

Analysis Of The Effect Of Regional Original Income And Fund Transfers On City Government Economic Growth In North Sumatra Province

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Abstract.

The objectives of this study are to: 1) Analyze the effect of Local Original Income on the economic growth of the North Sumatra Provincial Government. 2) Analyzing the effect of the General Allocation Fund on the economic growth of the North Sumatra Provincial Government. 3) Analyzing the effect of the Special Allocation Fund on the economic growth of the North Sumatra Provincial Government. 4) Analyzing the effect of Revenue Sharing Funds on the economic growth of the North Sumatra Provincial Government. 5) Analyzing the effect of Regional Original Revenue, General Allocation Fund, Special Allocation Fund, and Revenue Sharing Fund together on the economic growth of the North Sumatra Provincial Government. Tests using panel data analysis can be done with three models, namely Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). Tests were carried out with the Chow test, Hausman test, and Langrange Multiplier test. Based on the results of hypothesis testing in table 4.6, the lower left shows the Prob value (F-statistic) of 0.000000. Prob value. < significance value (0.05). This probability value becomes the basis for accepting H_a which states that simultaneously (together) all independent variables (PAD, DAU, DAK, and DBH) have a significant effect on the dependent variable (economic growth). A positive value on the F-statistic shows that simultaneously PAD, DAU, DAK, and DBH have a positive effect on economic growth.

Keywords: Local revenue, transfer funds, city government economic growth

I. INTRODUCTION

The implementation of regional autonomy has been regulated in Law no. 9 of 2015 concerning the second amendment to Law no. 23 of 2014 concerning Regional Government. Local governments have the authority to generate revenue and play an independent allocation role in setting development priorities through regional autonomy and fiscal decentralization. The existence of regional autonomy policies and fiscal decentralization is expected to be able to reduce vertical and horizontal inequality between regions and to equalize development in accordance with the wishes of the regions to develop regions according to the potential of their respective regions. [14] Regional governments have the authority to determine the allocation of sources of funds for financing regional government programs by adhering to the principles of compliance with laws, regional needs, and regional capabilities. Permendagri No. 77 of 2020 states that Regional Financing is all revenues that need to be repaid and/or expenses that will be received back, both in the relevant fiscal year and in the following fiscal years [5]. Fiscal decentralization in Indonesia was most recently regulated by Law Number 2 of 2015 concerning the Second Amendment to Law Number 23 of 2014 concerning Regional Government, as well as Law no. 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments [11] [13]. In the implementation of fiscal decentralization, it is explained that Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), regional loans and other legitimate revenues are sources of revenue used for funding. local government. PAD has a positive effect on economic growth in the region [3]. The sustainable growth of PAD will lead to an increase in the level of regional economic growth. The increase in PAD is actually an access to economic growth. Regions with positive economic growth have the possibility of getting an increase in PAD [10].

Several studies that have been conducted in various regions have confirmed the importance of PAD, DAU, DAK and DBH for analysis in order to find out how much influence each variable has on economic growth so that later it will be able to carry out regional development in accordance with the potentials of each region. Based on several studies conducted in North Sumatra Province, there is still no research, especially on the City Government. This encourages researchers to use the North Sumatra Province City area, namely Sibolga City, Tanjungbalai City, Pematang Siantar City, Tebing Tinggi City, Medan City, Binjai City, Padang Sidempuan City and Gunung Sitoli City as research objects, because the eight cities have potential in the processing industry, trade and services as well as ports. However, it is still visible that there are development gaps between cities in North Sumatra Province [4]. The economic growth of the North Sumatra Provincial Government, namely Sibolga City, Tanjungbalai City, Pematang Siantar City, Tebing Tinggi City, Medan City, Binjai City, Padang Sidempuan City and Gunung Sitoli City during the period 2016-2020 there were differences between the City Governments, so that resulted in regional development among the City Governments that grew slowly and some grew fast, as shown in Table 1.

Table 1. Economic Growth of the City Government of North Sumatra Province in 2016-2020 (%)

No.	County/City	2016	2017	2018	2019	2020
1	Sibolga	5,15	5,27	5,25	5,20	-1,36
2	Tanjung Balai	5,76	5,51	5,77	5,79	-0,47
3	Pematang Siantar	4,86	4,41	4,80	4,82	-1,89
4	Tebing Tinggi	5,11	5,14	5,17	5,15	-0,70
5	Medan	6,27	5,81	5,92	5,93	-1,98
6	Binjai	5,54	5,39	5,46	5,51	-1,83
7	Padang Sidempuan	5,29	5,32	5,45	5,51	-0,73
8	Gunung Sitoli	6,03	6,01	6,03	6,05	0,38

Source: Central Bureau of Statistics of North Sumatra Province

The fact is that the implementation of DAK in many regions is still not effective, so that the DAK that has been issued has not been able to provide improved services to the community. Analysis of the problems and impacts of special allocation funds so far has not contributed significantly to development goals (outcomes and impacts) in the regions. Furthermore, in the study, it was explained that the main problem of the lack of achievement of the DAK impact was not the small amount of DAK, but rather the inefficient allocation of DAK and the ineffective governance of DAK implementation. This is because the achievement approach that applies in Indonesia is an input-based approach, where DAK can only be spent on certain types of inputs, not based on outputs or outcomes, so the achievement of DAK targets cannot be measured [1]. For many regions, revenue from the Revenue Sharing Fund (DBH) for oil and gas and mineral and coal is the largest contributor to local revenue in the Regional Revenue and Expenditure Budget (APBD) every year.

The discussion of the DBH issue is closely related to the principles of transparency and accountability. The distribution of DBH basically aims to balance national development with regional development which in its implementation is at the same time reducing inequality between producing and non-producing regions of natural resources. Despite having the principle of "by origin" where producing regions receive a larger portion than non-producing regions, many producing regions are still dissatisfied with the distribution of DBH. The uncertainty of DBH is one of the things that local governments complain about because they are considered to hinder budget planning in the regions. The DAU, DAK and DBH given by the Central Government show differences in each City Government in North Sumatra Province, which results in different results for the development of each City Government in North Sumatra Province. This study aims to determine the effect of Regional Original Income (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK) and Revenue Sharing Funds (DBH) on Economic Growth in the City Government of North Sumatra Province.

II. RESEARCH METHOD

This research according to the type of data and analysis can be grouped into quantitative data. [7]. The research was carried out in the North Sumatra Province City Government, by collecting data on PAD, Transfer Funds (DAU, DAK, and DBH) and Economic Growth of the North Sumatra Provincial Government for the period 2006-2020 obtained from the City Government Regional Revenue and Expenditure Budget reports. North Sumatra Province. Data were analyzed using panel data regression analysis method. The data processing is carried out with the help of the EViews 9 program. Tests using panel data analysis can be carried out with three models that are determined by conducting an analysis model selection test first. The three models used in the panel data regression analysis method are as follows:

1. Common Effect Model (CEM), the approach that can be used in this model is Ordinary Least Square (OLS).
2. Fixed Effect Model (FEM) that the differences that occur in the research subjects, which in this case are 8 cities in North Sumatra Province, can be accommodated from the differences in their intercepts.
3. Random Effect Model (REM) assumes that there is a difference in the intercept and slope of the research data. These differences can be overcome by accommodating errors or residuals from the model with different data units (8 cities in North Sumatra Province) and time because the cause of the error is influenced by two components, namely units and time periods. The REM analysis model can also be called the Generalized Least Square (GLS) or Error Component Model (ECM).

The model selection test carried out to determine the use of one of the three models above is to perform the Chow test, Hausman test, and Lagrange Multiplier test. Chow test was conducted to select the best model between FEM and CEM. Hausman test was conducted to determine the best model between REM and FEM. H_0 is rejected and H_1 is accepted if the value of Prob. on the Hausman test results < 0.05 . Lagrange Multiplier (LM) test was performed to determine the best model between REM and CEM. H_0 is rejected and H_1 is accepted if the value of Prob. Breusch-Pagan on LM test results < 0.05 .

III. RESEARCH RESULTS

The Effect of Regional Original Income (PAD) on the Economic Growth of the City Government of North Sumatra Province

The PAD variable has a positive and significant effect on the economic growth of the North Sumatra Provincial Government. The positive relationship between PAD and economic growth shows that the income earned by local governments in 8 cities of North Sumatra Province is optimal in making their income as capital in encouraging economic growth. Optimizing and managing PAD which has an impact on economic growth and subsequently has an impact on suppressing the unemployment rate and reducing poverty, it is necessary to manage budget allocations as one of the income management strategies. This budget allocation strategy can encourage and accelerate economic growth as well as a tool to reduce regional disparities/inequalities. Efforts that have been made so that PAD has a positive impact on economic growth are by holding a cheap market by the city government, repairing and building roads to facilitate mobilization so that economic activity becomes smoother. Unemployment is closely related to the availability of employment opportunities, the availability of employment opportunities is related to development spending. Thus, the optimization strategy and budget management will encourage economic growth through optimizing the potential of development sectors. Economic growth will reduce the unemployment rate and reduce the amount of poverty in the region [8].

The Effect of the General Allocation Fund (DAU) on the Economic Growth of the City Government of North Sumatra Province

The DAU variable has a positive and significant effect on the economic growth of the North Sumatra Provincial Government. The positive and significant influence of the DAU on economic growth is due to the fact that the DAU balancing fund has the highest portion among other components of the balancing fund, such as tax revenue-sharing funds, natural resource revenue-sharing funds, and special allocation funds. The positive and significant influence indicates that the DAU in the cities of North Sumatra Province has been

well managed and allocated wisely so that the economic aspect which is the source of the increase in GRDP which has an impact on economic growth is going well. According to the Government, an increased relative can encourage per capita income. DAU which has a positive effect on economic growth is due to the absence of stagnation of funds, most of the DAU is spent on sectors that encourage economic growth. So that the increase in DAU allocation can encourage good economic turnover. These sectors include market procurement, road repair and paving, improvement of health facilities, as well as other sectors that are closely related to the economy [2].

The Effect of the Special Allocation Fund (DAK) on the Economic Growth of the City Government of North Sumatra Province

The DAK variable has a negative and significant effect on the economic growth of the North Sumatra Provincial Government. It should be noted that not all regions receive the Special Allocation Fund (DAK), because the Special Allocation Fund (DAK) aims for equity and to improve the condition of physical infrastructure which is considered a national priority. The negative effect that will arise if the amount of DAK is increased could be because the main objective of DAK is equitable development so that DAK will be more optimal if allocated more to regions. If it is allocated more to urban areas that have adequate physical infrastructure, DAK will only be diverted for special regional activities so that this will deviate from the purpose of DAK allocation. For example, in 2015-2019, government spending on the infrastructure sector in urban areas was still focused on Medan City, while for Sibolga City and Padang Sidempuan City, government spending on infrastructure was still low [9].

The Effect of Revenue Sharing Funds (DBH) on the Economic Growth of the City Government of North Sumatra Province

The DBH variable has a negative and insignificant effect on the economic growth of the North Sumatra Provincial Government. Government Regulation No. 55 of 2005 concerning Balancing Funds Article 1 paragraph 9, states that Revenue Sharing Funds are funds sourced from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization. Revenue Sharing Funds are sourced from taxes and natural resources, natural profit sharing funds are in accordance with the determination of the basis of calculation and income area as well as further provisions regarding Revenue Sharing Funds shall be regulated by government regulations. Revenue Sharing Fund (DBH) is a regional right to manage sources of state revenue generated from each producing region (by origin) based on the provisions of the applicable laws. The sources of tax revenue that are shared include Income Tax (PPH), Land and Building Tax (PBB), and Land and Building Rights Acquisition Fee (BPHTB). In this study, although the profit-sharing fund (DBH) has a negative effect, the effect given is not significant, meaning that even if there is an increase or decrease in DBH, it will not significantly affect economic growth as proxied by GRDP [8].

The Effect of Regional Original Revenue, General Allocation Fund, Special Allocation Fund, and Revenue Sharing Fund together on Economic Growth of the City Government of North Sumatra Province.

The variables of PAD, DAU, DAK and DBH simultaneously have a positive and significant effect on the economic growth of the North Sumatra Provincial Government. The higher the PAD of a region, the level of regional fiscal dependence on the center decreases. Furthermore, regions are more flexible and flexible in planning budget allocations according to their economic agenda. Each region has a different ability to fund its activities, this creates a fiscal imbalance between one region and another. Therefore, to overcome this fiscal imbalance, the government allocates funds sourced from the APBN to fund regional needs in the implementation of decentralization. One of the balancing funds from the government is the General Allocation Fund (DAU) whose allocation emphasizes the aspect of equity and justice that is in line with the administration of government affairs [11]. Government Regulation No. 55 of 2005 concerning Balancing Funds Article 1 paragraph 9, states that Revenue Sharing Funds are funds sourced from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization. Revenue Sharing Funds are sourced from taxes and natural resources, natural

profit sharing funds are in accordance with the determination of the basis of calculation and income areas and further provisions regarding Revenue Sharing Funds are regulated by government regulations [6].

Research Links with Regional Development

An economy is said to be experiencing growth if the level of economic activity achieved now is higher than that achieved in the past and the number of goods and services produced has increased a lot from previous years, when viewed based on data on gross regional domestic product owned by 8 cities. in North Sumatra Province from 2006-2020 there was a significant increase. This shows that the 8 cities experienced positive economic growth so that this has an impact on increasing economic development in North Sumatra Province. When viewed from the six characteristics of economic growth contained in the theory of economic development, namely: there is an increase in the production of goods and services, an increase in per capita production, improvements and improvements in the quality of technology, changes in structure from the agricultural sector to the industrial and service sectors, there is an increase in urbanization, strengthening international relations, one of which is through the expansion of developed countries, and increased flows of goods and capital in international trade [4].

The eight cities in North Sumatra Province have experienced these six characteristics. The most easily observed characteristic is the shift in the focus of the economy from the agricultural sector to the industrial or service sectors. Compared to 2006, in 2020 many industrial companies and service companies have sprung up, it is increasingly clear that the economy has shifted to these two sectors. The emergence of the industrial sector allows cities in North Sumatra Province to produce more goods and services, thereby increasing the capabilities and opportunities for these goods and services to expand in developed countries. This economic shift is also currently causing high urbanization (movement of people from villages to cities) so that this can be used as an indicator that economic development has occurred from economic growth caused by the allocation of regional income which in this case consists of local revenue (PAD), general allocation fund (DAU), special allocation fund (DAK), and profit sharing fund (DBH).

IV. CONCLUSION

Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK) have a positive and significant impact on the economic growth of the North Sumatra Provincial Government; Revenue Sharing Fund (DBH) has a negative and insignificant effect on the economic growth of the City Government of North Sumatra Province; and PAD, DAU, DAK and DBH simultaneously have a positive and significant impact on the economic growth of the North Sumatra Provincial Government.

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