds (DAU), special allocation funds (DAK), village funds, revenue sharing funds (DBH) on the human development index (HDI) is greater than the direct effect. This shows that local own-source revenue (PAD), general allocation funds (DAU), special allocation funds (DAK), village funds, revenue sharing funds (DBH) have an effect on the human development index (HDI) through economic growth because the total value is greater than the direct effect. The results of the structural equation model are presented in Figure 2 below:

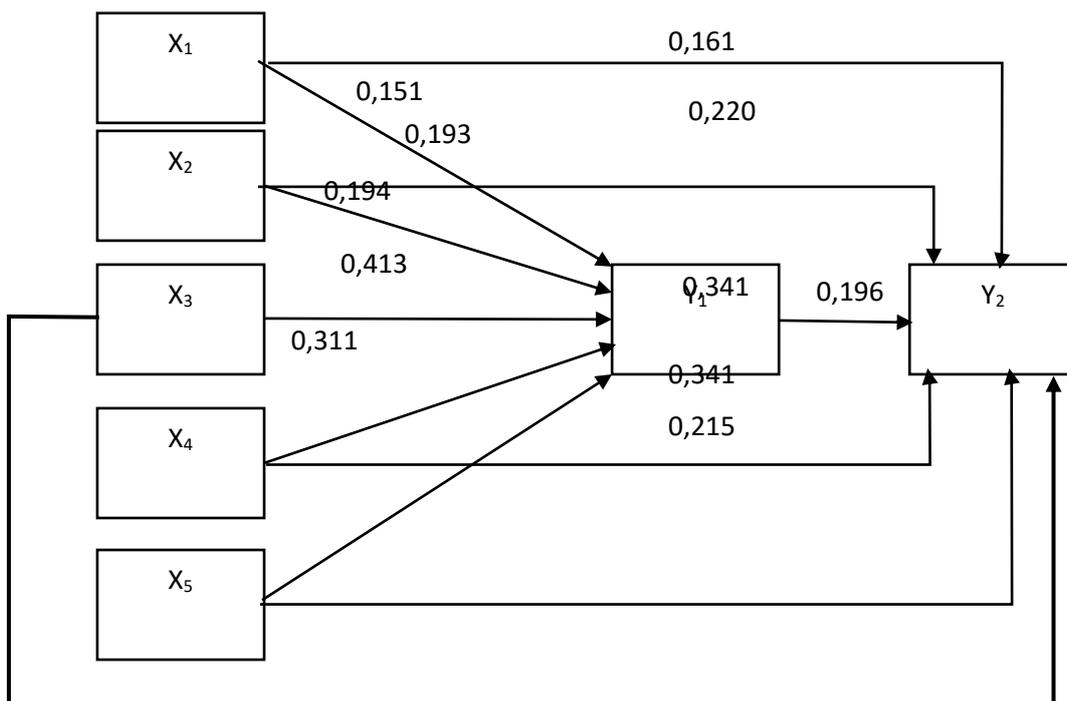


Figure 2. Path Analysis Results

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V. DISCUSSION

A. *Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) on Economic Growth in East Java Province*

Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) affect Economic Growth in East Java Province. There is a positive effect of Regional Original Revenue (PAD) on economic growth. The higher the Regional Original Revenue (PAD) in a region, the higher the economic growth. The General Allocation Fund (DAU) has a positive effect on regional economic growth, which means that a high value of the General Allocation Fund (DAU) of a region can increase the value of the region's own economic growth. The General Allocation Fund (DAU) transferred by the center to the regions can have an influence on economic growth. The greater the amount of General Allocation Fund (DAU) transferred by the center to the regions, the regions can carry out development on a regional priority scale, so that economic growth becomes more qualified. Village Funds have a positive effect on economic growth, which means that the high value of village funds can increase the value of regional economic growth. Revenue Sharing Fund (DBH) has a positive effect on economic growth. The greater the portion obtained by the producing region, the higher the quality of economic growth. The results of this study are in line with Trianto & Panggabean (2023), Alvaro (2022), Saputera & Pandoyo (2020), Gustaf & Panodyo (2020) and Rimawan & Fenny (2019) which show that Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) affect Economic Growth.

B. *The Effect of Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) on Human Development Index (HDI) in East Java Province*

Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) affect the Human Development Index (HDI) in East Java Province. In the implementation of decentralization and regional autonomy, the income gap between regions is a challenge that must be faced by the government. Not all regions have Regional Original Revenue (PAD) that is able to fund all of their fiscal needs considering that the resource potential of each region is different from one another. The balancing fund consists of the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). These funds are allocated for the purposes of funding the implementation of fiscal decentralization in order to prevent fiscal imbalances between regions, prevent imbalances between the center and regions and help regions to fund their development. Village funds are a source of funding determined by the central government through the APBN to villages and disadvantaged areas to assist local governments in the development of their regions. To measure the level of success of a country in implementing human development, a measurement instrument is needed. The instrument is known as the Human Development Index (HDI). The results of this study are consistent with Rosyalia (2023), Lita (2022), Adinda (2022), Lestari, et al (2020) and Otong, et al (2020) which show that Regional Original Income (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) affect the Human Development Index (HDI).

C. *The Effect of Economic Growth on Human Development Index (HDI) in East Java Province Economic Growth affects the Human Development Index (HDI) in East Java Province.*

This means that economic growth in an area increases will affect the human development index because economic activities carried out in an area, whether buying or selling, will provide opportunities for local residents, creating job indicators, which means that the human development index is going well. The results of this study support Adinda (2022) and Adam (2021) who state that Economic Growth affects the Human Development Index (HDI).

D. *The Effect of Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) on Economic Growth and its impact on Human Development Index (HDI) in East Java Province.*

Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Village Fund and Revenue Sharing Fund (DBH) affect the Human Development Index (HDI) through Economic Growth. This study shows that Regional Original Revenue (PAD) affects Economic Growth and has an impact on increasing the Human Development Index (HDI). Regional Original Revenue (PAD) is a source that can finance or source of financing for local governments in creating regional development. Therefore, the central government expects that local governments can allocate Regional Original Revenue (PAD) funds for Economic Growth and Human Development Index (HDI), especially the regions of each Regency or City.

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VI. CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the research and discussion carried out, it can be concluded that PAD, DAU, DAK, Village Funds and Revenue Sharing Funds on Economic Growth in East Java Province means that there are 5 factors that can affect economic growth, the higher the value of funds obtained, the higher economic growth will be. PAD, DAU, DAK, Village Funds and Revenue Sharing Funds affect the Human Development Index in East Java Province where the higher the value of funds obtained by the city / district area can increase the human development index in the area itself. Economic Growth affects the Human Development Index, meaning that economic growth that occurs due to economic activity in a region affects the human development index due to economic activity. PAD, DAU, DAK, Village Funds and Revenue Sharing Funds affect Economic Growth and the impact of the increase in the Human Development Index, this happens because the 5 factors that are the source of funds in each region are managed to increase economic growth and are accompanied by an increase in the human development index. For further researchers, it is recommended to be able to present higher quality research results with some input. Researchers suggest that further research use different analytical techniques from previous studies.

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