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The Influence of Direct Expenditure, Indirect Expenditure and and General Allocation Funds on the Economic Growth of District/Cities of North Sumatera Province

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Abstract

This study aims to analyze the effect of direct spending, indirect expenditure and general allocation funds on the economic growth of district/cities of North Sumatera Province. Type of this research used is descriptive quantitative. The data used in this study are secondary data obtained from the Central Statistics Agency and the Directorate General of Financial Balance. The analysis tool used in this study is panel data regression using Fixed Effect Model with the help of Eviews 12 Program. The sample in the study consisted of 33 districts/cities for 10 years from 2012-2021. The results of the study using Fixed Effect Model estimates show that Direct Expenditure, Indirect Expenditure and General Allocation Fund simultaneously have a significant effect on economic growth in North Sumatera Province. Direct Expenditure has a significant effect on economic growth in North Sumatera Province. Indirect Expenditure does not have a significant effect on economic growth in North Sumatera Province and the General Allocation Fund has a significant effect on economic growth in North Sumatera Province.

Keywords: Direct Expenditure; Indirect Expenditure; General Allocation Fund; Economic Growth

1. Introduction

Economic growth is one of the important objectives of local governments. To achieve economic growth the role of government is very important to various policies through the allocation of government spending or expenditure. The development of economic growth rates in North Sumatera Province is supported by regional expenditure. North Sumatera Province is supported by existing regional spending. The economic condition of North Sumatera in the first quarter of I 2023 grew by 4.87%, relatively high growth although slowing down from the fourth quarter of 2022 which grew by 5.26%. In addition, economic growth is also supported by local government revenues, including the general allocation fund. General Allocation Fund (DAU) are funds sourced from the state budget revenue and expenditure which are allocated with the aim of equalising the financial capacity between regions in order to to finance regional needs in the context of implementing decentralisation.

Based on the explanation of the problem, it can be concluded that there are several objectives of researching the following problems: 1).To determine the effect of direct expenditure on economic growth economic growth of all districts / cities in North Sumatera Province in 2012-2021. 2).To determine the effect of indirect spending on economic growth economic growth of all districts / cities in North Sumatera Province in 2012-2021. 3).To determine the effect of general allocation funds on economic growth in all districts / cities in North Sumatera Province in 2012-2021. 4).To determine the effect of direct expenditure, indirect expenditure and general allocation funds simultaneously on economic growth in all districts / cities in North Sumatera Province in 2012-2021.

Jenis Belanja	TAHUN					
	2021	2020	2019	2018	2017	2016
I. Belanja Tidak Langsung	9,990,019,269	10,466,265,830	9,713,483,690	8,780,514,879	8,174,442,896	7,037,202,955
1. Belanja Pegawai	3,663,458,689	3,647,433,927	3,442,662,893	3,464,489,476	3,140,130,713	1,115,950,649
2. Belanja Bunga	0	0	0	0	0	0
3. Belanja Subsidi	0	0	0	0	0	0
4. Belanja Hibah	3,889,900,347	2,968,196,114	2,972,714,748	3,165,070,721	2,987,423,175	3,010,055,530
5. Belanja Bantuan Sosial	24,448,316	0	0	0	0	0
6. Belanja Bagi Hasil Kepada Provinsi/ Kabupaten/Kota & Pemerintah Desa	2,337,211,916	3,818,395,037	3,269,478,493	1,569,730,611	2,029,470,742	2,774,649,016
7. Belanja Bantuan Keuangan Kepada Provinsi/Kabupaten Kota.	0	7,240,752	7,328,381	528,068,541	2,443,754	134,545,438
8. Belanja Tidak Terduga	75,000,000	25,000,000	21,299,176	53,155,529	14,974,513	2,002,322
II. Belanja Langsung	3,759,480,183	5,077,641,935	3,726,840,016	3,782,872,671	4,344,425,209	2,439,220,960
1. Belanja Pegawai	0	106,386,401	84,865,412	119,909,842	111,765,770	150,934,731
2. Belanja Barang dan Jasa	2,613,913,631	3,174,882,251	2,392,374,120	2,098,059,596	2,313,207,402	1,268,431,086
3. Belanja Modal	1,145,566,552	1,796,373,283	1,249,600,484	1,564,903,233	1,919,452,036	1,019,855,143
Jumlah	13,749,499,452	15,543,907,765	13,440,323,706	12,563,387,550	12,518,868,105	9,476,423,915

2. Literature Review

2.1. Economic Growth

Economic growth is an indicator that provides information about the success of regional economic development can be presented based on current prices and based on constant prices. Economic growth emphasises three aspects, namely: process, output per capita and the long term. Economic growth is a process, economic growth is a process, not just a picture of the state of the economy at the time and of economic growth. Economic growth we see the dynamic aspects of an economy how an economy develops over time. The emphasis is on change or development itself. The factors that influence economic growth are natural resources, human resources, capital accumulation and information technology.

2.2. Direct Expenditure

Direct expenditure is expenditure that is budgeted directly with programme implementation, which is the elaboration of SKPD policies in the form of implementation of programmes, which are the elaboration of SKPD policies in the form of efforts that include one or more activities using the resources provided to achieve measurable results in accordance with the mission of the SKPD resources provided to achieve measurable results in accordance with the mission of the SKPD.

2.3. Indirect Expenditure

Indirect expenditure is expenditure that is not directly related to the implementation of programmes and programmes not directly related to the implementation of programmes and activities. Included in indirect expenditure are interest expenditure, grants expenditure, subsidies expenditure, personnel expenditure, social assistance expenditure, financial assistance expenditure, etc.

2.4. General Allocation Fund

The General Allocation Fund (DAU) is a fund sourced from State Budget and Expenditure Revenues that is allocated for the purpose of equalization state budget and expenditure which is allocated with the aim of equalising the financial capacity between regions to finance regional needs in the context of decentralization the implementation of decentralisation. The DAU of a region is determined by the size of a region's fiscal gap, which is the difference between fiscal need and potential fiscal need and the potential of the region (fiscal capacity).

3. Research Methods

The type of research conducted is quantitative descriptive research. Quantitative descriptive research is research that takes

data in data presented in the form of numbers that aim to test the hypothesis. In this study, the research location was concentrated in 33 Regency / City in North Sumatra Province and only variables related to the value of direct expenditure, indirect expenditure, general allocation funds, and economic growth. Data analysis using panel data regression analysis (pooled data). Panel data is a combination of data between place or space (cross section) and data between time (time series).

The following is the panel data regression estimation model:

$$PE = \beta_0 + \beta_1 BLi_t + \beta_2 BTLi_t + \beta_3 DAUi_t + \varepsilon_{it}$$

4. Results and Discussion

- Direct Expenditure has a negative and insignificant effect on Economic Growth in North Sumatra Province in 2012-2021.
- Indirect Expenditure has a negative and significant effect on Economic Growth in North Sumatra Province in 2012-2021.
- General Allocation Fund has a positive and significant effect on Economic Growth in North Sumatra Province in 2012-2021.
- There is an effect of Direct Expenditure, Indirect Expenditure and General Allocation Fund together on economic growth in North Sumatra Province in 2012-2021.

5. Conclusions

Based on the results of research and discussion conducted by researchers, the following conclusions can be drawn.

1. The Effect of Direct Expenditure on Economic Growth

The hypothesis has been put forward that Direct Expenditure has a positive effect on Economic Growth. Based on the table above that the t-count value is $-0.839778 < t\text{-table } 1.961$. The probability value is $0.4017 > 0.05$. The probability value is greater than 0.05, so it can be concluded that direct expenditure has a negative and insignificant effect on economic growth.

The negative direction of the relationship indicates that the two variables are opposite. To increase direct expenditure so that it is expected that the local government should BAPPEDA (Regional Development Planning Agency) should increase the portion of direct expenditure that is public in nature such as development spending on education and infrastructure so as to increase sustainable economic growth to maximise regional revenue by exploring the potential of the region.

2. The Effect of Indirect Expenditure on Economic Growth

Hipotesis yang telah dikemukakan bahwa Belanja Tidak Langsung berpengaruh positif terhadap Pertumbuhan Ekonomi. Berdasarkan tabel diatas bahwa nilai t-hitung sebesar $-10,5206 < 1,961$. Nilai probabilitas sebesar $0,0000 < 0,05$. Nilai probabilitas lebih kecil dari 0,05 sehingga dapat disimpulkan bahwa Belanja tidak langsung berpengaruh terhadap pertumbuhan ekonomi. Belanja Tidak Langsung berpengaruh negatif dan signifikan terhadap pertumbuhan ekonomi. Arah hubungan negatif menunjukkan bahwa kedua variabel secara berlawanan.

3. The Effect of General Allocation Fund on Economic Growth

The hypothesis has been stated that the General Allocation Fund has a positive effect on Economic Growth. Based on the table above, the t-count value is $2.02085 > 1.961$. The probability value is $0.0442 < 0.05$. The probability value is smaller than 0.05 so it can be concluded that the general allocation fund has a positive and significant effect on economic growth. The direction of the positive relationship indicates that if the General Allocation Fund increases, Economic Growth will also increase. To reduce the General Allocation Fund, the government can take the following steps:

- Evaluation of programmes and projects: The government can conduct a thorough evaluation of programmes and projects funded by the general allocation fund. Identify programmes that are less effective or do not provide significant benefits, and consider discontinuing or reducing their funding.
- Increased non-tax revenue: Governments can seek alternative sources of revenue outside of taxes to reduce reliance on general allocation funds. This could include developing new economic sectors, increasing revenue from natural resources, or creating new revenue programmes such as licences or permit.

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