

Influence of Local Real Income, General Allocation Funds, And Specific Allocation Funds on Economic Growth (Empirical Study of Regency / City Government Throughout Java and Bali in 2017)

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Abstract- *The aim of this research is to analyse the influence of regional real income, General Allocation Fund, Special Allocation Fund on Economic Growth. Factors tested in this study are the influence of Local Real Income, General Allocation Funds, Special Allocation Funds as an independent variable while Economic Growth as the dependent variable. The population in this research is all regencies in Java and Bali in 2017 consisting 120 regencies / cities, the sample in this study consisted 116 regencies / cities. The analytical tool used is multiple linear analysis at a significant level 5%. Result of multiple linear analysis is the local income or income variable influences Economic Growth, while the General Allocation Fund variable does not affect Economic Growth and for the Special Allocation Fund variable also does not affect Economic Growth. Hypothesis research results indicate that the Local Real Income, the General Allocation Fund, and the Special Allocation Fund jointly affect the Economic Growth.*

Keywords: *Special Allocation Funds, General Allocation Funds, Local Real Income and Economic growth*

I. INTRODUCTION

Indonesia as one of the developing countries has economic growth that can be said to be in good condition in the sluggish global economic conditions. Reported by sindonews.com, Minister of Finance Sri Mulyani stated that Indonesia's economic growth in the third quarter of 2016 grew 5.04 percent. This is inseparable from the role of regional development which is an important part of national development (Muchtholifah, 2010).

Local Real Income (*PAD*) used to fund regional potentials of a maximum of 20% (Law No.33 / 2004). (Kuncoro, 2013) This shows that regional independence has not been fully implemented.

Law regulation No. 23 of 2014 states that regional income consists of: 1) Local Real Income, 2) Transfer Income, and 3) Other Legitimate Regional Income. Law regulation No 32 of 2004 states that local governments have their own funding sources in the form of Local Real Income, transfer of balancing funds from the central government consists of General Allocation Funds

(*DAU*), Special Allocation Funds (*DAK*), and Income Sharing Funds. Both of these legal grounds emphasize that the allocation of capital expenditure for the smooth functioning of regional governments or for the welfare of the people is influenced by local income sources.

Mardiasmo (2002) states that nowadays there are still many problems faced by local governments related to efforts to increase regional acceptance of limited facilities and infrastructure that do not support investment, raising the question of how real PAD is to capital spending, whether due to low PAD or inaccurate allocation.

Lili Kusumawati and I Gusti Bagus Laksuana (2018) in their study entitling 'The Influence of Local Income on Economic Growth in the Bali Province resulting that the Local Real Income and the Special Allocation Fund had a positive influence on economic growth in the Sarbagita region of Bali. While the General Allocation Fund and Income Sharing Fund had a negative influence on economic growth in the Sarbagita region of Bali.

This re-research was conducted to find out "The Influence of Local Real Income, General Allocation Funds, Special Allocation Funds on Economic Growth in Regencies / Cities throughout Java and Bali"

LOCAL REAL INCOME (PAD)

Regulation no. 33 of the year 2004 states that the Local Real Income is the income that is obtained by the region which is collected based on Regional Regulations in accordance with statutory regulations. Sources of Local Real Income include: local taxes (hotel tax, restaurant tax, entertainment tax, advertisement tax), local user fees (general service fees, business service fees, licensing fees), results of separated Regional Wealth Management, other legitimate regional real income (proceeds from sales of regional assets, current accounts, interest income and exchange rate gains of the rupiah against foreign currencies). Local Real Income is a tool to put as much money as possible into the local treasury to support the implementation of regional development, as well as to regulate and improve the socio-economic conditions of the use of the service

GENERAL ALLOCATION FUND (DAU)

Government Regulation No. 55 of 2005 concerning Balancing Funds, General Allocation Funds are funds originating from the *APBN* (National Budget Income) which are allocated with the aim of equitable distribution of funds between regions to finance expenditure needs in the context of decentralization. The general allocation fund is the amount of funds allocated to each local government in Indonesia once a year as funds used for the development of each region in accordance with the needs of a region. Transfers from the central government are important for regional governments in maintaining or guaranteeing the achievement of minimum public service standards throughout the country. In Indonesia, the most important forms of transfer are *DAU* and *DAK*, in addition to income sharing. Local governments can use these funds to serve public needs.

SPECIAL ALLOCATION FUND (DAK)

Special Allocation Fund is allocated to: 1) help fund special activities that are regionally relevant and in accordance with national priorities, 2) assist regions in order to fill Minimum Service Standards for basic services especially for education, health, and road, bridge, sanitation infrastructure, irrigation and drinking water, 3) do certain policies stipulated in the provisions of the legislation. (Erlinda Siagian, 2018)

Factors that influence the Special Allocation Fund are because there are still many remote areas, Development is not evenly distributed, there are still many unemployment. *DAK* is used to encourage increasing productivity of work expansion and economic diversification, especially in rural areas, through special activities in agriculture, marine and fisheries, and infrastructure so that it will reduce unemployment.

ECONOMIC GROWTH

According to Boediono (1985) Economic Growth has three aspects that are emphasized namely, first, Economic Growth is not an economic view at a time. Second, namely Economic Growth associated with an increase in per capita output, it is clear here that there are two sides that need attention: the total output (*GDP*) and the total population. The third aspect is the long-term perspective. An economy grows in a long period of time, for example ten, twenty, fifty years or even longer.

2.5. The Relationship of Local Real Income, General Allocation Funds, Special Allocation Funds to Economic Growth

Increasing Economic Growth can stimulate an increase in other sectors such as; increasing community welfare, employment opportunities and equitable distribution of people's income. To really achieve this, local governments must use government expenditure funds inoffensively and efficiently. Regional government expenditure funds sourced from the budget; the government can use several posts contained in the budget to maximize regional development. The regional development will improve public services which can then stimulate the level of economic activity. Some of these posts include *PAD*, *DAU* and *DAK*.

II. HYPOTHESIS

H1: Local Real Income Significantly Influences Economic Growth in Indonesia.

H2: General Allocation Funds Significantly Influence Economic Growth in Indonesia.

H3: Special Allocation Funds Significantly Influence Economic Growth in Indonesia.

H4: Local Real Income, General Allocation Funds, Special Allocation Funds significantly influence Economic Growth

Research DATA

Independent variables in this study are Local Real Income, General Allocation Fund, and Special Allocation Fund, the dependent variable is Economic Growth in Indonesia. Research object in cities Java and Bali which include concrete data on Local Real Income, General Allocation Funds, Special Allocation Funds and Economic Growth in the 217-fiscal year.

Data Analysis Method

Classis assumption tests and descriptive statistical techniques were used to describe variables in the study. This research was preceded by testing classical assumptions before using multiple regression analysis, so that decision making approached the actual situation, and testing the hypothesis to test whether the hypothesis was accepted or rejected.

a. *Kolmogorov-Smirnov Normality analysis* and *normal probability plot*. Data is normally distributed if the Kolmogorov-Smirnov confidence level is more than 0.05. There is no Heteroscedasticity indication.

b. Heteroscedasticity test aims to determine whether in the regression model there is no variance similarity from the residuals of one observation to another, done by looking at the scatter plot. This can be seen from the scatter plot graph if above the 5% confidence level, there is no indication of heteroscedasticity

c. Multicollinearity test is used to determine the correlation between one independent variable with another by detecting the value of VIF (Variance Inflation Factor) and tolerance value. The model is declared free from multicollinearity if it has a VIF value ≤ 10 or tolerance ≥ 0.1 . Autocorrelation test is used to determine whether in the use of the regression model there is a correlation between errors in the t period with errors in the t-1 period (before), using the Durbin Watson (dW) model. The model is said to be free from autocorrelation if the value of $du < dw < 4-du$

I. DATA ANALYSIS TECHNIQUES

Hypothesis testing using:

a. Multiple Regression Analysis used to determine the influence of independent variables on the dependent variable together and partially. The multiple regression equation is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Y = Economic Income; X1 = Regional Real Income

X2 = General Allocation Fund; X3 = Special Allocation Fund

a = constant; b = regression coefficient; e = Error term

b. t test to assess the influence of each independent variable (local real income, general allocation funds, and special allocation funds) on the dependent variable (economic growth). Decision making is done by looking at the significance value. Significant level 0.05.

c. F Test to assess the influence of all independent variables (local real income, general allocation funds, special allocation funds) together on the dependent variable (economic growth).

d. Coefficient of Determination (R2 Test) to calculate the amount of the independent variable (Local Real Income, General Allocation Fund, and Special Allocation Fund) on the dependent variable (Economic Growth). Coefficient of determination between 0 and 1.

III. RESEARCH RESULTS

Descriptive statistics

The research sample is regencies / cities in Java and Bali that have active regional income and can finance their own regions which can be seen from the APBD(Regional Income Estimation) Realization Report. The results of the descriptive analysis of the multiple linear regression model with the dependent variable are Economic Growth, the independent variables are Local Real Income, General Allocation Fund and Special Allocation Fund.

Table 4.1

Descriptive Statistics

| | N | Min. | Max. | Mean | Std of Deviation |
|--------------------|----|---------|---------|---------|------------------|
| Local Real Inc | 11 | 8.36130 | 5.16184 | 6.35511 | 7.659093 |
| General allc Fund | 5 | 3.30337 | 2.05980 | 9.63013 | 3.392252 |
| Specific Allc Fund | 11 | 1.59000 | 7.52600 | 2.62623 | 1.447847 |
| Economic Growth | 5 | 3.53 | 7.43 | 5.504 | 0.53498 |
| Valid N (Listwise) | 11 | | | | |

Source: Secondary Data SPSS 20

NORMALITY TEST

The normality test used is the Kolmogorov-Smirnov non-parametric statistical test, with a significance level of 5%.

Table 4.2

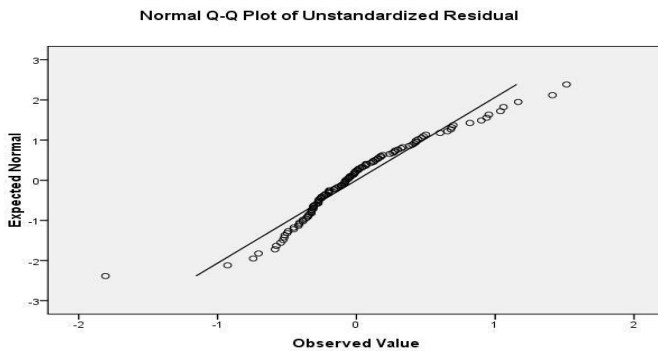
Trre Results of Test One Sample Kolmogrov Smirnovtest

| | | Unstandardized Residual |
|--------------------------------|------------------|-------------------------|
| N | | 116 |
| Normal Parameters ² | mean | 0.0000000 |
| | Std of Deviation | 0.48436309 |
| Most Extreme Differences | absolute | 0.106 |
| | Positive | 0.106 |
| | Negative | -0.079 |
| Kolmogorov – Smirnov Z | | 1.138 |
| Asymp. Sig. (2-tailed) | | 0.150 |

a. Distribution Test is normal

b. Source: Secondary Data, SPSS 20

Kolmogorov Smirnov test results, a significant value of 0.150 is greater than 0.05. This means that the regression equation for the model in this study has a normal distribution of data. The normal P-plot graph shows the spread of data around the diagonal line and follows the diagonal line, which means the regression model is normally distributed.



Graphic 4.1

Graphic showing normal data

Source: Secondary Data, SPSS 20

Multikolonierity Test

Table 4.3

Result of **Multikolonierity Test**

| Variable | Tolerance | VIF |
|----------------------------|-----------|-------|
| <i>Local Real Income</i> | 0,929 | 1,076 |
| <i>General Allcn Funds</i> | 0,545 | 1,835 |
| <i>Special Allcn Funds</i> | 0,576 | 1,737 |

Source : Secondary Data

VIF Value of Regional Incomes, General Allocation Funds, Special Allocation Funds are less than VIF 10 each, and have tolerance values greater than the minimum tolerance value of 0.1, so that all of these variables do not occur multicollinearity.

Autocorrelation Test

The autocorrelation test used was the Durbin-Watson test (dw). The model is said to be free from autocorrelation if the value of $du < dw < 4-du$.

| Model | R | R Square | Adjusted R Square | Std of Error the estimate | Durbin Watson |
|-------|--------------------|----------|-------------------|---------------------------|---------------|
| 1 | 0.425 ^a | 0.180 | 0.158 | 0.49081 | 1.762 |

Table 4.4

The Result of Autocorrelation Test

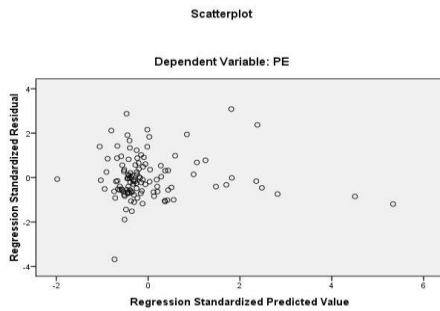
| Value DW Count | Criteria | Decision |
|----------------|-----------------------------|----------|
| 1,762 | $1,73228 < 1,762 < 2,26772$ | free |

Source: Secondary Data

Table 4 uses the degree of error (α) = 5% with a predictor of 3, the upper limit (U) of 1.73228. DW value of regression results 1,762. In conclusion, the regression results are free from the autocorrelation. (according to criteria)

Heteroskedasticity Test

The result of Heteroskedasticity Test detects that there is no heteroskedasticity, from the plot graphic cannot be seen a certain pattern, and the dots are scattered below 0 and on Y axis.



Graphic 4.2

The Result of Heteroskedasticity Test

The Result of multiple linear Regression Analysis

Table 4.5

Data of The Result of Multiple Linear Regression coefficients

| Model | Unstandardized | | standardize | T | Sig. | Collinearity statistics | |
|----------------|----------------|----------|-------------|--------|------|-------------------------|-------|
| | coefficient | Standart | Beta | | | Toleranc | VIF |
| | B | error | | | | | |
| 1 (Constant) | 5.433 | 0.138 | | 39.43 | 0.00 | | |
| Local Real Inc | 2.81315 | 0.000 | 0.403 | 5.500 | 0.00 | 0.929 | 1.076 |
| General Allc | 7.53545 | 0.000 | 0.048 | 4.537 | 0.00 | 0.545 | 1.835 |
| Funds | | | | 0.412 | 0.68 | | |
| Special Allc | 7.53545 | 0.000 | -0.186 | | 0.68 | 0.576 | 1.737 |
| Funds | | | | -1.651 | 0.10 | | |
| | -6.87980 | | | | | | |

a. Dependent Variabel

Source: Secondary Data

Local income variable (X1), general allocation fund (X2), special allocation fund (X3) and Economic Growth (Y)

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

$$Y = 5,433 + 2,813150X_1 + 7,535457X_2 - 6,87970X_3 + e$$

The results of the calculation of multiple linear equations show a). the amount of the constant value of the Economic Growth variable with a positive parameter of 5.433. This means that if the local real income, general allocation funds and special allocation funds are assumed to be zero, then the Economic Growth in the Regencies / Cities in Java and Bali is 5.433; b). The regression coefficient of the local income with a positive parameter of 2.813150. This means that an increase in local real income once will increase economic growth by 2,813150; c). The coefficient of general allocation fund regression with positive parameters is 7.535457. This means that each increase in the general allocation fund 1 time will increase Economic Growth by 7.535457; d). The special allocation fund (coefficient) regression coefficient with a negative parameter of - 6,87980. This means that each increase in the special allocation fund 1 time will reduce economic growth by 6.87980.

Partial Testing Results (t)

Table 4.6

Result of t Test

coefficients

| Model | Unstandardized | | standardized | T | Sig. | Collinearity statistics | |
|---------------|----------------|----------|--------------|-------|-------|-------------------------|-------|
| | coefficient | Standard | Beta | | | Tolerance | VIF |
| | B | of error | | | | | |
| 1 (Constan | 5.433 | 0.138 | | 39.43 | 0.000 | | |
| Local Real | 2.81315 | 0.000 | 0.403 | 5 | 0.000 | 0.929 | 1.076 |
| Income | 0 | 0.000 | 0.048 | 4.537 | 0.681 | 0.545 | 1.835 |
| General Alloc | 7.53545 | 0.000 | -0.186 | 0.412 | 0.101 | 0.576 | 1.737 |
| Funds | 7 | | | | | | |
| Special Alloc | - | | | - | | | |
| Funds | 5.87980 | | | 1.651 | | | |

a. Dependent Variable : PE

Source: SecondaryData

a. t-test results of local real income variable, the t-count value of local real income variable 4.537 is greater than t table 1.98137. Significance value $0,000 < \alpha = 0.05$. This means that H1 is accepted, that is, local real income has a significant effect on Economic Growth.

b. t- Test Results of General Allocation Fund variable, the t- count value of the general allocation fund variable is 0.412 smaller than tcount 1.98137. Significant value of 0.681 is greater than $\alpha = 0.05$. This means that H2 is rejected, namely the general allocation fund does not affect Economic Growth.

c. T Test Results Variable Special Allocation Fund, the value of special allocation funds t-count 1,651 smaller than t table 1.98137. Significant value of 0,000 is smaller than $\alpha = 0.05$. This means that H3 is rejected, namely the special allocation fund does not affect Economic Growth.

Simultaneous Test (F)

Table 4.7

The Result of F Test

| Model | Sum Of | Df | Mean | F | Sig. |
|--------------|---------|-----|--------|-------|--------------------|
| | Squares | | Square | | |
| 1 regression | 5.933 | 3 | 1.978 | 8.210 | 0.000 ^a |
| Residual | 26.980 | 112 | 0.241 | | |
| Total | 32.913 | 115 | | | |

Predictors : (constant), DAK, PAD, DAU

Dependent Variable : PE

Source: Secondary Data

F test results obtained F-count 8.210 is greater than Ftable 2.45 with a significance of 0.000 smaller than the significant value $\alpha = 0.05$. This means that simultaneously or together local income, general allocation funds and special allocation funds affect Economic Growth.

Determination Test (R^2)

Table 4.8

The Result of Determination Test (R^2)

| Model | R | R Square | Adjusted R Square | Std. Error estimate | Durbin Watson |
|-------|--------------------|----------|-------------------|---------------------|---------------|
| 1 | 0.425 ^a | 0.180 | 0.158 | 0.49081 | 1.762 |

a. Predictors: (Constan), *DAK*, *PAD*, *DAU*

b. Dependent Variabel : *PE*

Source: Secondary Data

Determination test results obtained by the coefficient of determination with adjusted R^2 of 0.158. This means that 15.8% of Economic Growth can be explained by local income, general allocation funds and special allocation funds while the remaining 84.2% is explained by other factors.

DISCUSSION OF HYPOTHESIS TESTING RESULTS

Local Real Income influences Economic Growth.

The tcount value of the region's original income variable is 4.537, greater than t table 1.98137. Significance value of 0,000 is smaller than $\alpha = 0.05$. This means that H1 is accepted, that is, the region's original income has a significant effect on Economic Growth. This supports the research of Susanti et al (2017) which states that the Local Income influences Economic Growth.

The General Allocation Fund does not influence economic growth.

t-count value of the general allocation fund variable 0.412 is smaller than tcount 1.98137. The significance value of 0.681 is greater than $\alpha = 0.05$. This means that H2 is rejected, so the general allocation fund does not affect Economic Growth. This supports Putri's study (2015) which states that DAU does not significantly influence economic growth.

The Special Allocation Fund does not influence Economic Growth.

Tcount value of special allocation fund -1,651 is smaller than table 1.98137. Significant value of 0,000 is smaller than $\alpha = 0.05$. This means that H3 is rejected, so the special allocation fund has no effect on Economic Growth. This supports the research of Permanasari (2013) which states that special allocation funds have no effect on Economic Growth.

Local own incomes, general allocation funds and special allocation funds jointly influence Economic Growth.

The value of Fcount 8.210 is greater than Ftable 2.45 with a significance of $0.000 < \text{significant value } \alpha = 0.05$. This means local income; general allocation funds and special allocation funds together affect the Economic Growth.

The coefficient of determination with adjusted R^2 of 0.158. This means that 15.8% of the variable Economic Growth can be explained by local income, general allocation funds and special allocation funds while the remaining 84.2% explained by other factors.

IV. CONCLUSION

Researchers conclude that from the analysis and discussion of the problem are: local original income influences Economic Growth; General allocation fund (*DAU*) has no effect on Economic Growth; The Special Allocation Fund (*DAK*) has no effect on Economic Growth; Simultaneously the regional original income, general allocation funds and special allocation funds have a significant effect on Economic Growth, and as much as 15.8% of the Economic Growth variable can be explained by the variable of original regional income, general allocation funds and special allocation funds while the remaining 84.2% explained by other factors.

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