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# The Influence of Regional Expenditures and Allocation of Funds on Regional Development In Simalungun Regency

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## Abstract

This research aims to determine how direct expenditure, indirect expenditure, and allocation of funds affect regional development based on GRDP in Simalungun Regency. And to find out whether there is an effect of direct spending, indirect spending, and allocation of funds simultaneously on regional development based on GRDP in Simalungun Regency. This research uses multiple linear regression analysis methods and statistical test analysis tools, namely the coefficient of determination test, partial test (t test), and simultaneous test (F test). The data used is data on GRDP, direct expenditure, indirect expenditure, and fund allocation of Simalungun Regency in 2013-2022 which is interpolated into 40 data. The results of this research are that the direct expenditure variable has a negative and significant effect on regional development based on the GRDP of Simalungun Regency. The indirect expenditure variable has a positive and significant effect on regional development based on GRDP in Simalungun Regency. The fund allocation variable has a positive and significant effect on regional development based on GRDP in Simalungun Regency. Direct expenditure, indirect expenditure, and fund allocation simultaneously affect regional development based on GRDP in Simalungun Regency.

**Keywords:** Direct Expenditure; Indirect Expenditure; Allocation of Funds; GDRP; Regional Development

## 1. Introduction

The progress and development of a country's economy can be seen from its development. Often development in developing countries such as Indonesia is hampered by inequality between regions within a country, which results in reduced economic growth and social inequality. Development is seen as a multidimensional process that in addition to pursuing economic growth, handling income inequality, and poverty alleviation, also requires the continuation of a series of massive changes to social structures, community attitudes and national institutions [1]. As an autonomous region, the region is required to be able to develop and optimize all regional potential that is extracted from within the region concerned, so the government has an obligation to improve the welfare of the people and maintain and maintain public peace and order by providing financial assistance [2]. Indonesia's overall national development cannot be separated from regional development in all provinces. In order for a region to conduct its own focused development and management, it must have sufficient financial resources.

One of the roles of the government in efforts to promote regional development is the role of allocation, where the government must formulate policies to allocate regional expenditures and regional funds to sectors that can encourage regional development, economic growth and further improve people's welfare. One of the objectives of implementing development is to increase economic growth while ensuring equitable distribution of income for all people. Success in economic growth is closely related to development strategies. One indicator of successful development for a region is the level of economic growth. Based on the description above, the authors are interested in conducting research with the title "The Effect of Regional Expenditure and Fund Allocation on Regional Development in Simalungun Regency".

The purpose of the study was to determine the effect of direct regional expenditure on regional development in Simalungun Regency, to determine the effect of indirect expenditure on regional development in Simalungun Regency, to determine the effect of fund allocation on regional development in Simalungun Regency, and to determine the effect of direct regional expenditure, indirect regional expenditure, and fund allocation simultaneously on regional development in Simalungun Regency.

Table 1. direct expenditure, indirect expenditure, fund allocation, and GDP of Simalungun Regency 2018-2022

Tahun	Belanja Langsung	Belanja Tak Langsung	Alokasi Dana	PDRB
2018	2.701,22	455,46	1.950,98	25.996,21
2019	1.929,17	494,52	2.014,96	27.348,70
2020	1.684,07	656,6	1.820,02	27.625,69
2021	1.616,11	636,38	1.911,29	28.648,78
2022	1.791,59	607,78	2.092,16	29.990,35

## 2. Literature Review

### 2.1. Development

Development is a planning process carried out by development planning bureaucrats to make changes as a process of improving welfare for the community. Traditionally, development means a continuous increase in the Gross Domestic Product (GDP) of a country, while for regions the meaning of traditional development is more focused on increasing the Gross Regional Domestic Product (GRDP) of a province, district or city. The main indicators of development are (1) economic growth, open unemployment rate, poverty, human development index (HPI) and Gini coefficient, (2) population and employment.

Initially, development was used in the sense of economic growth. A society is considered successful in implementing development if the economic growth of the society is quite high. Thus, what is measured in development is the productivity of society or the productivity of the country each year. The development process requires economic growth followed by change (growth plus change) with changes in economic structure. Planned development is perceived as a more rational and organized effort for the development of an underdeveloped or newly developing society.

### 2.2. Regional Development

Regional development is a process in which local governments and their communities manage existing resources and form a partnership pattern between local governments and the private sector to create new jobs and stimulate the development of economic activities in the region. In regional development there is a combination of things that become a priority context, such as the choice between economic growth, human development, and infrastructure development. These three things cannot be done at the same time with the same weight and speed because they must be done with a limited time scale and budget allocation. The purpose of regional development is to improve the welfare of the people. Before carrying out regional development, first understand regional needs, regional potential, and regional development challenges. Some regional development theories (Arsyad, 1999: 116) are:

1. Neo-classical Economic Theory, this theory provides two concepts in regional development, namely balance and mobility of factors of production. This means that the economic system will reach a natural balance if capital can flow from areas that have high wages to areas that have low wages.
2. Economic Base Theory, this theory states that the main factor of economic growth in a region is related to the demand for goods and services from outside the region. The growth of industries that use local resources with an export orientation will generate regional wealth and create employment opportunities. The theory explains that the regional economy is divided into two, namely (1) Base sector: economic sectors that can be used to meet the needs of the region itself and the needs of other regions and exports (2) non-base sector: economic sectors that can only be used to meet the region itself. The weakness of this theory is that the economy is based on external demand, which can lead to a very high dependence on national and global market forces.
3. Local Theory, a factor that affects the economic growth of a region is location. This is appropriate when associated with the development of industrial estates. Companies tend to minimize costs by choosing locations that maximize their chances of getting close to markets and raw materials.

The implementation of regional autonomy by districts / cities does not necessarily mean that all regions can advance regional development quickly. The size of the APBD contribution is a measure of the successful implementation of regional development.

### 2.3. Gross Regional Cosmetic Product (GRDP)

Gross cosmetic product for the regional level in a country is called Gross Regional Cosmetic Product (GRDP). Gross Regional Cosmetic Product (GRDP) can be used as an indicator of regional development. The size of GRDP that can be generated by a region or area depends on the amount of natural resources that have been utilized, the number and quality of human resources, government policies, geographical location, and the availability of facilities and infrastructure in the region.

Gross Regional Cosmetic Product (GRDP) is one of the main reflections of the success of a development effort. Gross

Regional Cosmetic Product (GRDP) as statistical data that summarizes the acquisition of added value from all economic activities in a region in a given year. Regional development can be seen from the development of Gross Regional Cosmetic Product (GRDP). If the development of GRDP increases, the more positive impact on regional development, therefore its role as one of the main indicators in the economy.

#### *2.4. Regional Expenditure*

Regional expenditure is an obligation of the regional government that is recognized as a deduction from the net worth during the relevant fiscal year (Law Number 33 of 2004). Regional expenditures include all expenditures from the regional general cash account that reduce current fund equity. Regional expenditures are financed from the proceeds of regional revenues. Regional expenditure is used in order to fund the implementation of government work that falls under the authority of the province or regency / city which consists of mandatory work and optional work determined by statutory provisions.

#### *2.5. Direct Expenditure*

Direct expenditure is expenditure that is directly affected by the programs and activities of the Regional Work Unit (SKPD) whose contribution to the achievement of work performance can be measured. The direct expenditure group of an activity is divided according to the type of expenditure consisting of : personnel expenditure (expenditure for Honararium expenses or wages in implementing local government programs and activities), goods and services expenditure (expenditure used for the purchase or procurement of goods with a useful value of less than 12 months or the use of services in implementing local government programs and activities), and capital expenditure (expenditure used for expenditures made in the context of the purchase/procurement or construction of tangible fixed assets that have a useful value of more than 12 months to be used in government activities such as in the form of land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets)

#### *2.6. Indirect Expenditure*

Indirect expenditure is expenditure that is not directly influenced by the existence or absence of programs and activities of the Regional Work Unit (SKPD). Based on the Regulation of the Minister of Home Affairs Number 21 of 2011 concerning regional financial management guidelines, the indirect expenditure group consists of: personnel expenditure (compensation expenditure in the form of salaries and allowances and other income provided to civil servants determined in accordance with statutory provisions), interest expenditure (funds used to budget debt interest payments calculated on principal debt obligations under short-term, medium-term, and long-term loan agreements), subsidy expenditure (funds used to budget production cost assistance to certain companies/institutions so that the selling price of the production/services produced can be affordable by the general public), grant expenditure (funds that are not binding or not on an ongoing basis and must be used in accordance with the requirements set out in the regional grant agreement text), social assistance (budget for assistance in the form of money and/or goods to the community aimed at improving community welfare), revenue- sharing expenditure (budget for revenue-sharing funds sourced from provincial revenues to districts/cities or district/city revenues to village governments or certain local government revenues to other local governments in accordance with statutory provisions), and unforeseen expenditures (expenditures for activities that are unusual or not expected to recur such as natural disaster management and social disasters that are not expected in advance).

#### *2.7. Relationship between Regional Expenditure and Regional Development*

Government spending plays an important role in providing public goods and services, the availability of these public goods and services will determine the collection of capital or public or private investment so that it will encourage development. Basic needs theory (basic needs/welfare development model) was proposed by Gunnar Myrdall. This theory tries to solve development problems directly by meeting all the basic needs of the community by meeting the needs of clothing, food, housing, and access to public services such as education, health, clean water, transportation, and others. For this reason, the government can subsidize or help fulfill the basic needs of the community. The distribution of regional budgets is an effort to accelerate the realization of community welfare through services, empowerment, and the role of the community to increase regional competitiveness by taking into account the principles of democracy, equity, justice, privileges, and the specificity of a region. The process of designing regional budgets emphasizes the direction of development at the regional level. The role of the regional budget in regional development is to guide the planning of the amount of expenditure in various sectors with a focus on the implementation of programs and activities.

#### *2.8. Fund Allocation*

Fund allocation is a fund allocated by the government to the regions that comes from the share of central financial balance funds received by the regency. Allocation of funds is a significant fund for regions to support their programs. The objectives of the fund allocation are: Improving development planning and budgeting at the local level and community empowerment, improving infrastructure development, reducing poverty and inequality, improving services to the community, and increasing local and community income. Fund allocations encourage the implementation of regional autonomy as well as efforts to empower local governments and their communities. The central government as a facilitator, facilitates communities in the regions to be able to carry out the functions of planning, implementing, and monitoring the use of the allocation of funds received. There needs to

be mutually supportive cooperation between the central government and local governments to finally create equitable development in the regions.

### 2.9. Relationship between Fund Allocation and Regional Development

The concept of fund allocation is not an economic idea but an idea to provide assistance for development and development in the regions. The government expects the allocation of funds policy to support the implementation of development while maintaining the continuity of development in the regions. The purpose of fund allocation is to improve development planning and budgeting in the regions, empower communities, and improve infrastructure development in the regions. With greater allocation of funds, it is expected that economic growth, human development, and infrastructure development will increase.

### 3. Research Method

The type of research used is quantitative descriptive research. The data obtained in supporting this research were analyzed using statistical and econometric methods which were then interpreted. The scope of this research is the effect of direct regional expenditure, the effect of indirect regional expenditure, and the effect of fund allocation on regional development based on GRDP in Simalungun Regency. The type of data used in this research is secondary data. The variable data used in this study were obtained from the Central Bureau of Statistics, the Ministry of Finance, the Simalungun Regency government, and other related publication sources. The data used in this study are annual time series data from 2013-2022 which are interpolated quarterly into 40 observation data.

The data in this study were analyzed using multiple regression models. Multiple linear regression analysis is used to determine the magnitude of the relationship and influence of the independent variables (X1, X2, and X3) on the dependent variable (Y). The equation model used is as follows:

$$Y = a + b1X1 + b2X2 + b3X3 + e$$

The classic assumption tests used are normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. The statistical tests used are the coefficient of determination (R2) test, partial test (t test), and F test (simultaneous).

### 4. Results and Discussion

Table 2. Multiple Linear Regression Analysis Results  
 Dependent Variable: NLOGY Method: Least Squares Date: 11/27/23 Time: 11:03  
 Sample (adjusted): 2013Q2 2022Q4 Included observations: 39 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.344370	0.014133	24.36678	0.0000
NLOGX1	-0.007445	0.002660	-2.799355	0.0083
NLOGX2	0.075706	0.023123	0.274006	0.0024
NLOGX3	0.036534	0.020393	1.791545	0.0000
R-squared	0.686537	Mean dependent var		0.326527
Adjusted R-squared	0.633954	S.D. dependent var		0.004909
S.E. of regression	0.004006	Akaike info criterion		-8.105122
Sum squared resid	0.000562	Schwarz criterion		-7.934500
Log likelihood	162.0499	Hannan-Quinn criter.		-8.043904
F-statistic	7.351048	Durbin-Watson stat		0.676509
Prob(F-statistic)	0.000603			

$$Y = a + b1NLOGX1 + b2NLOGX2 + b3NLOGX3 + e$$

$$Y = 3.344370 - 0.007445NLOGX1 + 0.075706NLOGX2 + 0.036534NLOGX3 + e$$

The results of the above equation can be explained as follows:

1. The constant value obtained is 3.344370, it means that if direct expenditure (X1), indirect expenditure (X2), and fund allocation (X3) increase by one simultaneously, regional development based on GRDP in Simalungun Regency will increase by 3.344370.
2. The regression coefficient value of the direct expenditure variable is negative, amounting to - 0.007445. This means that if direct expenditure increases, it will reduce regional development based on GRDP in Simalungun Regency by - 0.007445.
3. The regression coefficient value of the indirect expenditure variable is positive, namely 0.075706. This means that if indirect expenditure increases, regional development based on GRDP in Simalungun Regency will also increase by 0.075706.
4. The regression coefficient value of the fund allocation variable is positive, namely 0.036534. This means that if the allocation of funds increases, regional development based on GRDP in Simalungun Regency will also increase by 0.036534.

The normality test in this study shows that the variables are normally distributed. This is because the prob Jarque-Bera value is 0.626660 which is greater than the value of 0.05. This study shows that there is no autolorelasi because the DW value is greater than dL, namely  $1.890401 > 1.3283$ . Multicolonerity test this study does not show any symptoms because the VIF value of the three variables is smaller than 10.00. Heteroscedasticity test does not show because the significant value of this study shows greater than 0.05.

The R-Square value of the regression coefficient test results is 0.68. So it can be concluded that the contribution of direct expenditure variables, indirect expenditure, and allocation of funds simultaneously (simultaneously) to regional development based on GRDP in Simalungun Regency is 68% while the remaining 32% is influenced by other factors. The results of the t test in this research are:

1. The direct expenditure variable has a t-statistic value of - 2.799355 with a prob. (significance) value of  $0.0083 < 0.05$ , it can be concluded that direct expenditure has a negative and significant effect on regional development based on GRDP in Simalungun Regency.
2. The indirect expenditure variable has a t-statistic value of 0.274006 with a prob. value (significance) of  $0.0024 < 0.05$ , it can be concluded that indirect expenditure has a positive effect and has a significant effect on regional development based on GRDP in Simalungun Regency.
3. The fund allocation variable has a t-statistic value of 1.791545 with a prob. (significance) value of  $0.0000 < 0.05$ , it can be concluded that fund allocation has a positive effect and has a significant effect on regional development based on GRDP in Simalungun Regency.

It is known that the F-statistic value is 7.351048 and the prob F-statistic value is  $0.000603 < 0.05$ , so it can be concluded that direct expenditure, indirect expenditure, and fund allocation simultaneously affect regional development based on GRDP in Simalungun Regency.

Direct expenditure has a negative and significant effect on regional development based on GRDP in Simalungun Regency. Direct regional expenditure has a negative effect on regional development in Simalungun Regency based on GRDP in 2013-2022 because in 2019-2021 direct regional expenditure in Simalungun Regency has decreased due to the co- 19 pandemic. The covid-19 pandemic has caused the community and also the government to experience a decrease in consumption and investment. In this research variable, direct regional expenditure has decreased but GRDP has continued to increase because GRDP has other supporting variables that are greater than consumption and investment. The effect of direct expenditure on GRDP in Simalungun Regency is significant because direct expenditure in Simalungun Regency has a sufficient number to influence GRDP in Simalungun so that it can be seen that there is a significant effect on regional development based on GRDP in Simalungun Regency.

Indirect expenditure has a positive and significant effect on regional development based on GRDP in Simalungun Regency. It is said to have a positive effect because in the last 10 years the Simalungun Regency government can allocate indirect expenditure on target to the economy in Simalungun Regency so that if indirect expenditure increases, development based on GRDP will also increase. Indirect expenditure has a significant effect on the development of Simalungun Regency based on GRDP because indirect expenditure has a number that is quite influential on GRDP in Simalungun Regency so that the effect of indirect expenditure is seen to have a significant effect on regional development based on GRDP in Simalungun Regency.

Fund allocation has a positive and significant effect on regional development based on GRDP in Simalungun Regency. . The allocation of funds is said to have a positive effect because if the allocation of funds increases, GRDP in Simalungun Regency will also increase. This means that the allocation of funds in Simalungun Regency is allocated appropriately to the economic sector which also has an impact on regional development in Simalungun Regency. Based on the statistics, the allocation of funds has a significant effect on regional development in Simalungun Regency because the allocation of funds in Simalungun Regency has a high enough number so that there is an influence or significant on the GRDP of Simalungun Regency.

Based on the results of the F test, the F statistical result is 7.351048 and the probability value of the F statistic is 0.000603 which is smaller than 0.05, it means that direct expenditure, indirect expenditure, and allocation of funds simultaneously (simultaneously) affect regional development based on GRDP in Simalungun Regency. Based on the results of the coefficient of determination (R<sup>2</sup>) test, it is known to obtain an R-squared value of 0.68, so direct spending, indirect spending, and fund allocations

simultaneously affect regional development based on GRDP in Simalungun Regency by 68%. While the remaining 32% is influenced by other variables outside this study.

## 5. Conclusions

Based on the analysis and discussion, the following conclusions can be drawn:

1. Direct expenditure in Simalungun Regency has a negative and significant effect on regional development based on GRDP in Simalungun Regency. It has a negative effect because in 2019-2021 the covid-19 pandemic occurred.
2. Indirect expenditure in Simalungun Regency has a positive and significant effect on regional development based on GRDP in Simalungun Regency. If indirect spending increases, the GRDP of Simalungun Regency will also increase.
3. Allocation of funds in Simalungun Regency has a positive and significant effect on regional development based on GRDP in Simalungun Regency. If the allocation of funds increases, the GRDP of Simalungun Regency also increases.
4. Based on the F test in this study, that direct expenditure, indirect expenditure, and allocation of funds simultaneously (simultaneously) have a positive and significant effect on regional development based on GRDP in Simalungun Regency.

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