

THE EFFECT OF CAPITAL FUNDING AND SHOPPING FUNDS ON ECONOMIC GROWTH AND HUMAN DEVELOPMENT INDEX (HDI) IN BALI PROVINCE

Dewa Ketut Trisma Dirgayusa and Ni Nyoman Yuliarmi
Faculty of Economics and Business, Udayana University, Bali, Indonesia

ABSTRACT

The research objectives are 1) to analyze the effect of balance funds and capital expenditure on economic growth in districts/cities in Bali Province. 2) to analyze the effect of balance funds, capital expenditure, and economic growth on the Human Development Index (HDI) in districts/cities in Bali Province. 3) to analyze economic growth which mediates the effect of balance funds and capital expenditure on the Human Development Index (HDI) in districts/cities in Bali Province. The data used in this research is secondary data. Data collection related to this research was carried out using non-participant observation methods. The data analysis technique used to solve the problem in this study is the path analysis technique. The analysis shows that 1) balance funds do not have a positive and significant effect and capital expenditure does not have a significant effect on the economic growth of regencies/cities in Bali Province. 2) balance funds, capital expenditure, and economic growth have a positive and significant effect on the Human Development Index (HDI) of regencies/cities in Bali Province. 3) economic growth does not mediate the effect of balance funds and expenditure on the Human Development Index (HDI) of regencies/cities in Bali Province.

KEYWORDS: balance fund, capital expenditure, economic growth, Human Development Index (HDI)

1. INTRODUCTION

The concept of this study analyzes the effect of balance funds and capital expenditure on economic growth and the Human Development Index (HDI) of regencies/cities in Bali Province. Balancing funds are funds originating from APBN revenues that are allocated to regions to fund regional needs in the context of implementing decentralization (Law Number 33 of 2004). Balancing funds have an effect on increasing economic growth in Bali Province District/City (Rosita and Sutrisna, 2018). An increase in the balance fund then an area must also be able to increase the income of other regions. Balancing funds are given to the regions for the purpose of regional autonomy in the efforts of regional development and funds obtained by the regional government are used for the interests of the region in order to improve the welfare of society. This statement is supported by Wijayanti and Darsana (2015) which states that general allocation funds have a positive and significant influence on economic growth. Research conducted by Permanasari (2013) says that DAU has a significant effect on economic growth in districts/cities in Central Java Province. The study of Syaifudin et al., (2015) also said that fiscal transfers have an impact that will increase the level of the economy, both nationally and sub-nationally. Soejoto et al., (2015) research said that effective and efficient management of decentralized funds in each autonomous region so that fund transfers have a positive

impact on economic growth, and reduce poverty. Research Fan et al., (2019) states that higher income from fiscal transfers significantly increases local growth rates.

Fixed assets owned as a result of capital expenditure are the main prerequisites in providing public services by local governments. To add fixed assets, the local government allocates funds in the form of capital expenditure budget in the budget (Arini, 2016). Capital expenditure is intended to get the local government's fixed assets, namely equipment, buildings, infrastructure, and other fixed assets. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities. Continuous economic growth can be achieved by a region if the region can always improve the existing infrastructure in the area. With an increase in government spending, especially capital expenditure is expected to encourage an increase in the people's economy which in turn can spur the growth of per capita income.

The increase in capital expenditure is also expected to be a driving factor for the emergence of various new investments in the region in optimizing the utilization of various resources so that it can ultimately increase regional economic growth. In transition countries, the public sector is very important in the progress of economic reform, productive spending also positively influences economic growth (Çakerri et al., 2014). Research conducted by Nurmainah (2013) results that capital expenditure has a positive and significant impact on economic growth in districts/cities in Central Java Province. The results of the study are consistent with research conducted by Putri (2014) which results in that capital expenditure has a positive and significant influence on economic growth in Java. Research by Chude and Chude., (2013) states that total government expenditure on education has a significant effect on Gross Domestic Product (GDP). Research by Al-Masaeed and Tsaregorodtsev, (2018) revealed the impact of public spending on influential and significant economic growth.

The decentralization policy is aimed at realizing regional independence, autonomous regional governments have the authority to regulate and manage the interests of local communities according to their own initiatives based on community aspirations (Law Number 32 of 2004). Armas and Kasmita (2014) state that the ability of regions to provide funding from regions is highly dependent on the ability to realize economic potential into forms of economic activity capable of creating revolving funds for sustainable regional development.

Programs to advance the region, the central government prepares the allocation of balancing funds to finance local government activities and programs on an ongoing basis and the financing is allocated in the routine funding group contained in the Regional Budget (APBD), so the funding is one of the APBD budget to carry out development programs for the welfare of the people (Caraka, 2019). The balancing fund aims to reduce the fiscal gap between the central government and regional governments as well as between regional governments (Law Number 33 of 2004).

Balancing funds have a positive effect on reducing the number of poor people, which means that every time there is an increase in the balance fund it will affect the decrease in the number of poor people (Firmansyah et al, 2012). Research conducted by Putrayuda, et al (2017) states that Revenue Sharing Funds (RSF) have a significant effect on poverty levels. The results of the study are in accordance with research conducted by Astuti and Astika (2016) which states that general allocation funds have a positive effect on the welfare of district/city communities in the Province of Bali. Duan and Zhan's research (2016) also states that financial capacity subsidies are distributed to the regions from the central government to offset the inadequacy of local fiscal resources and to reduce disparities between regions. Research Soejoto et al., (2015) states that fiscal decentralization policies carried out have a positive influence on human development.

Government capital expenditure is generally allocated to build facilities and infrastructures which are further expected to increase the intensity of economic activities and support government programs for the welfare of the people. The relationship between capital expenditure and the Human Development Index can be seen in government policies to improve human resources. Through capital expenditure, local governments can develop infrastructure in their regions in the form of quality education facilities (Hukom, 2015). Government spending in education has a positive and significant effect on human development (Ali et al., 2012). Research Soejoto et al., (2015) Tarumingkeng et al, (2018), Setiawan and Budiana (2015), and Mirza (2011) found a positive and significant effect, the effect of capital expenditure on increasing HDI. The results of this study indicate that the management of capital expenditure truly benefits the community. The research can be concluded that the local government has carried out the mandate in accordance with what was mandated by it, namely to serve the community and improve their welfare. The management of regional expenditure is very important especially capital expenditure, considering that this expenditure is very closely related to the improvement of people's welfare.

At the macro level, the distribution of increased income from economic growth will also have a strong impact on human development and economic growth whose benefits are directed more towards the poor will have a greater impact on human development (Ranis, 2004). Quality economic growth has benefits such as job vacancies that reduce unemployment, improve the economy, improve socio-political stability and improve people's welfare (Margareni et al, 2016).

Increased economic growth will increase community income, with an increase in income that occurs, the ability of people to meet their needs to be better, this shows that welfare in the form of community income began to increase (Yasa and Arka, 2015). UNDP also stated that until the late 1990s, human development in Indonesia was determined by economic growth or GDP. GDP growth will encourage people to get better education and health facilities (Setyowati and Suparwati, 2012). Economic growth has a positive and significant impact on HDI in Central Java Province, which means higher economic growth will increase the welfare of the people in the area (Mirza, 2011).

Meanwhile, research conducted by Wijayanti and Darsana (2015) results that economic growth has a positive and significant effect on community welfare in districts/cities in Bali Province. This is also the same as research conducted by Rosita and Sutrisna (2018) which results that economic growth has a positive and significant effect on people's welfare.

The purpose of this study are:

- 1) To analyze the effect of balance funds and capital expenditure on economic growth in districts/cities in Bali Province.
- 2) To analyze the effect of balance funds, capital expenditure, and economic growth on the Human Development Index (HDI) in districts/cities in Bali Province.
- 3) To analyze economic growth which mediates the effect of balance funds and capital expenditure on the Human Development Index (HDI) in districts/cities in Bali Province.

2. LITERATURE REVIEW

Public welfare

The purpose of the concept of well-being is not just about the problems of human brotherhood, socio-economic justice, individual honor, soul peace, harmony of community and family life, and happiness. Improvement of community welfare is very much needed to be pursued for the sake of the economic welfare paradigm (Nailufarh, 2010). Efforts that lead to the level of economic prosperity are considered sufficient to increase the people's prosperity through economic development or through programs to reduce poverty. The objective of implementing the poverty reduction program is basically aimed at improving the welfare of the poor from two sides, namely, increasing income through increasing productivity, where the poor have management capacity, obtaining opportunities and protection to obtain better work in various economic, social activities, culture and politics. Second, poverty alleviation through reducing the burden of basic needs such as access to education, health, and infrastructure that facilitates and supports socio-economic activities (Tisnawati, 2016).

Economic growth

High economic growth is expected to have implications on economic equality, economic growth is not only an indicator of economic progress, but also a visible impact on improving the improvement of people's welfare (Maqin and Sidharta, 2017). Economic growth is the development of economic activity that causes the goods and services produced in society to increase (Sukirno, 2004).

Definition of Gross Regional Domestic Product

Gross Regional Domestic Product is one of the tools used as a benchmark for the success of the government in directing the economy of a region (Setiawan et al., 2018). Gross Regional Domestic Product (GRDP) basically, is the amount of added value from the results of business units generated in a certain region, or is the final amount of the results of goods and services obtained from all economic units in a region. GRDP at current prices is the added value of goods and services measured through prices that apply every year, reversing the GRDP at constant prices is the added

value of goods and services which are measured from prices that apply at one year as a basis (Statistics Indonesia, 2018).

Fiscal Decentralization

Law Number 32 of 2004 concerning Regional Government, defines decentralization as "the transfer of governmental authority by the Government to autonomous regions to regulate and administer government affairs within the Unitary State of the Republic of Indonesia" system. The concept of decentralization is not easy to define because it involves various aspects and dimensions, especially concerning political, fiscal, administrative and systemic government changes, as well as social and economic development.

Balance Funds

According to Law Number 33 of 2004 Concerning Financial Balance between the Central Government and Regional Governments, the definition of balance funds is funds originating from APBN revenues that are allocated to the regions to fund regional needs in the context of implementing decentralization. Balancing Funds are part of funds transfers to regions that aim to reduce inequality of funding sources between the center and regions (vertical imbalance), and inequality between regions (horizontal imbalance), and reduce disparities in public services between regions (Nurkhayat, Firdaus, and Mulatsih, 2018).

Capital Expenditures

Regional revenue is sourced from PAD, transfer income, and other legal income contained in Government Regulation Number 71 of 2010. Regional expenditure is classified into two, namely operating expenditure and capital expenditure. Government Regulation No. 71 of 2010 explains that capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Capital expenditure is part of regional government spending which has an important influence on the economic growth of a region and will be useful in driving the regional economy.

3. METHODS

The research location is a regency/city in the Province of Bali. The reason for taking the location of districts/cities in Bali Province is because, when viewed in terms of the Human Development Index (HDI) there are still disparities in districts/cities in the Province of Bali. Descriptive analysis is a method used to analyze data by describing or describing data that has been collected as it is without intending to make conclusions that apply to the public or generalization.

4. RESULTS AND DISCUSSION

The first structure test is the effect of balance funds and capital expenditure on economic growth. Testing is done to see the effect of balancing funds and capital expenditure directly on economic growth, testing is done with SPSS version 22.0. According to the processed SPSS analysis report are:

$$\begin{aligned} Y_1 &= -0,295X_1 + 0,178X_2 \\ S(\beta) &= (0,000274) \quad (0,000256) \\ t &= (-2,614) \quad (1,575) \\ \text{Sig } t &= (0,011) \quad (0,120) \\ R^2 &= 0,128 \\ F &= 5,074 \\ \text{Sig } F &= 0,009 \end{aligned}$$

The Effect of balance funds on economic growth in districts/cities in Bali Province

Standardized coefficient beta value of -0.295 and a probability value of 0.011 < 0.05 this means that H₀ is accepted. This means that the balance fund does not have a positive and significant effect on the economic growth of districts/cities in Bali Province. The balancing fund is divided into three, namely, the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH). DAU is used for funding the kelurahan and PNS salaries. DAK is used for human resource development, connectivity and tourism. DBH is used in the health sector and in the forestry sector. Utilization of the balance fund is still not able to directly increase economic growth, this is because the balance fund is not fully used to support economic growth.

The Effect of capital expenditure on district/city economic growth in Bali Province.

Standardized coefficient beta value of 0.178 and probability value of 0.120 > 0.05 this means that H₀ is accepted. This means that capital expenditure does not have significant influence on economic growth in regencies/cities in Bali Province. Funds allocated for government spending are not enough to increase economic growth or there are other indications (Jeff-Anyeneh and Ibenta, 2019). The research of Amuka et al., (2016) shows that in developing countries, the government uses the public sector to provide political support and people who are appointed through politics use resources to provide services to the community, then they divert them for personal use. Research supported also by Oyeleke et al., (2016) said in Nigeria, government capital expenditure does not have a significant impact on economic growth, because the economy is driven by services and each is responsive to private capital investment and government funds allocated for capital expenditure are not well used to produce intended effects on economic growth.

The Effect of Balance Funds, Capital Expenditures, and Economic Growth on the Human Development Index (HDI)

The second structure test is the effect of balance funds, capital expenditure, and economic growth on the human development index. Testing is done to see the effect of balancing funds, capital expenditure, and economic growth directly on the human development index, testing is done with SPSS version 22.0.

| | | | | | | |
|--------------|---|-------------|---|-------------|---|-------------|
| Y_2 | = | 0,251 X_1 | + | 0,454 X_2 | + | 0,441 Y_1 |
| S(β) | = | (0,002) | | (0,002) | | (0,957) |
| t | = | (2,662) | | (4,958) | | (4,600) |
| Sig t | = | (0,010) | | (0,000) | | (0,000) |
| R^2 | = | 0,455 | | | | |
| F | = | 18,946 | | | | |
| Sig F | = | 0,000 | | | | |

The effect of the balance fund on the district/city Human Development Index (HDI) in the Province of Bali.

Standardized coefficient beta value of 0.251 and a probability value of 0.010 <0.05 this means that H0 is rejected. This means that the balance fund has a positive and significant effect on district/city Human Development Index (HDI) in Bali Province. The Balancing Fund aims to reduce the fiscal gap between the central government and regional governments as well as between regional governments (Law Number 33 of 2004). The central government prepares the allocation of equalization funds to regional governments to finance local government activities and programs on an ongoing basis to implement development programs and people's welfare (Caraka, 2019). This research was also supported by Duan and Zhan (2016) who stated that financial subsidies distributed to the regions from the central government were able to compensate for the inadequacy of local fiscal resources and at the same time to reduce disparities between regions. Research by Soejoto et al., (2015) also states that the fiscal decentralization policy undertaken has a positive influence on human development.

The effect of capital expenditure on the Human Development Index (HDI) of regencies/cities in Bali Province.

Standardized coefficient beta value of 0.454 and a probability value of 0.000 <0.05 this means that H0 is rejected. This means that capital expenditure has a positive and significant effect on district/city Human Development Index (HDI) in Bali Province. The results of data processing found that capital expenditure has a positive and significant effect on the Human Development Index (HDI). Government capital expenditure is generally allocated to build facilities and infrastructures which are further expected to increase the intensity of economic activities and support government programs for the welfare of the people. The relationship between capital expenditure and the Human Development Index (HDI) can be seen in government policies to improve human resources. Through capital expenditure, local governments can develop infrastructure in their regions in the form of quality education facilities (Hukom, 2015). Government spending in education has a positive and significant effect on human development (Ali et al., 2012). Research Soejoto et al., (2015) found a positive and significant effect, the effect of capital expenditure on increasing HDI.

The effect of economic growth on the Human Development Index (HDI) of regencies/cities in Bali Province.

Standardized coefficient beta value of 0.441 and probability value of 0.000 < 0.05 this means that H₀ is rejected. This means that economic growth has a positive and significant effect on district/city Human Development Index (HDI) in Bali Province. Quality economic growth has benefits such as job vacancies that reduce unemployment, improve the economy, improve socio-political stability and improve people's welfare (Margareni et al, 2016). Increased economic growth will increase community income, with an increase in income that occurs, the ability of people to meet their needs to be better, this shows that welfare in the form of community income began to increase (Yasa and Arka, 2015). Other studies by Gopalakrishna and Rao, (2012), Soejoto et al., (2015), and Hukom, (2015) show positive and significant effects between economic growth and human development.

The Effect of Balance Funds and Capital Expenditures on the Human Development Index (HDI) through Economic Growth

The results of the analysis with SPSS show that balance funds and capital expenditure do not affect economic growth. Although the balancing fund, capital expenditure, and economic growth have a positive and significant effect on the Human Development Index (HDI). If one of the exogenous variables does not significantly affect the mediating variable or mediating variable do not significantly affect the endogenous variable, then the variable can be said to not function as a mediating variable. From the analysis shows that balance funds and capital expenditure do not significantly influence economic growth, it can be said that economic growth is not a mediating variable.

5. CONCLUSION

Balance funds do not have a positive and significant effect and capital expenditure does not have a significant effect on economic growth in districts/cities in Bali Province. Balance funds, capital expenditure, and economic growth have a positive and significant effect on the Human Development Index (HDI) of regencies/cities in Bali Province. Economic growth does not mediate the effect of balance and expenditure funds on district/city Human Development Index (HDI) in Bali Province.

Balancing funds are funds originating from APBN revenues that are allocated to regions to fund regional needs in the context of implementing decentralization (Law Number 33 of 2004). The impact of balance funds has not been able to encourage economic growth. This is caused by the use of balance funds that are still not optimal to encourage economic growth. It is necessary to review the use of balance funds so that later they can have a positive effect on economic growth. Balance funds provide a positive effect on community welfare in districts/cities in Bali Province. This can be seen, part of the balance funds used to finance civil servant salaries, human resource development, and in the field of health is able to encourage prosperity in districts/cities in Bali Province. Because of the appropriation of the balanced funds that are used appropriately, it should in the long run that continue to be carried out later can increase the HDI from the previous year.

Capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period (Government Regulation Number 71 of 2010). Regencies/cities in Bali Province need to re-optimize capital expenditure which will later have a positive influence on economic growth. This can be done by directing capital expenditure for infrastructure development such as building roads in production areas or by creating employment opportunities so as to encourage better economic growth. Capital expenditure has a positive impact on the district/city HDI in Bali Province. The use of balance funds allocated through capital expenditure for human resource development and in the health sector is able to encourage HDI. If this is done continuously then it can later have an impact on increasing HDI regencies/cities in the Province of Bali better.

Economic growth is the development of economic activity that causes the goods and services produced in society to increase (Sukirno, 2004). Regency/city economic growth in Bali Province has had a positive influence on HDI. Disparities that are still experienced by some districts are classified as medium: $60 \leq \text{HDI} < 70$ proves that economic movements in regencies/cities in Bali Province are still said to be good. It is necessary to have a scale of development priorities by the government so that later it can push the HDI regencies/cities in Bali Province to continue to increase.

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