

Regional Revenue and Economic Growth: through Direct Spending, Empirical Evidence from Indonesia

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Abstract

Background: This study aims to analyze the effect of regional revenues on economic growth through direct spending in the East Java Province of Indonesia. The measurement of regional revenue uses regional original revenue (ROR), general allocation funds (GAF), special allocation funds (SAF), profit-sharing funds (SF), direct spending (DS), and economic growth (EG) in the Regency/City of East Java Province, Indonesia.

Materials and Methode This research is explanatory research through hypothesis testing. Samples were 38 districts/cities in East Java, with observations for 10 years from 2010 to 2019 by using path analysis.

The results, indicate that GAF and SAF have an effect, while SF has no effect on Direct Expenditures. ROR and SF have an effect on economic growth while GAF has a negative effect and SAF has no effect on economic growth. Direct Spending has an Influence on Economic Growth. ROR, GAF, SAF, and SF have an effect on Economic Growth through Direct Spending. Therefore, local governments need to carry out various strategies to increase their direct expenditures related to economic growth through mapping regional potential.

Keywords: Regional Revenue, Direct Spending, and Economic Growth.

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I. Introduction

Regional development is a process toward change for the better and is continuously pursued in order to improve the welfare of the community. One indicator of the success of implementing regional development that can be used as a benchmark at a macro level is economic growth as indicated by changes in Gross Regional Domestic Product (GRDP) in a region (Badan Pusat Statistik, 2019). The higher economic growth of an area, when indicates the better the economic activity and the level of welfare of the community, especially those financed from direct spending, which in turn can increase the rate of GRDP growth (Najmuddin & Rizkiyani, 2022; Azies & Dewi, 2021; Prasetya, 2022; Pambudi et al., 2022; Todaro & Smith, 2011).

A series of previous studies on the effect of fiscal decentralization as measured and realized in the form of general allocation funds (GAF), special allocation funds (SAF), profit sharing funds (S, F), and local revenue or regional original revenue (ROR) on economic growth between districts, cities and provinces in Indonesia shows inconsistent results (Rudy Badrudin & Kuncorojati, 2017; Muhariah et al., 2021; Putu et al., n.d.; Abrar & Firdaus, 1918); (Asjari, 2020; Soesatyo, 2020; Wulandari & Rani, n.d.; Jumiati & Indriani, 2019).

Therefore, research on fiscal decentralization and local revenue on economic growth is interesting to study more deeply. According to the structure of the regional revenue and expenditure budget which is divided into regional revenues, direct and indirect expenditures, and a surplus deficit, it can show the extent of the condition of decentralization in Indonesia, as well as describe the level of regional independence. Central and regional balance funds (Undang-Undang, No. 1, 2022) regulate the use of central and regional balance funds including general allocation funds, special allocation funds, and profit-sharing funds to be used by the Provincial and Regency/City Governments in the form of direct and indirect expenditures.

Based on Undang-Undang No. 1 Tahun 2022, this study examines the effect of fiscal policy by measuring SAF, GAF, and revenue-sharing funds (SF), as well as Regional Original Revenue on economic growth through direct spending that is directly related to development activities in the region. The condition of the level of independence diversity among provinces in Indonesia can be empirically shown in Figure 1.

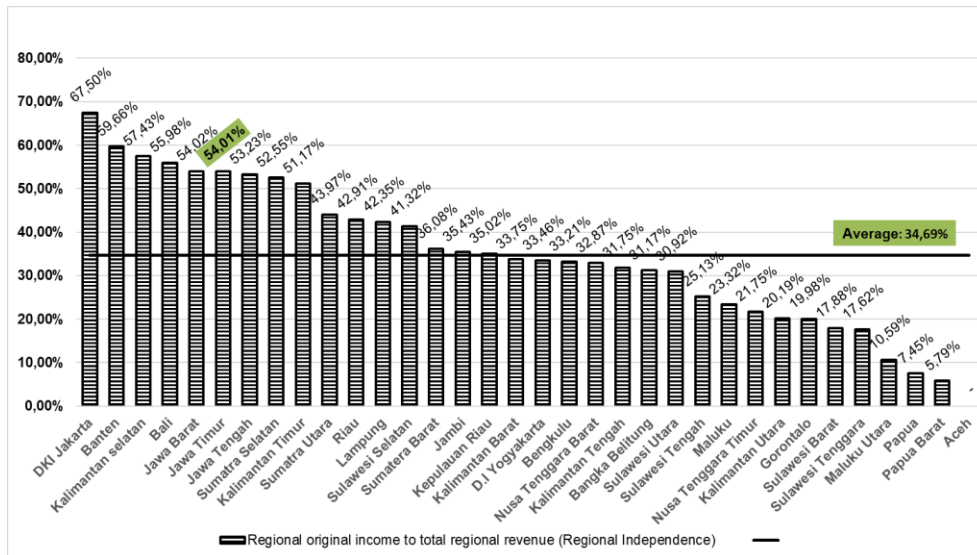


Figure 1: Regional original income on total regional revenue (Regional independence)

Source: Secondary Data, Indonesian Ministry of Finance 2019.

Choosing East Java Province as a research sample that can represent the characteristics of Indonesia's potential, Indonesia which consists of 34 provinces, the majority have agribusiness potential, while DKI Jakarta, Banten, and Bandung, are more industrial and trade potentials, while East Java Province has potential industry as well as agribusiness which is homogeneously almost the same as various provinces in Indonesia. In addition, East Java Province has a fairly high ratio of regional independence of 54.01 percent, almost the same as DKI Jakarta, Banten, and West Java, Bali, and Central Java. This figure is 19.32 percent higher than the average national independence rate of 34.69 percent. Thus the research sample using districts and cities in East Java Province which consists of 29 districts and 9 cities observed during the period 2010 to 2019 can generally describe the conditions of economic growth and regional spending patterns in Indonesia. The stages of discussing this research article include: (1). Introduction, (2). The theoretical basis and the formulation of hypotheses, (3) research methods, (4). Results and discussion and (5) conclusion and implication.

II. Literatur review and hypothesis

2.1. Fiscal Decentralization and Economic Growth

Implementation of Undang-undang Number 9 of 2015, second change of Undang - Undang Number 23 of 2014 Regarding regional governance, regional governments have the authority to dig up revenues and perform their own allocation role in setting development priorities through regional autonomy and fiscal decentralization which are expected to reduce vertical and horizontal inequalities between regions and can equalize development in accordance with the wishes of the regions to develop regions according to their potential.

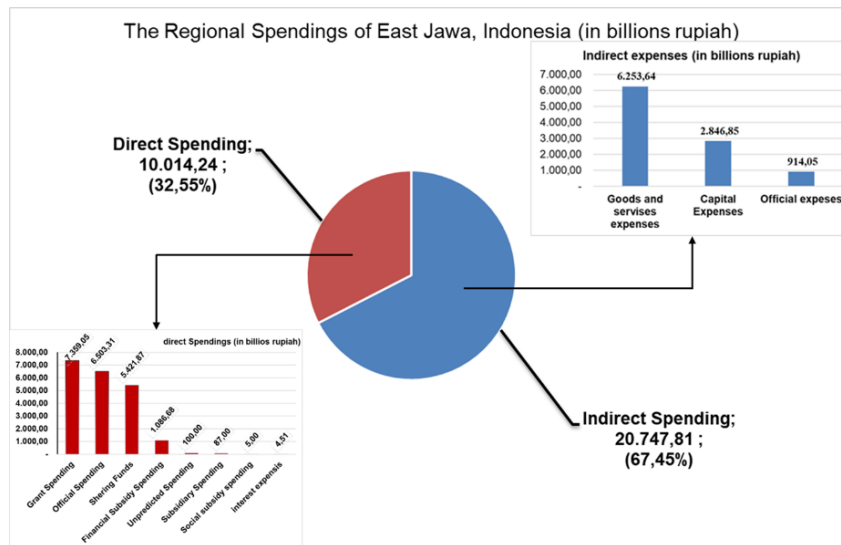
As a consequence of the decentralization of government, followed by fiscal decentralization, there is a process of distributing the budget from the central government to regional governments to support the functions or tasks of government and public services in accordance with the extent of the delegation of authority given. The decision to implement fiscal decentralization demands an increase in the economy in the regions because the basic principle of implementing fiscal decentralization in Indonesia is "Money Follows Functions", namely the main functions of localized public services, with central financing support through the delivery of revenue sources to the regions (Undang - Undang Number 23 of 2014).

Enactment Undang-undang Number 33 of 2004 concerning the financial balance between the central and regional governments led to a paradigm shift in the administration of government towards decentralization which was marked by the granting of broad and real autonomy to the regions. This is certainly an opportunity for local governments to maximize their use and management of their economic resources. In connection with this, in the context of implementing development in the region, of course, sources of income are needed, among others, sourced from Regional Original Revenue (ROR), as well as transfer funds from the Central Government. With this fiscal decentralization, it is hoped that regional independence to finance regional expenditures can be further increased or fiscal independence can be further enhanced.

The comparison of ROR to total income shows the level of independence of a region, which means that more and more regional spending is funded from its own regional income.

Based on data from the Ministry of Finance of the Republic of Indonesia (2019) Expenditure allocation in East Java Province is still not of high quality, this can be seen from the portion of indirect expenditure which

is still very high compared to the portion of direct expenditure related to regional development. The proportion of spending to the government in East Java Province shows that indirect spending still dominates at 67.45%, while direct spending is only 32.55%, as shown in Figure 2 regarding data on regional revenue and expenditure budget (RREB) expenditure allocation in East Java Province in 2018 as follows:



Gambar 2: The Structure of Regional Revenue and Expenditure Budget of East Java Province, Indonesia
Source: Secondary data from the Directorate General of Regional Finance, Ministry of Home Affairs, RI (2019)

In the current era of regional autonomy, the process of delegation of authority given by the central government is accompanied by great duties and responsibilities to be able to maximize the potential of the regions to be able to develop in a better direction, showing the intensity of the relationship between local revenue and spending. direct and diverse economic growth between regions (Najmuddin & Rizkiyani, 2022; Pujiono & Ediwidjojo, 2021; Widiyanto et al., 2016; Wahyuni, 2020; Jumiati et al., 2019; Wulandari et al., 2018).

Therefore, research on the effect of regional original income and central and regional balancing funds remains interesting to study in order to see the effectiveness of fiscal decentralization in Indonesia in contributing to increasing economic growth and people's welfare.

Fiscal decentralization, legally formally stated in Undang-Undang Number 33 of 2004 concerning the Financial Balance between the Central Government and the Regional Government, which states that in the implementation of regional autonomy, it is necessary to regulate, share, and utilize national resources in an equitable manner as well as to balance the finances of the central government and regional governments. Sources of funding in the implementation of regional decentralization consist of Regional Original Revenue (ROR) and Balancing Funds. Fiscal decentralization policy is expected to support development activities generally consisting of nine development sectors which are the basis for calculating gross regional domestic product (GRDP), thus it is hoped that various sources of regional revenue can contribute to various development sectors and can increase the economic growth of their respective regions. Based on the fiscal policy framework and the results of previous research on testing the effectiveness of the effect of fiscal decentralization on the rate of economic growth, the following research hypotheses can be formulated:

H₁: Regional original revenue, general allocation funds, special allocation funds, and profit-sharing funds have a positive influence on economic growth.

2.2. Fiscal Decentralization and Budget Structure

Research on the effectiveness of the impact of regional autonomy policies and fiscal decentralization is a new paradigm of the development system that has occurred in Indonesia since the enactment of Undang-Undang Number 33 of 2004 concerning the financial balance between the Central Government and Regional Governments. The central government delegates more authority to the regions. The scheme for the structure of the regional revenue and expenditure budget is an important structure, which can be the basis for evaluating and assessing the performance of regional governments in implementing development in various sectors.

With the delegation of authority given by the Central Government to the Regional Government, the authorities and responsibilities must be followed. Therefore, the monitoring and evaluation of the implementation of regional development must be monitored and controlled by acclamation and responsibility. With a budget

structure that has a regional revenue component consisting of balancing funds including the General Allocation Fund, Special Allocation Fund, Revenue-Sharing Fund, and regional original revenue fund that can reflect regional independence, as well as other legitimate revenues, the implementation must be followed and observed in the form of expenditure. regions which are divided into direct expenditures which are directly related to capital expenditures and regional development expenditures, as well as indirect expenditures which are generally related to the salaries of ASN, which can indirectly support development in the regions (Wulandari et al., 2018; Inayati et al., 2020; Hairiyah et al., 2018; Lestari & Utama, 2019; Feronika et al., 2017). To find out the effectiveness of regional revenues allocated for development priorities, it can be monitored through the amount of direct development expenditures. Thus, various sources of regional revenue will be effective in supporting development if the majority is spent in the form of direct spendings. In accordance with the mechanism for utilizing regional revenues in supporting regional expenditures, it can be tested through the formulation of the following hypothesis:

H₂: Regional Original Revenue, general allocation funds, special allocation funds, and profit-sharing funds have a positive influence on direct spendings.

2.3. Regional Revenue, Expenditure, and Economic Growth

The results of a review of previous research, Babalola (2015) dan Obasikene (2017) conducted research on Nigerian government spending and found the results that Nigerian government spending has a positive relationship with economic growth. The same result is obtained Dudzevičiūtė, Šimelytė, & Liučvaitienė (2018) who researched in eight (8) European Union countries, and Cheng and Lai (1997) researching in South Korea. In Indonesia Rudibdo & Sasana (2017) conducting research in the former residency area of Semarang showed that direct expenditure, which is one of the government expenditures, also had a positive effect on economic growth.

In addition, to strengthen the development of an integrated model of the effect of fiscal decentralization on economic growth through direct spending, which shows variety results between provinces in Indonesia (Widhiastuti, Fachruzzaman, & Baihaqi 2014; Ekaningtias, 2016; Hidayah & Setiyawati 2014; Putra & Dwirandra 2015; Feronika, Rumat dan Walewangko 2017; Kusumawati & Wiksuana 2018; Saraswati & Ramantha 2018; Nopiani, Cipta, & Yudiaatmaja 2016). Then research conducted abroad Cheng & Lai (1997) research on "Government Expenditure and economic Growth in South Korea: Avar Approach" shows that there is a positive relationship between government spending and economic growth; Aregbe & Edame (2015) researching about "An Analysis of Government Spending and Economic Growth in Nigeria" shows a positive relationship between government spending and economic growth; Connolly & Li (2016) research on "Government Spending and Economic Growth in the OECD Countries" shows a positive relationship between government spending and economic growth; Obasikene (2017) research on "Government Expenditure in Nigeria and Its impact on the Nigerian Economy, 1986-2014" shows that Government Expenditure has a positive relationship to economic growth; Dudzevičiūtė, Šimelytė, & Liučvaitienė (2018) examines the relationship between government spending and economic growth in eight (8) European Union countries with the results that there is a relationship between government spending and economic growth; Lantu et, al. (2018) examines the relationship between government spending and economic growth in eight (8) European Union countries with the results that there is a relationship between government spending and economic growth; examines the effect of government spending on economic growth and poverty alleviation in the city of Bitung, with the results of research that direct spending has a positive influence on economic growth.

Based on the results of research between regions and between countries showing inconsistent results, this research is urgent to be carried out, especially in East Java because it has the largest GRDP distribution on the island of Java in Indonesia with a fairly stable economic growth rate and a fairly high level of fiscal independence, namely 54.01% (Directorate General of Regional Financial Development, Ministry of Home Affairs in 2019), but the spending policy is not yet of good quality as indicated by the portion of Indirect Expenditure is still very high (67.5 percent) compared to the allocation of direct expenditure.

Based on several studies that have been traced, no complete research has been found on the effect of income on economic growth through direct spending. Therefore, it encourages researchers to conduct research on regional income, direct expenditure and economic growth in the districts/cities of East Java Province as the object of research.

Based on the description above and the findings of previous research, it is known that direct expenditure can be an intervening variable in the path analysis model between regional income variables in influencing economic growth through direct expenditure. Referring to the ideas of Keynes' theory leading to fiscal decentralization as well as various concepts and results of previous research, the conceptual framework of the research can be described as follows:

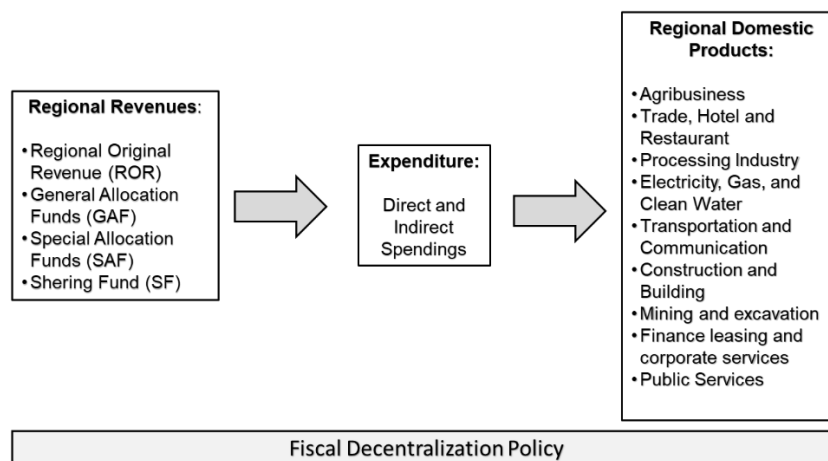


Figure 3: conceptual framework

According to the conceptual framework that was built, the research hypothesis can be formulated as follows:
H₃: Regional Original Revenue, general allocation funds, special allocation funds, and profit-sharing funds have a positive influence on direct expenditures, and

H₄: Regional Original Revenue, general allocation funds, special allocation funds, and profit-sharing funds have a positive influence on economic growth through direct spending.

III Material and Methods

3.1. Research design

The design of this research is explanatory research that examines the causal relationship between the dependent variable in this case economic growth with the independent variables consisting of ROR, GAF, SAF, and Direct Spendings as intervening variables by using hypothesis testing through path analysis techniques. The unit of analysis is the Regency and City Government in East Java.

3.2. Population dan Sampel Penelitian

The population in this study is the district/city government throughout East Java Province. The sample used in this study is all districts/cities in the East Java Province which consists of 38 East Java District/City Governments with an observation period from the 2010 to 2019, so that the research data describes a more real one based on GRDP data on the basis of basic constant prices. The determination is carried out once every ten years, so that the observation range is taken for ten years.

3.3. Variable Definition

3.3.1. This study uses 2 (two) dependent variables (y_1) namely direct spending (DS), and (y_2) economic growth (EG). Direct expenditures are used to finance programs and activity expenditures, personnel expenditures related to programs, goods and services expenditures, capital expenditures, and State Revenue and Expenditure Budget (SREB) surplus/deficit expenditures.

3.3.2. Economic Growth is the change in gross regional domestic product (GRDP) per year based on constant prices expressed in percent. The formulation of economic growth is: $Economic\ Growth = \frac{(GRDP_t - GRDP_{t-1})}{GRDP_{t-1}} \times 100\%$ Description: GRDP at Constant Prices in year t and GRDP at Constant Prices in year t-1

3.3.2. Independent Variables.

a. Regional Original Revenue (ROR)

Regional Original Revenue is all district/city regional revenues originating from regional economic sources, including regional taxes, regional levies, separated regional wealth management results, and from other legitimate sources of ROR.

b. General allocation funds (GAF)

General Allocation Funds are funds received by Regency/City Governments obtained from the State revenue and Expenditures Budget SREB with the formula: regional needs (fiscal need) - regional potential (fiscal capacity).

c. Special Allocation Fund (SAF)

- d. Special Allocation Fund (SAF), is an allocation from the State Revenue and Expenditure Budget to certain provinces/regencies/cities with the aim of funding special activities which are the affairs of the Regional Government and in accordance with national priorities. DAK is included in the Balancing Fund.
- e. Profit-sharing fund (SF)

Revenue Sharing Funds are tax revenue funds and non-tax revenue funds from producing regions sourced from certain revenues distributed by the government based on a certain percentage.

With a path analysis stage using a regressions panel which is supported by descriptive statistics and classical assumption tests. The stages of path analysis can be visually described on the path diagram as follows:

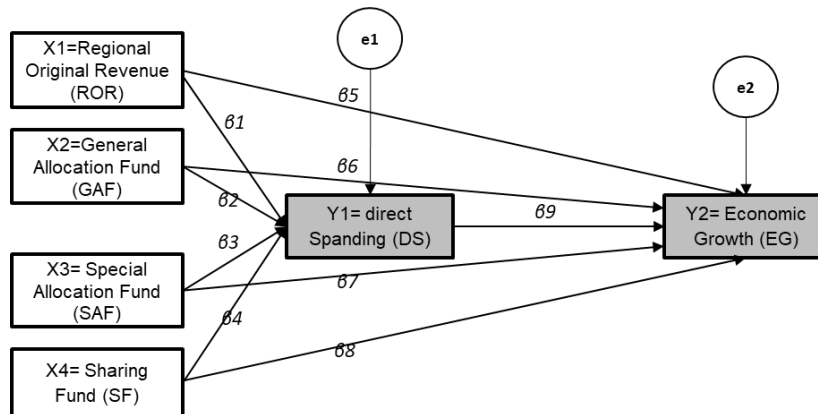


Figure 4. Path diagram of the influence of ROR, GAF, SAF, SF on economic growth through direct spending

3.3.3. Path analysis technique

In accordance with the data conditions and the type of relationship between the dependent and independent variables, either directly or indirectly, the appropriate analytical technique is to use path analysis techniques, the formula can be seen in the following path analysis equation model:

Equation

$$(DS_{1.1})_{it} = \alpha + \beta_1(GAF)_{it} + \beta_2(SAF)_{it} + \beta_3(SF)_{it} + \beta_3(ROI)_{it} + e_i \tag{1}$$

$$(EG_{1.2})_{it} = \alpha + \beta_1(GAF)_{it} + \beta_2(SAF)_{it} + \beta_3(SF)_{it} + \beta_3(ROI)_{it} + \beta_1(DS)_{it} + e_i \tag{2}$$

IV. Empirical Results and Discussion

4.1. Descriptive statistics

The condition of data variability of each variable shows the distribution of data that is relatively diverse between regions. In this case, the data with the highest variation in value is special allocation funds with an average value of 11.027229 with a standard deviation of 0.3865159. This data shows that the diversity of data on special allocation funds, mainly for development spending activities in order to support regional economic growth according to the potential of each region, shows a varying level of magnitude between regencies and cities in East Java Province.

Another unique data condition is regional original funds (ROR) which can show the diversity of levels of regional independence with an average value of 11.337465 with a standard deviation of 0.3575286.

Furthermore, regional expenditure data related to direct spending in the form of special allocation funds (SAF) which directly have a direct relationship with development activities in various sectors also shows mixed data with an average value of 11.733959, and a standard deviation of 0.2865537. Further data related to sharing funds (SF) shows a relatively homogeneous data diversity between regions regarding the expenditure of salaries and wages of state apparatus in supporting the administration of government for public services with an average value of 11.902720 with a standard deviation of 0.1620080, and The last is the condition of the level of economic growth between regions which describes the growth conditions of RGDP in period t minus RGDP in period t-1 divided by RGDP for period t-1 multiplied by 100 percent, showing the diversity of data that is relatively homogeneous between districts and cities in East Java Province, Indonesia. In simple terms, the condition of the diversity of data for each variable can be seen in Table 1 of descriptive statistics.

Table 1: Descriptive Statistics

Variables	Variable Devinition	N	Minimum	Maximum	Mean	Std. Deviation
Lag_ROR	Regional Original Revenue	304	10,5354	12,7128	11,337465	,3575286
Lag_GAF	General Allocation Funds	298	11,4830	12,2330	11,902720	,1620080
Lag_SAF	Special Allocation Funds	302	10,1363	11,7427	11,027229	,3865159
Lag_SF	Shering Funds	302	10,3406	12,0980	10,943633	,2486601
Lag_DS	Direct Spending	301	10,8491	12,6411	11,733959	,2865537
Growth	Economic Growth	303	,0390	,0780	,056710	,0066134
Valid N (listwise)		290				

Source: Secondary data from the Central Statistics Agency of East Java Province for the period 2010 – 2019

The description of the relationship between research variables can be explained, first, the data used for analysis, to eliminate the occurrence of classic assumption symptoms related to autocorrelation symptoms due to time series data, in regression analysis using the CochraneOrcutt method, namely Lag_ROR, Lag_GAF, Lag_SAF, Lag_FS, Lag_DS, and growth. Based on the results of the analysis of person correlations, it shows the strongest relationship between Lag_ROR, Lag_GAF, Lag_SAF, Lag_FS, with Lag_DS, all variables have a significant relationship at a significance level of 0.001 of 0.888, 0.789, 0.712, and 0.551 respectively. The results of the correlation analysis can show the unique behavior of the data, namely, regional original income has the strongest relationship with direct spending, the second is general allocation funds, then special allocation funds, and sharing funds. This indicates that direct regional expenditure can support regional development activities in order to increase economic growth with a correlation coefficient of 0.888. Furthermore, general allocation funds still dominate compared to special allocation funds in their contribution to increasing economic growth. Broadly speaking, the coefficient of the relationship between GAF and economic growth is 0.737.

Judging from the contribution of the relationship between ROR, GAF, and SAF with DS, it also shows that GAF with DS is 0.789, while SAF with DS is 0.712. against DS. Based on these data conditions, it can be seen that the central and regional balance funds of GAF still dominate compared to SAF and SF. This shows that the level of regional independence is still very dependent on the Central Government, although there are some developed regions that are already relatively more independent than the Regency City area in general. Based on the interrelationships between variables, ROR, GAF, SAF and SF illustrate that all these funding sources are interrelated to support the achievement of economic growth. Descriptively the relationship between the variables studied can be shown in Table 2.

Table 2: Pearson Correlations

Variabel	Deskripsi	LAG_ROR	LAG_GAF	LAG_SAF	LAG_FS	LAG_DS	Economic Growth
LAG_ROR	Regional Original Revenue	1***					
LAG_GAF	General Allocation Funds	.737***	1***				
LAG_SAF	Special Allocation Funds	.586***	.699***	1***			
LAG_SF	Funds Sharing	.538***	.493***	.317***	1***		
LAG_DS	Direct Spending	.888***	.789***	.712***	.511***	1***	
Growth	Economic Growth	.147***	.012	-.031	.316***	.111**	1***

***, **. Correlation is significant at the 0.01, 0.05 level (2-tailed).

4.2. Relationship of ROR, GAF, SAF, and SF with DS

The next stage, before analyzing the results of hypothesis testing, begins with the first classical assumption test, data normality test, autocorrelation test using the Cochrane Orcutt method, then heteroscedasticity test through data observation patterns that do not form a certain pattern, and multicollinearity test by comparing the variance inflation factor values. with a tolerance of 10 all classical assumption tests have been met. The next step is to examine the effect of ROR, GAF, SAF, and SF on Direct Spending (DS). The dominant influence is ROR with a standardized beta coefficient of 0.635 (p = 0.000), meaning that the contribution of local revenue to direct spending occupies a dominant and significant. The next sequence of special allocation funds (SAF) affects direct expenditures by 0.222 (p = 0.000), and general allocation funds (GAF) affects direct expenditures by 0.150; (p = 0.000), while the revenue-sharing (SF) does not affect the level of regional spending

(DS). The results of this study are consistent with research (Desak Made Mya Yudia Sari, 2018) researching in Bali Province showing that ROR and SAF affect direct spending, but GAF does not affect DS. In contrast to research (Hairiyah, Lewi Malisan, 2017) conducted in East Kalimantan Province, the results show that GAF negatively affects DS, meaning that higher GAF will actually reduce capital expenditure (DS). This is because GAF is used to finance other expenditures. such as personnel expenditures, goods, and services expenditures, and other expenditures. Thus the condition is different from East Java Province, namely, GAF positively affects DS. On the other hand, SAF consistently affects DS. Likewise, the SAF variable positively affects the amount of DS.

4.3. The Relationship, ROR, GAF, SAF, SF, and DS with Economic Growth

The results of the next hypothesis testing analyze the direct effect of GAF, SAF, SF, and DS on EG with the following multiple regression equation:

$$(EG_{1,2})_{it} = \alpha + \beta_1(GAF)_{it} + \beta_2(SAF)_{it} + \beta_3(SF)_{it} + \beta_3(ROI)_{it} + \beta_1(DS)_{it} + e_i$$

The results, the direct effect of the independent variables GAF, SAF, SF, and DS on economic growth is that SF affects EG positively with a regression coefficient of 0.378 (p = 0.000). The results of the test of the influence of SF on EG can illustrate that regional revenues sourced from revenue-sharing funds between the Central, Provincial Regency, and/or City Governments are regulated in the Regional Autonomy Law of 2004, and other binding regulations in it regulate their allocation, generally, in the form of land and building taxes, excise on tobacco products (CHT), plantations, oil and gas, forestry and reforestation funds, positively affect the level of regional economic growth. Then there is the expansion of the use of SF- taxes, excise on tobacco products, which was originally based on Undang-Undang Number 39 of 2007 concerning Excise can only be used to fund 5 activities, a minimum of 50% is to support the National Health Insurance program and the rest is used for earmarked activities according to Undang-Undang Number 39 of 2007.

Based on Undang-Undang Number 23 of 2014 concerning Regional Government, the allocation of SF forestry natural resources reforestation fund is transferred from producing regencies/cities to producing provinces. As well as expanding the use of the Reforestation Fund for RHL support activities and expanding the use of the remaining SF in the Regency/City by the Regional Organization appointed by the Regional Head for the management of community forest park, prevention and control of forest fires, structuring area boundaries, planting trees in critical watersheds, planting bamboo on the right and left of river, etc. In the next order, the effect of GAF on economic growth has a negative effect of -0.219 (p = 0.009). It means that general allocation funds whose allocation is calculated based on the total salaries of Regional Civil Servants are regional expenditures. which are not directly related to development programs, but are more emphasized on the salaries of state civil apparatus in the regions in the context of facilitating public services. Thus, it is natural that GAF has a negative influence on economic growth. On the other hand, GAF, SAF, and ROR positively affect direct spending. This means that the sources of regional revenue originating from GAF, SAF, and ROR are interrelated to support direct regional expenditures in order to create public services and regional development in order to increase economic growth and community welfare. Meanwhile, SF has no effect on direct expenditure, due to its designation which is only to support development, such as reforestation, riverside development, health, and others.

The next effect shows a unique result that special allocation funds directly (SAF) have no effect on EG. On the other hand, SAF affects DS significantly positively, DS affects EG positively, thus SAF through DS will affect EG, this indicates that DS in the form of development programs plays an important role in increasing economic growth and community welfare.

4.4. The Relationship, ROR, GAF, SAF, SF, and Economic Growth, through DS

The next discussion looks at the role of DS in mediating the influence of ROR, GAF, SAF, and SF on EG through DS. The first path analysis equation model can be described as follows:

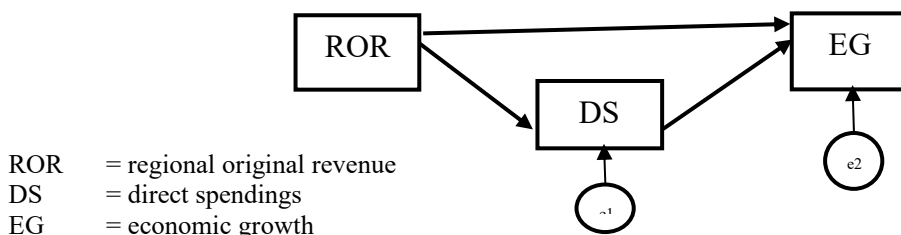
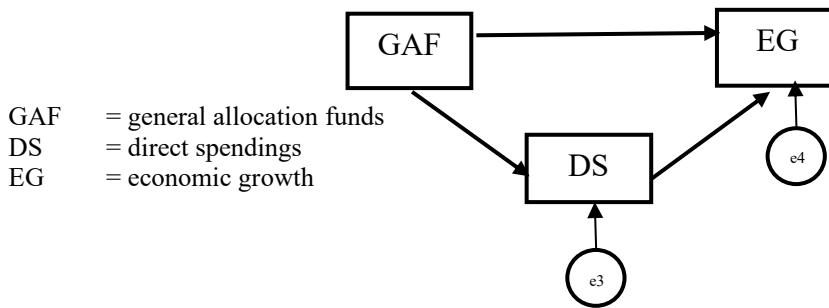


Figure 5: First path analysis equation ROR affects EG through DS

Regional original revenue positively affects direct spending by 0.635 (p = 0.000), besides that ROR also affects economic growth positively by 0.195 (p = 0.011). Thus, in the first path analysis, ROR affects economic growth through direct spending partially. This means that the influence of ROR on EG is not fully through DS, but partially directly affects EG. The findings of this analysis contradict the general conditions according to the play paper effect theory which explains that the condition of the central and regional balance fund policies in

almost all regions has a tendency to depend on the central balancing fund in the form of GAF, SAF, and SF, and other balancing funds, so that the role of the government areas are less than optimal in maximizing ROR gains. While this research is able to show that ROR contributes to increasing economic growth, which indicates that East Java Province has a level of regional independence that is able to contribute to increasing economic growth, through the role of regional direct expenditure policies. The findings of this study become an important point that needs to be developed in other provinces in order to map the level of regional independence, related to the achievement of ROR and the role of determining direct expenditure policies, so that there is no follow-up to relying on funding from central and regional balancing funds only.

Analisis jalur kedua GAF mempengaruhi economic growth melalui direct spendings dapat digambarkan sebagai berikut:



Gambar 6: Persamaan analisis jalur pertama ROR mempengaruhi EG melalui DS

The analysis of the second path of GAF influencing economic growth through direct spending can be described as follows:

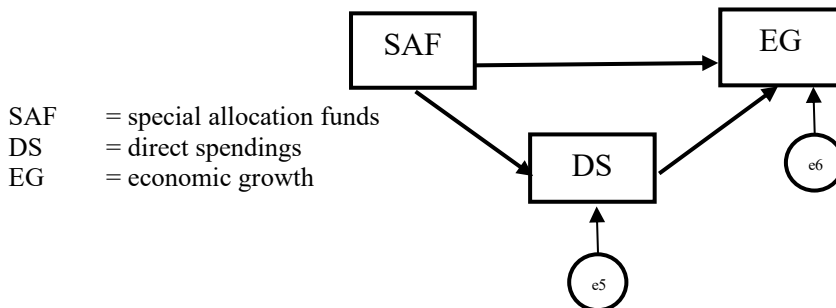


Figure 7: First path analysis equation ROR affects EG through DS

The results of the third path analysis show the unique behavior of regional financial policies, namely the special allocation of funds that fully influences economic growth through the mediating variable of direct spending. In this case, SAF affects DS significantly positively with a regression coefficient of 0.222 ($p = 0.000$), then direct spending affects economic growth significantly positively by 0.111 ($p = 0.032$), especially in the hotel and restaurant trade sector, the processing industry sector, and the industrial sector, agribusiness, on the other hand, SAF has no effect on economic growth. Thus SAF affects the EG fully through the DS. The results of this study can be used as policy suggestions for the central and regional governments, namely the importance of the composition of SAF which is greater than GAF and SF in order to support direct development spending activities in order to increase economic growth and community welfare, especially the hotel and restaurant trade sector, processing agricultural products industry, and the agribusiness sector. Thus, the structure of the Regional Revenue and Expenditure Budget (RREB) related to SAF and the determination of DS is an important factor in fiscal policy both for the regions and the Central Government, especially for East Java Province and other regions in Indonesia, in general in the hotel and restaurant trade sector, processed industry and the agricultural sector, then in the trade sector. consulting and construction and building services, and other sectors.

Analysis The fourth path analyzes the effect of SF on EG through DS can be described through the following equation model:

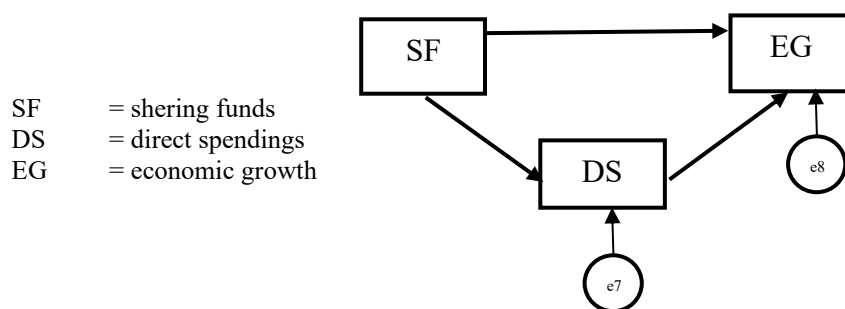


Figure 8: First path analysis equation ROR affects EG through DS

In this case, SF's advantage is based on Undang-Undang Number 23 of 2014 concerning Regional Government, the allocation of SF has been in certain posts including for Forestry natural resources Reforestation Fund for community forest plant management, prevention and control of forest fires, structuring area boundaries, planting trees in critical watersheds, planting bamboo on either side of the river. This activity supports increasing economic growth, but does not affect the policy of determining direct spending, see Table 3.

Table 3: The results of Path analysis

Indirect effect	Direct effect	Direct effect	Direct effect	Indirect effect	Total effect	Conclusion
ROR→DS→Growth	ROR→DS .635 (0.000)***	DS→Growth 0.111 (0.032)**	ROR→Growth .195 (0.011)**	ROR→BL→Growth 0.635*0.111=0,01665	0,265485	Partial mediation
DAF→DS→Growth	GAF→DS .150 (0.000)***	DS→Growth 0.111 (0.032)**	GAF→Growth -.219 (0.009)***	GAF→DS→Growth 0.150*0.111=0,024642	0,23565	Partial mediation
SAF→DS→Growth	SAF→DS .222 (0.000)***	DS→Growth 0.111 (0.032)**	SAF→Growth -.101 (0.144)	SAF→DS→Growth 0.222*0.111=0,00444	0,125642	Fully mediation
SF→DS→Growth	SF→DS .040 (0.077)*	DS→Growth 0.111 (0.032)**	SF→Growth .378 (0.000)***	SF→DS→Growth 0.040*0.111=0,01665	0,38244	Partial mediation
Constant	0.808 (0.007)***	-6.110 (0.037)**	-7.801 (0.135)			
R ² (R Square)	0.732 (0.000)***	.012 (0.032)**	0.163 (0.000)***			
N Valid	368	368	368	368		

***, **. Correlation is significant at the 0.01, 0.05 level (2-tailed).

V. Conclusion

First, the regional original revenue (ROR), general allocation funds (GAF), special allocation funds (SAF), and shering funds (SF) have a significant positive effect on direct spending (DS). This means that all components of the regional revenue, both the central and regional balance funds, as well as regional original revenues, affect the pattern of regional direct spending. **Second**, direct spending significantly positively affects economic growth. Third, the components of regional revenue that significantly influence economic growth are ROR and SF. Meanwhile, GAF negatively affects economic growth, and SAF does not affect economic growth. **Fourth**, ROR affects economic growth through direct spending partially. Likewise, GAF affects economic growth through direct spending positively, on the other hand, ROR affects the economy significantly negatively. Thus, ROR partially affects economic growth through direct spending. Fifth, DS partially mediates the relationship between GAF and EG. This means that some GAF directly affects the EG and some GAF affects the EG through the DS. **Sixth**, DS fully mediates the relationship between SAF and EG. This condition can describe that SAF is all used for DS in supporting regional development activities and is able to increase economic growth, and **Seventh**, DS partially mediates the relationship between SF and EG. This means that SF partially affects EG directly, and partially affects EG through DS.

Implications for science and practice

policy Based on the results of the analysis and discussion of research, models of the influence of ROR, GAF, SAF, and SF on EG through DS can be developed, in addition to direct spendings can be developed for indirect spending as a mediating variable. In addition, the level of economic growth, can also be developed for potential sectors. For practical policy making, the determination of the proportion of SAF compared to GAF must be increased in support of direct expenditure activities in order to increase economic growth and community welfare. If it is possible to issue a Government Regulation regarding the allocation of profit-sharing funds, some

of it needs to be directed to community empowerment program activities, and MSMEs, especially in the agribis sector, and processed agricultural and trade products, according to the characteristics of regional potential.

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