



# The Effect of Regional Original Income, Special Allocation Funds and General Allocation Funds on Economic Growth in Makassar City for the 2010–2021 Period

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**Abstract.** Economic growth is the main target to be achieved by every region in Indonesia, including the city of Makassar. In its development, economic growth does not necessarily grow by itself, but there are many factors that support the increase in sustainable economic growth. The purpose of this study is to analyze and determine the effect of local revenue, general allocation funds and special allocation funds on economic growth in the city of Makassar. The data used in this study is secondary data. The data analysis technique in this research is multiple linear regression method. The results of the analysis show that partially local revenue has a positive effect on economic growth, while general allocation funds and special allocation funds have no significant effect on economic growth in the city of Makassar. Regional original income, general allocation funds and special allocation funds simultaneously have a significant effect. These results prove that local revenue is still an important factor in economic growth in the city of Makassar.

**Keywords:** Economic Growth · Regional Original Income · Special Allocation Funds · General Allocation Funds

## 1 Introduction

National development is one of the efforts to improve the welfare of all aspects of the nation's life, including full human development as well as infrastructure development or existing resources in Indonesia. Economic growth and development are two concepts that cannot be separated. In terms of the economy in Indonesia, the process of development and economic growth has various challenges, including poverty. Sustainable problems that are closely related to economic development, namely poverty and economic growth are an illustration of the development process.

Development is a multidimensional process that involves major changes in social structures, mental attitudes and national institutions, including patterns of acceleration or acceleration of economic growth and absolute poverty eradication.

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. In this case, local governments are required to be independent in managing their finances, including financing the implementation of government programs, financing the implementation of government programs based on the principle of decentralization is carried out at the expense of the APBD. In the context of administering government programs and services to the community, each region is given the authority to collect regional taxes/levies and manage natural resources owned by the region. Tax is a compulsory levy paid by the people to the state and will be used for the benefit of the government and the general public [1].

The sources of funds obtained by the regions consist of 3 sources of income, namely Regional Original Income (ROI), Balancing Funds consisting of General Allocation Funds (GAF), Special Allocation Funds (SAF) and the regional share of tax and non-tax Revenue Sharing Funds (RSF), as well as other legitimate regional income. The General Allocation Fund or regional GAF is calculated based on the regional financial capacity obtained from the difference between regional needs and regional capabilities [2]. Provision of General Allocation Funds for regions that have sufficient finances but small financial needs will receive a small General Allocation Fund budget, and vice versa.

UU Number 1 (2022-chapter 1 verse 11) states that Regional Original Revenue, here in after abbreviated as Regional Original Income, is regional income obtained from regional taxes, regional levies, results of separated regional wealth management, and other legitimate regional original revenues in accordance with statutory regulations.

The central government has a program to reduce regional inequality in the form of a Special Allocation Fund or SAF obtained through APBN revenues that are given to selected regions with the aim of financing according to regional needs that are uniform with the national program. The use of the SAF budget is intended for long-term investment activities, short-term investment, regional performance improvement, repair and improvement of public service facilities and infrastructure classified as national priorities with a long economic life and included in capital expenditure expenditures [2].

Regional expenditure consists of indirect expenditure and direct expenditure, indirect expenditure in the form of: personnel expenditure, interest expenditure, subsidy expenditure, grant expenditure, social assistance expenditure, profit sharing expenditure to regency/city and village government, financial aid expenditure to district/city and village government, and unexpected expenditures, while direct expenditures consist of personnel expenditures, goods and services expenditures and capital expenditures. Regional Original Revenues and Regional Expenditures are directly managed by the Regional Government through the APBD, while others are managed by the Central Government in collaboration with the Regional Government.

In the process towards the independence of an autonomous region, in this case, especially in the field of financing, management and administration of government in the field of development, it is still lacking. This fact is reflected in the contribution or contribution of ROI to the Regional Revenue and Expenditure Budget (APBD), which is still considered low, especially for district/city ROI and is still receiving assistance from the central government through transfer funds and assistance from the provincial

government. The same problem is also faced by the local government in the Regency/City of North Sumatra Province, in this case the increase in regional financial financing originating from balance fund assistance.

Studies that show a negative relationship between government spending and economic growth include: Barro and Salla-I Martin (1995) who divide government spending into productive and unproductive spending. Productive expenditure if the expenditure has a direct effect on economic growth [3]. Most studies on the relationship between government spending and economic growth assume that all government spending is productive, Alexiou (2009) researching 27 developing countries concluded that large government spending, especially consumption spending, will reduce per capita income growth [4]. Devarajan (1996) found a negative and insignificant relationship between productive spending and growth [5].

The existence of regional autonomy and fiscal decentralization will more evenly distribute development in accordance with the wishes of the regions in developing according to their respective potentials. According to Saragih (2003: 74), regional autonomy and fiscal decentralization will provide optimal benefits if followed by adequate financial capacity by autonomous regions [6]. According to Susanti (2008: 85), with the existence of fiscal decentralization, regions are required to improve the economic capacity of their regions so that they are able to compete with other regions through raising government capital for investment needs and or the ability to interact with other regions [7].

To implement regional autonomy and fiscal decentralization that is broad, real and responsible, it is necessary to have the authority and ability to explore their own financial sources. Regional Original Revenue is one of the main sources of revenue obtained by the region which is collected based on regional regulations in accordance with statutory regulations. With fiscal decentralization, regions have greater authority to optimize local government revenue so that the portion of local government revenue as a component of regional revenue should also increase.

Economic growth on Makassar city from 2011 until 2021 was fluktuative, in the 2011 until 2014 the percentage of economic growth in Makassar city was drop from 10,36% down to 7,39% in 2014, but in 2015 until 2019 the economic growth was up from 7,55% in 2017 up to 8,79% in 2019 [8].

From the explanation this Research Aims is: "To find out how the impact of Regional Original Income, General Allocation Funds, & Special Allocation Funds on Economic Growth in Makassar City".

In accordance with the background that has been explained, the problems can be formulated as follows:

- a. How effect of the Regional Original Income, General Allocation Fund and Special Allocation Fund on Economic Growth.
- b. How effect of the Regional Original Income on Economic Growth.
- c. How effect of the Special General Allocation Fund on Economic Growth.
- d. How effect of the Special Allocation Fund on Economic Growth.

## **2 Literature Review**

### **2.1 Regional Original Income (ROI)**

Regional Original Revenue (ROI) is all Regional Revenue originating from Regional Original economic sources, which is measured by the size of the district/city ROI target each fiscal year [9]. Original Regional Revenue aims to give authority to Regional Governments to fund the implementation of Regional autonomy in accordance with Regional potential as a manifestation of decentralization. Regional Original Revenue can be used as an indicator in assessing the level of independence of a region in managing its Regional finances, the higher the ratio of Regional Original income compared to total income, the higher the level of independence of a region area [10].

### **2.2 General Allocation Fund (GAF)**

The General Allocation Fund (GAF) is a fund sourced from APBN revenues allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization. [13] stated that as a form of transfer from the central government, The GAF Allocation has a fairly large role for regional revenues, considering that The GAF occupies the largest portion compared to other components in the balancing fund. One of the objectives of the existence of The GAF in the financial balance system of the central and regional governments is as an equalization grant, especially to neutralize the impact of disparities caused by other transfers, such as The Revenue Sharing Fund. One of the benchmarks for the success of The GAF is the achievement of the best possible distribution of total regional revenue per capita [10].

### **2.3 Special Allocation Fund (DAK)**

The Special Allocation Fund (SAF) is one of the central government financial transfer mechanisms to the religions which aims, among other things, to increase the provision of regional physical facilities and infrastructure according to national priorities and reduce the gap in growth rates between religions and services between sectors [10]. SAF plays an important role in the dynamics of the development of basic service facilities and infrastructure in the religions because in accordance with the principle of decentralization – responsibility and accountability for the provision of basic public services have been transferred to local governments. Special allocation funds are funds allocated from the APBN to certain regions to fund special needs which are regional affairs as well as national priorities, including: needs for transmigration areas, needs for several types of investment or infrastructure, road construction in remote areas, primary irrigation canals, and others-other.

### **2.4 Gross Regional Domestic Product (GRDP)**

Gross Regional Domestic Product can be interpreted as an estimate of the total product of goods and services received by the people of a region as a reward for using the production

factors they have. In this case, the income generated by using the factors but outside the area 14183 is not taken into account. The regional concept of Gross Domestic Product is known as Gross Regional Domestic Product (GRDP). GRDP is a macroeconomic indicator of a region, which describes the presence or absence of regional economic development. By calculating GRDP carefully and accurately both on the basis of current prices and on the basis of constant prices, several conclusions can be drawn regarding the success of development in an area, which shows the rate of economic growth that represents an increase in production in various existing business sectors then in the regional concept, regional economic growth is a number indicated by the magnitude of the growth rate of the gross regional domestic product of an area measured on the basis of constant prices.

### 3 Methodology

This type of research is empirical research with hypotheses testing, using multiple linear regression analysis method which aims to test the hypothetical model. The population used in this study is the City/Makassar. The sample in this study used the purposively sampling method, namely sampling based on subjectively considerations of research that were adjusted to the research objectives. In the following, the author determines several criteria when taking samples to be used as research material, like:

- a. Financial Report of Makassar City Regional Expenditure and Expenditure Budget from 2010–2021.
- b. Data on Regional Original Income, General Allocation Funds, Special Allocation Funds and Economic Growth from 2010–2021 in the Financial Statements of the Makassar City Regional Expenditure and Expenditure Budget.

Types and Locations of this Research is quantitatively research. This research emphasizes on testing the theory between research variables with numbers and data analysis.

This study uses software applications in analyzing the data. The application used is Statistical Product and Servilely Solution (SPSS). The methods used to analyze the data and test the research hypotheses are multiple linear regression analysis test, normality test, classical assumption test and hypothesis testing (T test and F test).

The data source used is secondary data. The data collection technique used in this research is the Documentation Method. This method is carried out by studying or using the financial reports of the Makassar City government.

#### **The hypotheses in this study are:**

- a. It is assumed that the Regional Original Income, General Allocation Fund and Special Allocation Fund have a significant effect on Economic Growth.
- b. It is suspected that Regional Original Income has a significant positively effect on Economic Growth.
- c. It is suspected that the Special General Allocation Fund has a positively and significant effect on Economic Growth.

- d. It is suspected that the Special Allocation Fund has a positively and significant effect on Economic Growth.

**Variable Operational Limits**

*Regional Original Income (ROI).* In this study we use the data of regional original income (ROI) from 2010 until 2021, that the measured with unit million rupiahs.

*General Allocation Fund (GAF).* In this study we use the data of general allocation fund (GAF) from 2010 until 2021, that the measured with unit million rupiahs.

*General Allocation Fund (GAF).* In this study we use the data of special allocation fund (GAF) from 2010 until 2021, that the measured with unit million rupiahs.

*Economic Growth.* In this study we use the data of Economic Growth from 2010 until 2021, that the measured with percentage.

**4 Results**

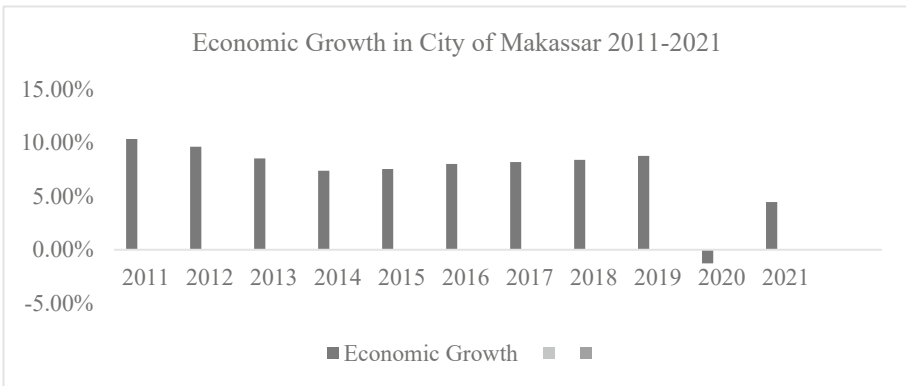
**4.1 Classic Assumption Test**

From Fig. 1 the data obtained follow a diagonal line so that we can conclude that the data in the study are local revenue, general allocation funds, special allocation funds and normal economic growth (Fig. 2).

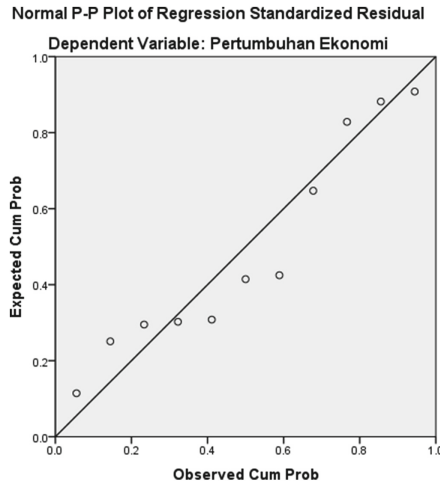
**4.2 Descriptive Statistics Test**

Statistics in this study are used to provide information on research variables such as Regional Original Income, General Allocation Funds, Special Allocation Funds, and Economic Growth.

Table 1 shows descriptively research variables with the amount of data for each valid variable as much as 12 years of data processing.



**Fig. 1.** Economic Growth in City of Makassar 2011–2021 (BPS, 2021).



**Fig. 2.** Normality Test

**Table 1.** Descriptively Statistics of Variables.

	Mean	Std. Deviation	N
Economic Growth	685.7500	365.05520	12
Original Religion Income	1017236264.2500	419075653.20730	12
General Allocation Fund	1200616924.9167	2771605.75818	12
Special Allocation Fund	1177428240.0000	12941174.19786	12

Source: Output SPSS 24 (2022)

**Table 2.** Multiple Linier Regression Analysis.

Model		Unstandardized coefficients		Standardized coefficients	t	sig	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	Constant	60950.582	50870.395		2.398	.045		
	ROI	5.070E1-7	.000	.582	2.346	.047	.887	1.128
	GAF	-5.212E1-5	.000	-.396	-1.039	.329	.377	2.654
	SAF	1.521E1-6	.000	.054	.138	.894	.358	2.790

Source: Output SPSS 24 (2022)

### 4.3 Multiple Linier Regression Analysis

Based on Table 2, the regression model is obtained as follows:

$$PE = 60950.582 + 5.070 \times 1(\text{Silg}.0,047) - 5.212 \times 2(\text{Silg}.0,329) + 1,521 \times 3(\text{Silg}.0,138) + e1$$

As the results of data processing in this research, the constant value is 60950,582 these results prove that if there is no effect from the variables of Regional Original Income, General Allocation Funds and Special Allocation Funds, the value of economic growth is 0.60%, while Regional Original Income has a positively and significant effect on economic growth. The General Allocation Fund has a negatively and insignificant effect on economic growth, and the Special Allocation Fund has a positively and insignificant effect on economic growth.

**4.4 Simultaneous Test**

Based on Table 3, it can be seen that the F-count value (23,438) has a significance of  $0.002 < 0.05$ . So  $H_0$  is rejected and  $H_1$  is accepted. This means that simultaneously, the independent variables, namely X1 (Regional Original Income), X2 (General Allocation Fund) and X3 (Special Allocation Fund) Have a significant effect on the Y variable (Economic Growth).

**4.5 Determination Coefficient Test (R2)**

Based on the Table 4 shows R Square is 0.563 or 56.3% variation in Economic Growth can be explained by variations of the three independent variables, namely Regional Original Income, General Allocation Funds and Special Allocation Funds. While 43.7% can be explained by other factors which not included in this research (Table 5).

**Table 3.** Simultaneous Test Results (F-Test).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	825583.621	3	275194.540	23.438	.002 <sup>b</sup>
	Residual	640334.629	8	80041.829		
	Total	1465918.250	11	275194.540		

<sup>a</sup> Dependent Variable: G

<sup>b</sup> Predictors: (Constant), GAF, SAF, ROI

**Table 4.** Determination Coefficient Test (R2) Results

Model	R Square	Adjusted R Square	Std. Error of the Estimate
1	.750 <sup>a</sup>	.563	.399
			282.91665

<sup>a</sup> Predictors: (Constant), ROI, GAF, SAF

<sup>b</sup> Dependent Variable: Y



**Table 5.** Partial Test (T-Test).

Model		Unstandardized coefficients		Standardized coefficients	t	sig	Collinearity Statistics	
		B	Std. error	Beta			Tolerance	VIF
1	Constant	60950.582	50870.395		2.398	.045		
	ROI	5.070E1-7	.000	.582	2.346	.047	.887	1.128
	GAF	-5.212E1-5	.000	-.396	-1.039	.329	.377	2.654
	SAF	1.521E1-6	.000	.054	.138	.894	.358	2.790

Source: Output SPSS 24 (2022)

## 5 Discussion

### 5.1 The Effect of Regional Original Income

Regional original income is one of the indicators in measuring the economic growth of a region. The greater the regional original income, the greater the economic growth, if a region has a low regional original income, it will reduce economic growth. In theory, local revenue comes from local taxes, regional retribution, the results of regionally-owned companies, and other legitimate regional revenues. According to the author, the greater the regional taxes, regional levels, the results of regionally owned companies, and other legitimate income, the regional original income will increase. The smaller the local taxes, levels, the results of regionally owned companies, and other legitimate regional income, the lower the original regional income in an area. This is due to a component in economic growth that reflects indicators of Gross Regional Domestic Product which will increase the rate of growth of Gross Regional Domestic Product.

This study shows that Regional Original Income has a positively and significant effect to economic growth in the city of Makassar. From the results of the t-test imply, the resulting value for the local government revenue variable is 2,398 (referring to the table of t-test results). This value is larger than the t table value of 1.662. With the value of t count > t table, the local government revenue variable has a positively effect on economic growth (GRDP). This is reinforced by the resulting probability value of 0.047 which is smaller than the probability value of =0.05. Thus, Regional Original Income (ROI) has a significant effect on economic growth in the city of Makassar.

The results of this study area Regional Original Income (ROI) has a positively and significant effect on Economic Growth. Regional autonomy gives full authority to regional governments to regulate and manage their own income including Regional Original Income (ROI). Regional Original Income (ROI) is one source of income that functions to finance the needs of the area such as the development of infrastructure and infrastructure. The pace of the economy in an area is also influenced by the infrastructure in the area, the better the facilities and infrastructure in the area, the more it will affect the rate of economic growth in the area.

## 5.2 The Effect of the General Allocation Fund on Economic Growth

The General Allocation Fund is one form of revenue originating from the balancing fund with the aim of financial equity between regions to finance expenditure needs. General allocation funds given to regions area adjusted to the conditions and potential of the region so that misallocations do not occur. The determination of general allocation funds is carried out to pay attention to the needs of a region. This indicates that if there is an increase in general allocation funds, the independence of a region will be lower.

Based on the results of the research conducted, the general allocation fund did not have an effect on economic growth in Makassar City. This can be seen from the coefficient value obtained by  $-5.212$  with a significant probability of  $0.329$ . these results indicate that the t-count value is smaller than the t-table value and the probability value is significantly greater than the probability value of  $0.05$ , so it can be said that the general allocation fund variable has no effect on economic growth in the city of Makassar, this result is in line with research conducted by Putri (2016) which also found that the General Allocation Fund had no significant effect on Economic Growth in Central Java Province [11].

## 5.3 The Effect of Special Allocation Funds on Economic Growth

Variable X3 (Special Allocation Fund) has a t-count value of  $0.138$  with a significance of  $0.894$  which is greater than  $(0.05)$ . This test shows that  $H_0$  is accepted and  $H_1$  is rejected so lit can be concluded that the variable X3 (Special Allocation Fund) has a positively and insignificant effect on the variable Economic Growth. These results were also found in a study conducted by Lukitasari et al (2016) which examined the effect of DAU, DAK, PAD on economic growth and poverty in the city of Manado in 2001–2013 [12].

## 6 Conclusion

The purpose of this study was to determine the effect of Regional Original Income, General Allocation Funds and Special Allocation Funds on Economic Growth in Makassar City. The analysis in this study uses multiple linear regression. So the results of the study show:

- a. Based on the calculation of the F test or simultaneous testing, it shows that Regional Original Income, General Allocation Funds and Special Allocation Funds have an effect on Economic Growth.
- b. The Regional Original Income has a positively and significant effect on economic growth.
- c. The General Allocation Fund has a negative and insignificant effect on economic growth.
- d. The Special Allocation Fund has a positively and insignificant effect on economic growth.

For citations of references, we prefer the use of square brackets and consecutive numbers. Citations using labels or the author/year convention are also acceptable. The following bibliography provides a sample reference list with entries for journal articles [1], an LNCS chapter [2], a book [3], proceedings without editors [4], as well as a URL [5].

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