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FISCAL DECENTRALIZATION POLICY ON REGIONAL ECONOMIC GROWTH IN CILACAP, JAWA TENGAH

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Abstract

This study investigates influence of Regional Original Revenue (PAD), Regional Expenditure, Inflation, and the Human Development Index (HDI) on Economic Growth in Cilacap Regency from 2013 to 2023. A multiple linear regression with a quantitative approach method used for this study. Data used from 2013 to 2023 from BPS. The results found that PAD, Regional Expenditure, Inflation, and HDI do not have a statistically significant effect have not have simultaneously significant effect on economic growth. However, Regional Expenditure and Inflation have significant effects. The coefficient of determination is 0.522, indicating that model can explain 52.2% of the variation in economic growth in Cilacap Regency, while 47.8% is explained by other variables not included in the study.

Keywords: Economic Growth, Regional Original Revenue, Regional Expenditure, Inflation, Human Development Index

Introduction

The Indonesian government is committed to creating a prosperous society through economic development programs. One of the approaches taken is the implementation of decentralization, which began to be formally implemented in 2001. At that time, the central government significantly increased the transfer of funds to the regions, from Rp33.07 trillion (in 2000) to Rp81.05 trillion (in 2001), an increase of 145.06%. The upward trend continued until it reached Rp812.97 trillion in 2019, although it decreased in 2020 to Rp762.54 trillion due to the impact of the Covid-19 pandemic.

The implementation of regional autonomy officially began with the enactment of Law No. 22/1999 on Regional Government and Law No. 25/1999 on Financial Balance between the Central and Regional Governments. This policy marked an important transformation in the relationship between the central and local governments, particularly in the effort to create more equitable economic growth and sustainable local development. However, the implementation of fiscal decentralization has been controversial. Some argue that decentralization has actually slowed economic growth in some regions, due to weak management capacity.

According to Oates (1993), decentralization has the potential to improve the efficiency and effectiveness of public services because local governments better understand local needs. However, as noted by Breuss and Eller (2004), the impact of fiscal decentralization is not singular. On the one hand, decentralization can improve the performance and responsiveness of local governments; on the other hand, it can also create fiscal risks and increase the potential for irregularities. Kuncoro (2004) asserts that attention to decentralization was triggered by the failure of centralized planning and the increasing complexity of the development process. Hidayat (2005) mentioned three main reasons why developing countries implement fiscal decentralization: to create efficiency in government administration, to expand regional autonomy, and as a strategy to overcome political instability. Hirawan (2007) adds that decentralization is needed to promote democratization and realize people's welfare.

As part of national development, regional development has a strategic role. Cilacap Regency, Central Java, is one of the regions that benefits from the fiscal decentralization policy. However, the optimization of its implementation is highly dependent on the fiscal capacity of the region. Based on Law No. 33/2004, regional funding sources consist of regional own-source revenue (PAD), balancing funds, regional loans, and other legal revenues. Fund transfers from the center to the regions aim to reduce fiscal disparities between regions. These funds include Revenue Sharing Funds, General Allocation Funds (DAU), Special Allocation Funds (DAK),

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Special Autonomy and Privileges Funds, Regional Incentive Funds, and Village Funds. The increase in the transfer allocation to Cilacap Regency is due to the increase in regional needs and expenditures, which also affects the ability of local governments to encourage local economic growth.

Law No. 32/2004, which was later refined by Law No. 23/2014, provides clearer authority regarding the division of affairs between the central and regional governments. The law emphasizes that provinces are autonomous regions as well as administrative regions, while regencies/cities are purely autonomous regions. Kaloh (2002) emphasizes that autonomy should be interpreted as the autonomy of the people, not just regional authority. This means that the delegation of authority must also be accompanied by active community participation in development.

However, Prud'homme (in Sugiyanto, 2000) identified several weaknesses in regional autonomy, such as increasing fiscal disparities between regions, weakening macro policy coordination, low effectiveness of public representation, and widespread corrupt practices from the center to the regions.

Fiscal decentralization, as defined by Khusaini (2006), is the devolution of financial management authority from the center to the regions. Bahl and Linn (1992) refer to it as the degree of fiscal autonomy granted to subnational governments. Bird (2000) classifies fiscal decentralization in three forms: relinquishment of administrative responsibilities, delegation of functions, and delegation of authority.

Bahl (2000) underlines that fiscal decentralization will be effective if it meets several conditions, such as the existence of adequate fiscal authority in the regions, the principle of "money follows function", an evaluation system from the center, and the existence of incentives and supporting rules. Bird (1981) states that the four main pillars of fiscal decentralization are expenditure, revenue, intergovernmental transfer, and local borrowing.

Oates (1993) states that fiscal decentralization can improve the efficiency of public goods provision and accelerate economic growth. Local governments that have fiscal authority tend to be better able to prepare budgets that are responsive to community needs. At the beginning of the implementation of this policy, the Balancing Fund amounted to Rp81.1 trillion in 2001 and continued to increase, reaching Rp278.7 trillion in 2008.

Figure 1. 1
Development of Balance Fund 2001 - 2008

Source: Ministry of Finance, NK RAPBN 2009 and NK RAPBN 2010.

Barzelay (1991) mentions three main missions of fiscal decentralization, namely: increasing the efficiency of resource management, improving public services, and encouraging community participation in development.

According to Kuznets and Todaro (2003), economic growth is the long-term increase in a country's capacity to provide economic goods and services. Rostow argues that economic growth is a comprehensive transformation of society from social, political, to economic structure. Solow states that growth is influenced by human factors, capital, technology, and output. Todaro (2003) adds that growth is spurred by investment (capital), population increase (labor force), and technological innovation.

The classical growth theory proposed by Adam Smith highlighted the importance of population, capital stock, land area, and money as the main factors of growth. Meanwhile, the economic base theory states that exports are the main driver of economic growth in a region (Tarigan, 2005).

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Research Methods

This research uses a quantitative approach with descriptive and inferential approaches. The quantitative approach is used to measure the effect of fiscal decentralization policies on regional economic growth through numerical and statistical data. The descriptive approach is used to describe the development of the variables studied during a certain period, while the inferential approach is used to test the hypothesis of the relationship between variables. The purpose of this approach is to obtain objective and systematic results.

The research was conducted in Cilacap Regency, Central Java using secondary data (time series data) from 2013 - 2023. The data used is secondary data obtained from, BPS Cilacap Regency, Cilacap Regency APBD reports, and inflation reports from BPS Central Java Province. The research variables used, namely the independent variable (X) and the dependent variable (Y). Independent variables (X), such as Regional Original Revenue (PAD), Regional Expenditure (BD), Inflation, and Human Development Index (HDI). While the dependent variable (Y), regional economic growth as measured by Gross Regional Domestic Product (GRDP), with the following formulation:

Variabel	Simbol	Satuan	Keterangan
Pendapatan Asli Daerah	X1	Juta Rupiah	Pendapatan daerah yang berasal dari potensi daerah itu sendiri
Belanja Daerah	X2	Juta Rupiah	Jumlah total belanja pemerintah daerah tiap tahun
Inflasi	X3	%	Persentase kenaikan harga barang dan jasa
Indeks Pembangunan Manusia	X4	Skala 0–100	Ukuran kualitas hidup masyarakat
Pertumbuhan Ekonomi	Y	%	Laju pertumbuhan PDRB atas dasar harga konstan

This research uses multiple linear regression statistical analysis, with the following stages:

a. Descriptive Statistical Analysis
Used to provide an overview of the data characteristics of each variable.

b. Classical Assumption Test:
- Normality Test
- Multicollinearity Test
- Heteroscedasticity Test
- Autocorrelation Test

c. Multiple Linear Regression Analysis:

$$Y = \alpha + \beta_{(1)} X_{(1)} + \beta_{(2)} X_{(2)} + \beta_{(3)} X_{(3)} + \beta_{(4)} X_{(4)} + e$$

where:
Y = Economic Growth
X_1 = Regional Original Revenue (PAD)
X_2 = Regional Expenditure (BD)
X_3 = Inflation
X_4 = Human Development Index (HDI)

d. Hypothesis Test:
- Test t (partial): to see the effect of each independent variable separately
- F test (simultaneous): to see the effect of independent variables together
- Coefficient of Determination (R^2): to determine how much the independent variable explains the variation in the dependent variable.

Results and Discussion

The GRDP value of Cilacap Regency at current prices in 2023 reached 132.42 trillion rupiah. Nominally, this GRDP value increased by 11.40 trillion rupiah compared to 2022 where the value reached 121.02 trillion rupiah. This increase in GRDP value is strongly influenced by the improvement in socioeconomic conditions in 2023 compared to the previous year. Based on constant 2010 prices, the GRDP figure also increased from 96.67 trillion rupiah in 2022 to 101.83 trillion rupiah in 2023. This shows that during 2023 Cilacap Regency experienced economic growth of 5.34 percent. If calculated without using the contribution of the oil and gas processing industry, the Cilacap economy was recorded to grow by 5.76 percent. The value of Cilacap's GRDP per capita at current prices in 2023 increased compared to 2022. In 2023 the GRDP per capita was recorded at 65 million rupiah. Nominally, it increased compared to the previous year which only reached 60 million rupiah.

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Table 1.1 Data on PAD, BD, INFLATION, HDI, and PE
Cilacap Regency for the Period 2013 - 2023

Periode Tahun	PAD (X1) (Juta Rupiah)	Belanja Daerah (X2) (Juta Rupiah)	Inflasi (X3) (%)	IPM (X4) (0 - 100)	PE (Y) (%)
2013	278.508	2.047.159	8.37	66.80	5.25
2014	373.907	2.206.059	8.19	67.25	5.34
2015	409.846	2.657.124	2.63	67.77	5.55
2016	428.598	3.150.326	2.69	68.60	5.09
2017	572.504	2.928.502	4.41	68.90	5.33
2018	497.354	3.260.826	3.21	69.56	5.14
2019	574.277	2.770.347	2.19	69.98	5.37
2020	591.344	2.607.739	1.71	69.95	-1.36
2021	739.134	2.799.693	1.88	70.42	3.39
2022	700.414	2.861.518	6.81	70.99	5.77
2023	753.342	3.501.106	2.69	71.83	5.78

Source: BPS Cilacap Regency, Central Java

Simple Linear Regression Test with SPSS

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	65.533	91.346		.717	.500
	PAD	5.438E-6	.000	.407	.417	.691
	BD	4.934E-6	.000	1.013	2.109	.080
	INFLASI	.622	.300	.754	2.074	.083
	IPM	-1.158	1.463	-.878	-.791	.459

a. Dependent Variable: PE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.572	4	5.643	1.635	.281[b]
	Residual	20.705	6	3.451		
	Total	43.277	10			

a. Dependent Variable: PE
b. Predictors: (Constant), IPM, INFLASI, BD, PAD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.522	.203	1.858

a. Predictors: (Constant), IPM, INFLASI, BD, PAD

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	IPM, INFLASI, BD, PAD[b]	.	Enter

a. Dependent Variable: PE
b. All requested variables entered.

Hypothesis Formulation
a. Simultaneous Hypothesis (F Test):

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- H_0: There is no simultaneous significant influence between Regional Original Revenue (PAD), Regional Expenditure, Inflation, and Human Development Index (HDI) on Economic Growth in Cilacap Regency in 2013-2023.
- H_1: There is a simultaneous significant influence between PAD, Regional Expenditure, Inflation, and HDI on Economic Growth in Cilacap Regency in 2013-2023.

b. Partial Hypothesis (t test):

PAD on Economic Growth
- H_0: PAD has no significant effect on Economic Growth.
- H_1: PAD has a significant effect on Economic Growth.

Regional Expenditure on Economic Growth
- H_0: Regional Expenditure has no significant effect on Economic Growth.
- H_1: Regional Expenditure has a significant effect on Economic Growth.

Inflation on Economic Growth
- H_0: Inflation has no significant effect on Economic Growth.
- H_1: Inflation has a significant effect on Economic Growth.

HDI on Economic Growth
- H_0: HDI has no significant effect on Economic Growth.
- H_1: HDI has a significant effect on Economic Growth.

Based on the results of multiple linear regression calculations, several important findings were obtained, namely:

a. Descriptive Statistical Analysis

Variabel	Minimum	Maksimum	Rata - rata	Std Deviasi
PAD (Juta Rp)	278.508	753.342	545.746	~160.051
Belanja Daerah (Juta Rp)	2.047.159	3.501.106	2.800.400	~463.761
Inflasi (%)	1.71	8.37	3.92	~2.49
IPM (0–100)	66.80	71.83	69.30	~1.72
Pertumbuhan Ekonomi (%)	-1.36	5.78	4.54	~1.91

- PAD: Over the period 2013-2023, PAD has increased significantly from IDR 278 billion to IDR 753 billion, with an average of IDR 545 billion.
- Regional Expenditure: Ranges from IDR 2 trillion to IDR 3.5 trillion, with an average of IDR 2.8 trillion.
- Inflation: Sharp fluctuations from 1.71% (2020) to 8.37% (2013), average 3.92%.
- HDI: Consistently rose from 66.80 to 71.83, with an average of 69.30.
- Economic Growth: Ranged from -1.36% (2020 pandemic recession) to 5.78%, average 4.54%.

b. Classical Assumption Test
- Normality: Passed the test
- Multicollinearity: Not found (VIF < 10)
- Heteroscedasticity: No symptoms
- Autocorrelation: No autocorrelation (DW $\approx$ 2)

c. Multiple Linear Regression Analysis
The multiple linear regression model produces the following equation:
PE = 65.533 + 0.000005-PAD + 0.000005-BD + 0.622-Inflation - 1.158-IPM

The coefficient of determination (R^2) of 0.522 indicates that PAD, BD, Inflation, and HDI explain 52.2% of the variation in Economic Growth in Cilacap Regency.

d. Hypothesis Test
- F Test (Simultaneous):
F count = 1.635 and Significance = 0.281 (> 0.05), meaning that there is no significant simultaneous influence of all independent variables on economic growth.
- Test t (Partial):
PAD: t = 0.417, Sig. = 0.691 → Not significant
Regional Expenditure: t = 2.109, Sig. = 0.080 → Marginally significant

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Inflation: t = 2.074, Sig. = 0.083 → Marginally significant
HDI: t = -0.791, Sig. = 0.459 → Not significant

The following explanation outlines the relationship between the independent variables and regional economic growth based on the research results:

1. Regional Original Revenue (PAD):
   PAD has not made a significant contribution to PE. This could be due to the use of PAD that has not been focused on productive activities. The findings in this study state that Regional Original Revenue has no significant effect on economic growth in Cilacap Regency. This result is supported by previous research by Dewi & Wardana (2022). The results of this study are also not in line with classical economic growth theory which states that one of the main factors driving economic growth is capital accumulation.

2. Regional Expenditure (BD):
   The results of calculations using SPSS show that the Regional Expenditure (BD) variable has a significance value of 0.080, which means that it has a significant effect on economic growth at the 10% significance level. This shows that regional expenditure still has a role in influencing economic growth in Cilacap Regency during the 2013-2023 period, although the effect is not too strong. However, this positive influence will not be optimal if the increase in regional expenditure is not focused on productive expenditure, such as capital and infrastructure expenditure which can directly encourage economic activity, job creation, and long-term growth.

3. Inflation:
   Controlled inflation has the potential to boost PE, but it is not significant in this period, perhaps due to structural factors of the regional economy. According to the results of the SPSS calculations above, the results show that inflation affects economic growth in Cilacap with a significance level of 10%. This is supported by research by Salim, Amir. et al (2021) that higher inflation will increasingly affect economic growth rates in Indonesia.

4. Human Development Index (HDI):
   HDI shows a positive direction, but its effect on PE is not significant. This could be because the impact of HDI is long-term and not immediately visible in real GRDP. This study supports the findings in previous research by Safinatun, Najah et al (2025) that HDI has no effect either alone or simultaneously on economic growth in East Java.

Conclusion and Suggestions

Based on the results of multiple linear regression analysis on the effect of Regional Original Revenue (PAD), Regional Expenditure, Inflation, and Human Development Index (HDI) on Economic Growth in Cilacap Regency in 2013-2023, the following conclusions were obtained:

1. Simultaneously, PAD, Regional Expenditure, Inflation, and HDI **have no significant effect** on Economic Growth in Cilacap Regency in 2013-2023.
2. Partially:
   a. **Regional Expenditure and Inflation** have a marginally significant effect on economic growth with a significance level of 10%, which indicates that these two variables still have a role in influencing economic growth, although not dominant.
   b. **PAD and HDI** have no significant partial effect on economic growth, which indicates that an increase in PAD and HDI has not been followed by a direct increase in economic output.
3. The model is only able to explain 52.2% of the variation in PE, indicating that other factors are more dominant in influencing regional economic growth.

Based on the research results and conclusions that have been described, some suggestions that can be given are as follows:

1. **Local governments need to improve the effectiveness of local spending**, especially by directing budget allocations to productive sectors such as infrastructure development, education, and the local economy. This is important so that regional spending has a direct impact on economic growth.
2. **Inflation control remains the main focus**, as it affects the economic stability of the community.
3. **Additional variables** need to be **developed** in future research such as regional investment, unemployment, and social inequality, in order to obtain a more comprehensive picture of the factors driving the regional economy.

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