



Analysis of the Influence of Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds on Economic Growth in Java

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Abstract: This study aims to analyze the influence of Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds on economic growth in Java Island in the period 2015–2024. The independent variables in this study include Revenue Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK), while the dependent variable is regional economic growth. This study uses a quantitative descriptive method and data analysis is carried out using panel data regression. The results of the study indicate that Revenue Sharing Funds (DBH) and General Allocation Funds (DAU) have a positive and significant effect on economic growth in Java Island, which means that increasing DBH and DAU revenues can encourage economic activities to increase regional development capacity. Conversely, the Special Allocation Fund (DAK) has a negative but significant effect on economic growth, which indicates inefficiency in the allocation and use of these funds. Overall, the results of this study confirm that the management of

balancing funds is highly dependent on the ability of local governments to manage financial resources efficiently, transparently, and accountably in order to encourage sustainable economic growth at the regional level.

Keywords: Economic Growth, Revenue Sharing Fund, General Allocation Fund, Special Allocation Fund, Java Island

Introduction

Fiscal decentralization in Indonesia, initiated by Law No. 22 of 1999 and strengthened by Law No. 23 of 2014, granted greater authority to regional governments in financial management and regional development, with the primary instrument being the transfer of balancing funds, namely the Revenue Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK) (OECD, 2019). The DBH is allocated based on a certain percentage of national income, and the DAU is distributed based on a formula for regional fiscal needs and potential (Maheni et al. 2021). Java, as the national economic center, plays a crucial role in utilizing these funds to drive regional economic development and growth (Anggita and Sari 2021).

The balancing fund consists of the Revenue Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK). DBH is allocated to regions based on a certain percentage of national income, such as the tax DBH, which is generally

divided at around 16% for provinces and 64% for districts/cities. The DAU itself is set at a minimum of 26% of net domestic revenue listed in the State Budget (APBN), then distributed to all regions according to a formula of fiscal needs and potential. Because each type of fund has a different formula and percentage, there is no single figure that represents the total percentage of the "balancing fund" as a whole, but rather depends on the type of fund and the applicable budget year.

Java Island is the center of national economic activity, contributing more than 50 percent to Indonesia's Gross Domestic Product (GDP). Its industrial concentration, high investment, and relatively advanced infrastructure make it a major driver of national economic growth (Bayu 2013). Therefore, the effective utilization of balanced funds in this region is a crucial factor in accelerating development and improving public welfare.

In principle, balancing funds are expected to increase regional fiscal capacity, thereby optimizing public service delivery, strengthening productive sectors, and creating sustainable economic growth. However, previous studies have shown mixed findings regarding the relationship between balancing funds and economic growth. In some regions, increased transfer funds do not always have a significant impact on economic output due to the persistently high allocation of consumptive spending and low efficiency in budget management.

Previous research has shown that the effectiveness of balanced funds in driving economic growth can vary due to differences in spending allocation and budget management efficiency. Flexible funds such as DBH and DAU tend to provide greater fiscal space to stimulate regional economic activity, while the use of DAK, which is tied to specific programs, can have a more limited, or even negative, impact if not managed effectively (Triyulianto et al. 2024). Therefore, empirical analysis of the impact of each type of balanced fund on economic growth in Java is crucial for providing more targeted fiscal policy recommendations (Panggabean 2023).

The different characteristics of each type of balancing fund are also expected to have varying impacts on economic growth. The more flexible DBH and DAU tend to provide fiscal space for local governments to stimulate economic activity. Meanwhile, DAK, whose use is predetermined for specific programs, has the potential to have an indirect effect on growth and can even have a negative impact if not managed effectively (Sugiyanto 2021).

Based on these conditions, it is crucial to conduct an empirical analysis of the influence of DBH, DAU, and DAK on economic growth in Java. This research aims to provide scientific evidence regarding the effectiveness of fiscal decentralization in driving regional economic development and to serve as evaluation material for the government in improving the quality of fiscal governance in the regions.

Research Method

This research is quantitative descriptive, employing statistical data analysis to test predetermined hypotheses to determine the relationships between variables. This research was conducted to determine the effect of Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds on economic growth in Java Island from 2015 to 2024.

The variables used in this study are Revenue Sharing Funds, General Allocation Funds, Special Allocation Funds, and Economic Growth. This study employed a descriptive approach, using secondary data from the Central Statistics Agency for the 2015-2024 period. The data analysis technique used was multiple linear regression analysis.

The general formula for multiple linear regression is as follows:

$$Y = \alpha + b_1X_{1t,i} + \beta_2X_{2t,i} + \beta_3X_{3t,i} + \epsilon.$$

Y = Economic Growth

α = Constant

b_1 - b_4 = Coefficient of independent variable

X_1 = DBH

X_2 = THAT

X_3 = DAU

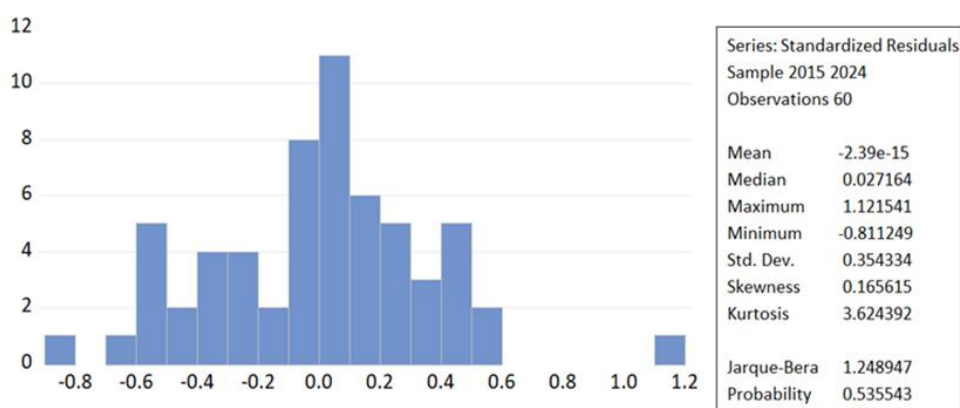
ϵ = Error Term

t = time (2015-2024)

i = Number of provinces on the island of Java

Results and Discussion

Normality Test



Source: EViews & Processed by the Author

Based on the results of the normality test above, the probability value is 0.535543. This means that the probability value of $0.535543 > 0.05$, so the decision taken is to accept H_0 and reject H_1 . The conclusion is that the data is normally distributed and is worthy of further analysis.

Multicollinearity Test

	LOG(DBH)	LOG(DAK)	LOG(DAU)
LOG(DBH)	1	0.76662	0.27085
LOG(DAK)	0.76662	1	0.69446
LOG(DAU)	0.27085	0.69446	1

Source: EViews & Processed by the Author

Based on the results of the multicollinearity test, all correlation coefficients were less than 0.85, so the decision was made to accept H₀, thus the model is considered free of multicollinearity. Based on these findings, it can be concluded that there are no collinearity problems between the independent variables, so each variable can be used in the regression without excessive influence on each other.

Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.265643	0.485090	0.547616	0.5861
LOG(DBH)	-0.009436	0.022084	-0.427287	0.6708
LOG(DAK)	0.057534	0.100914	0.570129	0.5709
LOG(DAU)	-0.060424	0.076862	-0.786141	0.4351

Source: EViews & Processed by the Author

Based on the results of the Glegser test conducted in the table above, it can be seen that the probability value of all variables is > 0.05 , thus accepting H₀ and rejecting H₁. This means that the data passes the heteroscedasticity symptom.

Autocorrelation Test

Durbin-Watson stat	1.573131
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Source: EViews & Processed by the Author

Based on the Autocorrelation Test above, it can be seen that the Dw value is 1.573131 with a total of 36 observations and 4 independent variables. The dU value is 1.32. Based on the criteria $dU < DW < (4 - dU)$, it can be obtained $1.32 < 1.573 < 2.68$, this means that there is no autocorrelation.

Determinant Coefficient Test

R-squared	0.639534
Adjusted R-squared	0.620224

Source: EViews & Processed by the Author

The adjusted R-square value of 0.639534 indicates that approximately 62.02% of the coefficient of determination is used to explain economic growth. Therefore, these variables can capture most of the patterns in the data, while 37.98% comes from the influence of other variables not included in the regression model.

Uji F

F-statistic	33.11820
Prob(F-statistic)	0.000000

Source: EViews & Processed by the Author

Based on Table 4.7, the F-test results show that the Prob value is $0.00 < 0.05$, while the calculated F value of 33.11820 exceeds the F-table value of 2.769430932 ($33.11820 > 2.769430932$). This indicates that simultaneously the DBH, DAK, and DAU variables have a significant influence on the Y variable.

Uji T

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.127872	0.823358	11.08615	0.0000
LOG(DBH)	0.212313	0.040130	5.290683	0.0000
LOG(DAK)	0.470532	0.171621	2.741692	0.0082
LOG(DAU)	-0.438221	0.141413	-3.098876	0.0030

Source: EViews & Processed by the Author

1. Variable X1 (Profit Sharing Fund)

The Profit Sharing Fund variable shows a t-table value of 2.001717484, so it is concluded that $5.290683 > 2.001717484$. The significance value of 0.0000 is much smaller than the significance limit of 0.05. Therefore, it can be concluded that DBH has an effect on Economic Growth.

2. Variable X2 (Special Allocation Fund)

The Special Allocation Fund variable shows a t-table value of 2.001717484, so it is concluded. $2.741692 > 2.001717484$ The significance value of 0.0000 is much smaller than the significance limit of 0.05. Therefore, it can be concluded that DBH has an effect on Economic Growth.

3. Variable X3 (General Allocation Fund)

The Special Allocation Fund variable shows a t-table value of 2.001717484, so it is concluded. $-3.098876 > 2.001717484$ The significance value of 0.0000 is much smaller than the significance limit of 0.05. Therefore, it can be concluded that DBH has an effect on Economic Growth.

A. The Impact of Profit Sharing Funds on Economic Growth

Revenue Sharing Funds (DBH) are a key component of Indonesia's fiscal decentralization system, transferring funds from the central government to regional governments based on the distribution of state revenues, primarily from the tax and natural resource sectors. DBH aims to promote financial equality between regions and increase regional fiscal independence in financing development needs and public services (Amalia & Firmansyah, 2020).

However, the regression results in this study indicate that revenue sharing funds have a positive and significant impact on economic growth. This means that any increase in Revenue Sharing Funds (DBH) received by local governments will be followed by an increase in economic growth. This occurs because DBH is one of the primary sources of funding used to finance various development programs and public services in the regions, particularly in areas with limited local fiscal capacity.

Thus, this finding is consistent with the endogenous theoretical framework and is supported by studies in Java Island that emphasize the importance of DBH in strengthening regional fiscal capacity and significantly driving economic growth.

Empirical research in Java supports these findings. For example, a study by Aulia Afafun Nisa (2017) in East Java Province showed that DBH had a positive and significant impact on the economic growth of districts/cities in the region. Furthermore, research by Pujiati (2007) also found that the allocation of revenue-sharing funds in natural resource-rich regions in Java supported investment in key economic sectors that contributed to growth. However, several other studies, such as those in Central Java by Kurniawan and Arifin (2024), showed that the effect of DBH on capital investment and economic growth can vary depending on regional management capacity.

Overall, these regression results reinforce the evidence that DBH, as a fiscal transfer instrument in a decentralized system, plays a crucial role in driving regional economic

growth. The success of DBH in supporting economic growth depends heavily on good governance and focused fund utilization on productive programs with broad economic impact.

B. The Impact of Special Allocation Funds on Economic Growth

Special Allocation Funds (DAK) are funds sourced from the State Revenue and Expenditure Budget (APBN) which are allocated to certain regions to help finance special activities that are regional affairs and in accordance with national priorities (Purnomo 2015).

However, the regression results in this study indicate that special allocation funds have a positive and significant impact on economic growth. This means that every increase in DAK received by local governments will be followed by an increase in economic growth. This occurs because DAK is a source of funds for regional governments. Special fiscal transfers allocate funds to regional governments with the aim of funding strategic projects and priority sectors that directly impact the welfare of the community.

Previous research in Java provides empirical evidence supporting these findings. For example, research in Central Java Province by SalsaBella (2021) showed that Special Allocation Fund (DAK) spending on the education and health sectors had a positive and significant impact on district/city Gross Regional Domestic Product (GRDP). These results suggest that dedicated funds used to improve human resource quality and health infrastructure can drive economic growth. However, DAK spending on infrastructure in that study did not show a significant impact, indicating that DAK's effectiveness depends on the sector and its management.

In the context of the Special Allocation Fund (DAK), these funds are used for specific investments in priority sectors such as education, health, and infrastructure, which directly improve regional human capital and technological capacity. This aligns with Romer and Lucas's theoretical principle that investments in internal resources such as human capital and technology will generate sustainable economic growth.

Furthermore, research in East Java by Mafahir and Soelistiyo (2017) found that the Special Allocation Fund (DAK) plays a crucial role in the development of basic service facilities and infrastructure that support economic activity and accelerate regional development. Therefore, appropriate DAK allocation and effective management can increase regional economic productivity and accelerate economic growth, in accordance with the principles of endogenous growth theory.

Thus, these regression results strengthen empirical evidence and endogenous theory that fiscal transfers through DAK can drive economic growth by stimulating investment in internal factors that determine long-term growth, in accordance with the framework developed by Romer and Lucas.

C. The Influence of General Allocation Funds on Economic Growth

The General Allocation Fund (DAU) is a fund sourced from the State Budget (APBN) allocated by the central government to regional governments with the primary goal of equalizing financial capacity between regions (Meutia et al. 2022). The DAU aims to assist regions in funding expenditure needs and implementing decentralization, enabling them to carry out government and development functions within their respective jurisdictions.

However, the regression results in this study show that general allocation funds have a positive relationship and have a significant influence on economic growth, this means that every increase in DAU received by the regional government will be followed by an increase in economic growth. This matter indicates that the General Allocation Fund (DAU) plays a crucial role as the primary funding source for regional governments in supporting economic development. As a general fiscal transfer that is not tied to specific sectors, the DAU provides flexibility for regional governments to allocate budgets according to their respective regional development priority needs.

From the perspective of endogenous growth theory proposed by Paul Romer and Robert Lucas, economic growth is driven by internal factors such as human capital, knowledge, and technology generated through investment and innovation. Romer emphasizes the role of knowledge and innovation as sources of long-term economic growth through knowledge accumulation and knowledge spillover effects, while Lucas highlights the importance of human capital acquired through education and training in increasing labor productivity.

On a regional basis in Java, the negative impact of the Special Allocation Fund (DAK) on economic growth can be interpreted as follows. In several provinces, such as West Java, Central Java, and East Java, the inappropriate use of DAK or inefficient allocation can hamper regional economic growth. For example, funds allocated for infrastructure investment or public services may not have a significant impact because they may be hampered by bureaucracy, corruption, or a lack of thorough planning, thus creating a fiscal burden or reducing economic productivity. In the provinces of DKI Jakarta and Banten, this negative effect can also occur if the DAK allocation does not match the region's priority needs, thus not optimally encouraging economic growth. This impact emphasizes the importance of transparent, accountable, and well-targeted DAK management so that its contribution can be positive in supporting regional development.

Overall, although DAK has a significant impact on economic growth in Java, this negative impact requires policy evaluation and improvements in the implementation of DAK-funded programs so that they can contribute positively to regional economic growth in the future.

Thus, these results underscore the importance of transparent, accountable fund

management and a focus on productive investment so that DAK is truly capable of realizing economic growth in accordance with Romer and Lucas' endogenous growth theory.

Conclusion

The success of fiscal decentralization in driving economic growth depends heavily on the ability of local governments to manage fiscal resources effectively, efficiently, and responsively to the socio-economic needs of the community. Strengthening regional fiscal capacity and improving financial governance are key to ensuring that fiscal decentralization truly provides optimal benefits for development and public welfare. Based on the results of panel data regression analysis, this study found that all fiscal balancing fund variables exhibit a positive and significant influence on economic growth in Java. The Revenue Sharing Fund (DBH) plays a role in increasing regional fiscal capacity to finance development and encourage economic activity, thereby creating jobs and increasing productivity. Meanwhile, the Special Allocation Fund (DAK), which is targeted towards priority sectors such as education, health, and infrastructure, has been shown to have a significant impact on improving the quality of public services and physical development that supports economic activity. Furthermore, the General Allocation Fund (DAU), as a stable and flexible funding source, can strengthen the function of local government and public services, thereby enhancing regional capacity to drive sustainable economic growth. These findings confirm that the effective use of DBH, DAU, and DAK is a crucial factor in accelerating economic development in the era of fiscal decentralization.

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