

## Analysis of Regional Financial Independence Towards Economic Growth and Human Development Index (Case Study : SWP Gerbangkertasusila Plus)

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### Abstract

This study examines how the relationship of economic growth (PE) and human development index (IPM) to regional financial independence. Some of the results of previous studies show differences in research findings. This research was conducted in 12 regencies and cities included in the Development Area unit (SWP) Gerbangkertasusila Plus during periode 2012 to 2017. To conduct testing, researchers used panel data regression analysis using the help of Eviews 9 and testing hypotheses simultaneously with the F-test and partial with t-test. The results of this study indicate that simultaneously the PE and IPM variables have a positive and significant effect on regionan financial independence, while partially only a positive and significant effect on regional financial independence, and for PE has a positive and insignificant effect on financial independence area.

**Keywords:** Regional Financial Independence, Economic Growth, Human Development Index

### INTRODUCTION

Regional financial independence is a form of success from the implementation of regional autonomy policy. According [1] states that the regional autonomy policy itself has a goal to spur the equitable distribution of development, and the results of the existence of this equitable development are expected to be able to improve the welfare of the people. In fact, the ability of the region to implement this policy can be seen from the large proportion of Regional Original Revenue (PAD) obtained in the area concerned. PAD itself is one of the important aspects to find out how the condition of households in the region. This is because the PAD component comes from the diversity of natural resources that have the potential to be developed. According [2], basically the increase in PAD has a positive influence on economic growth, so that an increase in PAD will continually increase PE and will spur regional PE better. On the other hand, with the increase in PAD, it indicates that the local government has sufficient funds for regional expenditure in the public sectors (Education and health) so that indirectly the increase in PAD will increase the HDI [3]. This is

seen as an interesting problem in the financial literature.

### Regional Financial Independence

Regional financial independence is one very important aspect of the implementation of regional autonomy policy. Aminudin (2017), regional fiscal independence illustrates the ability of local governments to increase PAD, such as other regional fiber taxes and levies and regional development that can be realized only when accompanied by effective fiscal independence.

### Economic growth

According to [4] explains that, economic growth means the expansion of economic activity is the only way to increase the income of community members and open new jobs.

### Human Development Index

The human development index, also known as the Human Development Index, is a composite industry that covers three areas of human development that are considered very basic, namely, life span, knowledge, and decent living standards [5].

### HYPOTHESES

The policy of fiskak decentralization itself is implemented in Indonesia, which is expected to spur regional governments to become more independent regions in financing their

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development programs, or in other words, it is expected that fiscal decentralization can make an area have regional financial independence. With the successful implementation of the regional autonomy policy, an area is not directly able to manage the region's finances. It is expected that with the increase of regional financial independence, it is expected that the regional government can improve economic growth and

prosperity in the regencies and cities of Gerbangkertasusila Plus SWP. Figure 1 shows the conceptual framework of this study.

The relationship between economic growth and HDI to regional financial independence has been tested in previous research, which shows that PE and HDI have positive and significant value on regional financial independence. [6] [7] [8]

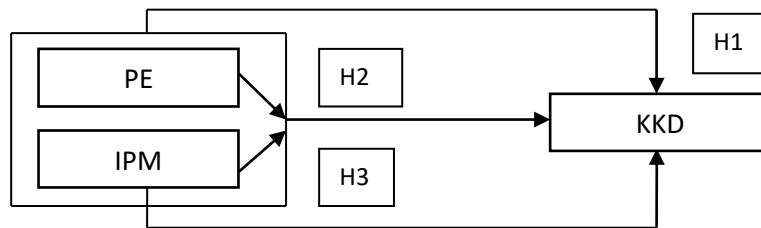


Figure 1. Conceptual Framework  
Source : Previous Research Results, 2018

This proves that, with the increasing source of PAD in the District and City of SWP Gerbangkertasusila Plus shows that, the Regencies and Cities in this region have been able to improve their financial capacity. By increasing PAD, it will indirectly increase PE in these Districts and Cities. Meanwhile, with the increase in the PAD value in the Kabupeten and the City, it will increase government expenditure for basic needs, so that with the increasing basic needs that exist, it will be able to improve the welfare of the community. The results showed a positive relationship between PE and HDI towards regional financial independence. Therefore, the following hypothesis is proposed.

**H1 Economic growth and human development index are positive and significant towards regional financial independenc**

According to [9] explained that, economic growth is a process of increasing or changing national income in a given year without regard to population growth and other aspects. Economic growth achieved from the use of a lot of labor, will not generate per capita income but, if economic growth is achieved from the use of more productive resources, it can produce higher per capita income and will indirectly increase the average standard of living the community. With the existence of a fiscal decentralization policy in which regional governments play a more important role than the central government in providing public services, this will encourage accelerated economic growth. The results of this

study indicate that the relationship between PE and regional financial independence is positive and insignificant, this is inversely proportional to the results of previous studies [10] [11] [12]. The following hypothesis is proposed

**H2 Economic growth has a positive and significant effect on regional financial independenc**

Prosperity is a system of futures about how services benefit the community. Indeed, the welfare of society is measured by an increase in the number of the human development index. The HDI itself is a good percentage, which shows that the area shows a good level of community welfare. This human development index is an effort to advance people's lives as measured by their ability to meet the needs of life and social learning. Basically development must have an impact on improving the quality of human life as a whole, both regarding the fulfillment of physical and non-physical needs. With this policy, the government is expected to be able to self-finance the activities of government, development, and service to the people who have paid taxes and levies as a source of income needed by the region can be a factor influencing the achievement of people's welfare. The results of this study indicate that the HDI has a positive and significant relationship, this is consistent with previous studies [13] [14] [15]. The following hypothesis is proposed.

**H3 The human development index has a positive and significant effect on regional financial independence Regional Finance.**

#### **MATERIAL AND METHOD**

This study uses a traditional approach. Quantitative approach is a method for testing theory by examining the relationship between variables. Characteristics of Districts and Cities as research objects are: (1) Districts and Cities included in the development area units in East Java; (2) Districts and Cities are categorized as industrial cities; (3) Districts and Cities are included in the territory of a gold committee in the territory of East Java Province. Based on these criteria, there are 12 districts and cities as the study population. The research data combines the data of the last 6 years which is included in the cross-section data from 12 Regencies and Cities. Research data obtained from sources published in the form of regional financial data. Regional financial data was obtained from the Directorate General of Balance and Finance and the Central Statistics Agency in 2012-2017. Data analysis of this study is panel data regression analysis.

#### **Data Collection**

Data collection methods in this study use methods in the form of documentation. The documentation method process is carried out by retrieving data from documents containing past events. This method is used to obtain secondary data in the form of financial statements, economic growth and other matters related to this research. Analysis regression modeling with 1 independent variable and 2 dependent variables, the equation of the model is  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + e$ , where Y is the regional financial independence,  $\beta_0$  is a constant,  $\beta_1$ -2 is the coefficient beta of the independent variable ( $X_1$  = Economic Growth, and  $X_2$  = Human Development Index). e is the term to go out in regression. In a study using hypothesis testing. In this study using two hypothesis tests including (1) hypothesis testing carried out simultaneously using the F test, (2) hypothesis testing is done partially using t test. Both of these hypothesis tests have an error level of  $\alpha = 5\%$ .

#### **RESULT AND DISCUSSION**

Table 1 shows the results of the F test. The Prob (F-Statistics) value is 0.030098 which means that the probability value is less than 5% ( $0.030098 < \alpha = 5\%$ ). The results of this F test indicate that  $H_0$  is accepted and  $H_a$  is rejected or in other words economic growth and human development index have a positive and significant effect on regional financial independence.

The results of this positive and significant research are due to government spending in the SWP area of Gerbangkertasusila Plus for the past six years has increased, both in the form of direct and indirect expenditure. Thus, with the increase in government spending, it is expected to be able to increase existing economic growth. This is in accordance with [18] stating that, efforts to increase development are highly dependent on the scope of income and expenditure sources. Ambya also concluded that government spending in the fields of Education, health and infrastructure has a positive and significant impact on economic growth. In addition [16] government expenditure itself functions as capital formation, in which government expenditure is used to improve facilities and infrastructure in the region, with the improvement of infrastructure means it will increase the investment rate in the Gerbangkertasusila Plus SWP area, so indirectly with increasing facilities and infrastructure, it will increase financial independence in the SWP area of Gerbangkertasusila Plus.

In addition to being used for the construction of facilities and infrastructure, government spending in this region is also used for education and health, with improvements in education and health, it will affect the value of an increase in the human development index in the SWP area of Gerbangkertasusila Plus. With the increase in HDI, it is expected that the SWP area of Gerbangkertasusila Plus is able to improve its welfare. Thus, the objectives of the implementation of regional autonomy have been reached in the District and City of SWP Gerbangkertasusila Plus. On the one hand, with the increasing welfare of the community, it will indirectly reduce poverty.

**Table 1. F Test Result (Simultaneous)**

Variabel	Coe	Condition	Conclusion
Prob(F-statistic)	0.030098	Prob 0.030098 < 5%	Significant

Source: Secondary data processed, 2018

Table 2 shows the results of the t-test (partial effect) of each independent variable on the dependent variable. The results of the t test show that PE has a positive and insignificant effect on regional financial independence, this can be seen from the Prob PE value of 0.8813 where the prob value of economic growth is greater than the level of fatigue (Prob 0.8813 >  $\alpha = 5\%$ ). This indifference is due to the fact that the Regional Original Revenue which is a manifestation of the implementation of fiscal decentralization has not been able to take a significant role to improve an economy in the Regency and City of the SWP Gerbangkertasusila Plus, or in other words the District and City

Regional Governments in this region lack understanding of the region, so they do not know the potential of the region. In this way, the Regional Governments in Districts and Cities still have a high level of dependence on assistance from the Central Government [17]

As for the HDI t-test, it shows that the HDI has a positive and significant effect on regional financial independence. This is because, the ipm prob value is less than 5% (Prob 0.0101 <  $\alpha = 5\%$ ). In the sense that the human development index will experience an increase if regional financial independence also increases.

**Table 2. T Test Result (Partial)**

Variable	Coefficient	Prb	Conclusion
PE	0.055164	0,8813	Not Significant
IPM	0.642631	0,0101	Significant

Source: Secondary data processed, 2018

This positive and significant result is caused because, basically the welfare of society can be fulfilled which is where the local government is able to provide the needs of the community, such as education and health. To meet the needs of the community and the implementation of regional development, the local government needs to be able to manage its regional finances well, because if the local government is able to manage its finances with baik, the local government can finance the implementation of development in its area.

According to [19] stated that, each region has different needs and characteristics so that, in the allocation of regional budgets it is expected to be adjusted to the needs of each region. Thus, success in human development in an area cannot be separated from the size of the budget allocated for the needs of the region.

**CONCLUSION**

The conclusion of this study is that the level of regional financial independence in the District and City of SWP Gerbangkertasusila Plus is able

to increase economic growth and the level of welfare in this region. This is because the local governments in the Regency and City have been able to explore and develop the potential that exists in their respective regions, so that indirectly the local government has been able to increase local revenue. In this study there are still some drawbacks, including this study only looks at how the influence of regional financial independence when the financial condition is in a stagnant state, the results of this study will be different if the financial condition in the SWP Gerbangkertasusila Plus region is experiencing a shock. Shock in as external influence from abroad. Usually this shock occurs if finance in the United States is experiencing interference. In addition, it is expected that researchers will further expand the object of research and development of variables that can relate to and or are related to regional finance.

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