

# **The Influence of Regional Original Income, General Allocation Funds, and Special Allocation Funds on the Human Development Index (Conduct Research on Java Island Regencies and Cities During 2019 to 2021)**

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**Abstract:** This study intends to examine how the Human Development Index (HDI) is impacted by Regional Original Income (PAD), General Allocation Fund (DAU), and Special Allocation Fund (DAK). For data collecting in this research design, quantitative techniques are used along with documentation techniques. 119 district/city governments on Java Island make up the study's population from 2019 to 2021. Additionally, the study's sample was chosen using a purposive sampling technique with full data criteria for the PAD, DAU, DAK, and HDI from 2019 to 2021. The information used in this study is secondary data, specifically reports on budget realization obtained from the Republic of Indonesia's Directorate General of Fiscal Balance website ([www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id)) and the Human Development Index for Java Island regencies/cities for 2019–2021 obtained from the Central Bureau of Statistics website ([www.bps.go.id](http://www.bps.go.id)). The SPSS 23.00 application is used in data analysis procedures. The study's findings demonstrate that PAD, DAU, and DAK have an impact on HDI.

**Keywords:** PAD, DAU, DAK, HDI, Java Island

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## **1. Introduction**

Absolute human development is a theory that seeks to raise the population's fundamental capacities on a physical, mental, and spiritual level [4]. It is even suggested that a nation's advancement is measured by more than just GDP and that it must prioritize improving the development of its human resources in order to be considered advanced [10]. Irianto et al. (2021) noted that because an increase in a nation's gross domestic product is frequently not accompanied by an increase in human development, this can lead to disparities in the economic standing of each group of people, which can prevent economic growth from being able to create prosperity.

The United Nations Development Program (UNDP) initially launched the Human Development Index in 1990, and it is periodically published in the yearly Human Development Report (HDR). The HDI measures the level of human development based on a number of fundamental aspects of the quality of life, which are then used to categorize nations as developed, developing, or undeveloped as well as to assess the impact of economic policies on quality of life [3]. According to Riviando et al. (2019), who used [www.bps.go.id](http://www.bps.go.id) as their source, the Human Development Index is composed of three fundamental components: a reasonable standard of living, knowledge, and healthy living. These three facets cannot exist independently, they must be mutually sustaining.

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Decentralization incorporates regional autonomy. Java's island has many areas with a richness of natural resources. Each district or city actually has distinctive wealth from its own region. With the regional autonomy policy, each regional government has the power to independently generate regional income and carry out development allocations in their area, allowing for more equitable development. The presence of abundant natural potential can significantly boost the economy of a region.

There are two key elements that contribute the most to the APBD and work together to prevent fiscal imbalances because each region has a varied potential for growth: Regional Original Income (PAD) and

balancing funds [8]. The usage of regional income is allocated more for regional spending, which can enhance the Human Development Index (allocated for health, education, and infrastructure) [7], playing a crucial role in efforts to raise the Human Development Index (IPM).

The health index, education index, and expenditure index are among the various factors that BPS (2022) claims are used to create the human development index. Naturally, these factors will be tied to Regional Original Revenue (PAD), General Allocation Funds, and Special Allocation Funds in order to raise the human development index.

Dependence on the federal government may rise or fall depending on the size of PAD. The capacity of PAD to fund the growth of its own region is a good indicator of a region's degree of independence. Regional earnings from PAD are anticipated to boost local government capital spending, resulting in an improvement in the standard of public services (Pradnyantari and Dwirandra, 2017).

Harahap (2010) claims that DAU, which comes from the federal government, is a fund set aside to pay for regional requirements and expenses as part of the decentralization process. This means that local governments can utilize these monies to deliver better services to the community, thereby raising living standards, enhancing the quality of education, and promoting longer life expectancies and healthy lifestyles. The fund balance also includes Special Allocation Funds (DAK). The APBN is used to calculate the DAK each year. DAK is distributed to certain regions to finance unique activities that are local matters. DAK strives to support specialized initiatives in various regional concerns that are in line with national interests, especially to finance the demands for basic needs.

The researcher is motivated to conduct a study titled "The Influence of Regional Original Income, General Allocation Funds, and Special Allocation Funds on the Human Development Index" in light of the foregoing.

## 2. Literature

### Teori Stewardship

According to the stewardship hypothesis, management acts with the organization's best interests in mind rather than their own personal objectives. According to the notion, success and organizational satisfaction are closely related. Success in an organization is a reflection of management teams and principals maximizing their own utility. Maximizing this group's usefulness will ultimately enhance each member's interests inside the organizational group. It is intended to achieve their primary outcome goals for the organization's benefit [11].

The implication of stewardship theory in this study is that executives in government are expected to work as well as possible for the interests of the principal, namely the community so that the management of Local Own Revenue (PAD), Special Allocation Funds (DAK) and General Allocation Funds (DAU) in District Governments / Cities in Java Island can be trusted to act in accordance with the public interest, namely carrying out their duties and functions properly so that the management objectives of PAD, DAK and DAU can be achieved optimally for the welfare of the people [11].

### Human Development Index

The notion or definition of human development, according to Riviando et al. (2019), essentially encompasses broad development elements. In order to fully grasp the idea of human development, development must be examined and comprehended not only in terms of its economic progress but also from a human perspective. This concept of development encompasses more than the one that exclusively emphasizes economic progress.

The human development index (IPM), according to UNDP, is a comparison measurement of three aspects of human development, namely:

1. Live a long and healthy life (measured by life expectancy)
2. Knowledge (measured by adult literacy levels and enrolment rates in primary, intermediate and higher schools) (measured by adult literacy levels and enrollment rates in primary, secondary and tertiary schools)
3. Have a respectable level of living (measured by income and expenditures per person) [3].

The Human Development Indicator is a composite index that includes these three qualities as its main components. The Human Development Index assesses the impact of economic policies on quality of life and is used to categorize nations as developed, developing, or undeveloped.

The HDI scales from 0 to 100. The closer to 100, the more advanced human development is (Ndacularak et al, 2014). According to BPS (2022), HDI can be divided into the following 4 categories: Kategori rendah dengan nilai IPM kurang dari 60 (IPM < 60).

- a. HDI values in the moderate category range from greater than or equal to 60 to less than 70 ( $60 \leq IPM < 70$ ).
- b. HDI ratings in the high category range from greater than or equal to 70 to less than 80 ( $70 \leq IPM < 80$ ).
- c. Very high category with an HDI score of at least 80 ( $IPM \geq 80$ ).

### **Regional Original Income**

In order to offer local governments the power to finance regional autonomy implementation efforts to take advantage of the potential already there in achieving decentralization, regional governments must obtain money based on regional regulations that does not contradict laws and regulations (UU No. 1 of 2022). The following sources of PAD are listed in Law Number 1 of 2022 Article 1: (1) regional taxes, (2) regional levies, (3) separated regional wealth management outcomes, and (4) other lawful PAD.

### **General Allocation Fund**

The General Allocation Fund (DAU), which is derived from APBN income and disbursed from the central government to regional governments, is used to fund regional needs in the context of decentralization by distributing financial capacity among regions fairly [17]. The allocation of DAU to regions with relatively high capacities will be smaller, and vice versa, places with relatively little financial capacities will receive relatively large DAUs, according to Sarkoro & Zulfikar (2016).

### **Special Allocation Fund**

According to Law No. 1 of 2022, the DAK is a fund that is drawn from the APBN. DAK is a part of Transfers to Regions (TKD), which are funds allocated to support operations of public services, which the government has determined should be used to fund specific programs, activities, and/or policies that are national priorities, advance regional development, close service gaps, promote regional economic growth, and more (national medium-term development plans, government work plans, macroeconomic framework and fiscal policy principles, Presidential directives, and statutory provisions). by taking into account regional financial capability in the APBD. While these technical standards are set by the state ministry or technical department, these specific criteria are determined by taking into account legislative regulations and geographical characteristics [4]. According to Irianto, et alresearch, 's DAK is given to specific regions to finance special activities that are regional matters. DAK intends to support certain initiatives in some regional concerns that are also in line with national interests, particularly those that finance the need for infrastructure and basic community service facilities that have not yet attained a certain quality or hasten regional growth.

### **Hypothesis Development**

#### **a) Regional Original Income against Human Development Index**

The ability of a region to harness its existing potential for use in economic activities that can produce a flow of funds for long-term regional development results in regional original income. In order to raise the human development index and improve the quality of community services including infrastructure and health, PAD is intended to be used as a source of independent funding [8].

*H1: Regional Original Income has an effect on the Human Development Index*

#### **b) General Allocation Fund against Human Development Index**

General allocation funds are funds provided by the government based on the fiscal capacity of each region in an effort to distribute regional development by reducing the possibility of fiscal gaps between regions. The government is expected to be able to allocate DAU properly and it is hoped that these funds can assist in meeting regional needs so that they can improve the quality of human development in the area in accordance with the demands of decentralization[8].

*H2: General Allocation Fund has an effect on the Human Development Index*

#### **c) Special Allocation Fund against Human Development Index**

The Special Allocation Fund is a fund allocated by the central government to regions that are used for regional needs. Local governments can use DAK to fund specific local government activities that are a priority for the central government. The local government allocates this through infrastructure development that can support community activities related to the three factors that can affect the HDI achievement level every year.

*H3: Special Allocation Fund has an effect on the Human Development Index*

### 3. Method

The causal link (cause and effect) between two or more variables is examined using an associative quantitative method according to the research design. In this instance, the dependent variable will be linked to 3 independent variables. The independent variables are DAU, PAD, and DAK (X1, X2, respectively) (X3). These variables will be connected to the Human Development Index, which is the dependent variable (Y).

119 district/city governments on Java Island make up the study's population from 2019 to 2021. Secondary data is the type of information. The documentation technique is the method of data collection that is employed. The Realization of Budgets and Transfers to Regions and Village Funds reports on the Republic of Indonesia's Directorate General of Fiscal Balance's website (www.djpk.kemenkeu.go.id) and the 2019–2020 Human Development Index for regencies/cities on Java Island were used to compile the data. The researchers selected the sample for this study using a purposive sampling technique with full data criteria for PAD, DAU, DAK, and HDI from 2019 to 2021.

#### Measurement Variable

##### Human Development Index

According to bps.go.id, the Human Development Index is based on four factors, including adjusted per capita spending, life expectancy at birth, average years of schooling, and long school expectancy rate. Before being utilized to calculate the HDI, each HDI component is standardized with a minimum and maximum value.

By dividing HDI into the following categories, it is possible to compare HDI achievements between regions:

- $IPM < 60$  : low HDI
- $60 \leq IPM < 70$  : IPM moderate HDI
- $70 \leq IPM < 80$  : IPM high HDI
- $IPM \geq 80$  : IPM very high HDI

##### Regional Original Income (PAD)

The efficacy ratio of PAD, which is the ratio used to quantify the relationship between the amount of regional income and the amount of PAD collection (realization), is employed in this study. This study's PAD measurement is based on studies by Sarkoro and Zulfikar (2016). The variable measurements used to measure PAD are described as follows:

$$PAD = \frac{PAD \text{ realization overall}}{Realization of regional revenue overall} \times 100\%$$

##### General Allocation Fund (DAU)

In order to equalize regional financial capacity to support its expenditure demands in the context of adopting decentralization, the General Allocation Fund (DAU), a fund originating from the APBN, is allocated. This study's DAU measurement is based on research by Sarkoro and Zulfikar (2016). The variable measurements used to calculate DAU are as follows:

$$DAU = \frac{DAU \text{ realization overall}}{Realization of regional revenue overall} \times 100\%$$

##### Special Allocation Fund (DAK)

Funds from the APBN known as Exceptional Allocation Funds (DAK) are distributed to areas to assist pay for special requirements. This study's DAK measurement is based on research by Sarkoro and Zulfikar (2016). The variable measurements used to measure DAK are described as follows:

$$DAK = \frac{DAK \text{ realization overall}}{Realization of regional revenue overall} \times 100\%$$

### 4. Result and Discussion

113 regencies/cities out of Java Island's total population of 119 meet the sampling criteria each year. such that 339 people made up the entire sample.

Table of test results for hypotheses

Variable	Sig.	Decision
Regional Original Income	0.000	Accepted
General Allocation Fund	0.000	Accepted
General Allocation Fund	0.000	Accepted

Source: result of data processing, 2023

### **Regional Original Income**

According to this study, The PAD variable has a significance value of 0.000 which means it is less than 0.05 or 5%. Thus it can be concluded that H1 is accepted which mean Regional Original Income has a favorable impact on the Human Development Index. In order to improve the level of human development on the island of Java, the increase in Regional Original Income (PAD) that takes place.

The Java Island human development index score is influenced by local own money that district/city governments obtain from regional taxes, regional retribution, and other legitimate regional resources. In Ramadhani and Utomo (2019), the rise in tax receipts was the result of higher receipts from fees for acquiring land and building rights, which were then followed by higher receipts from land and building taxes in both the urban and rural sectors. This is due to the fact that as the population grows, more people will need housing, driving up the price of buying land and building permits.

Revenues from certain types of regional retribution, such as general service fees, business service fees, and specific permission costs, grew, which is why regional retribution revenues climbed. The type of revenue deriving from other legal regional original income makes up the third greatest portion of regional original revenue. An rise in receipts from other valid regional income sources contributed to the growth in other legitimate regional original income receipts. such is receiving giro services. the source of income that contributes the least to local income.

### **General Allocation Fund**

This study shows that DAU variable is less than 0.05, or 5%, and has a significance value of 0.000. Therefore, it can be said that H1 is accepted. Which mean variable General Allocation Fund (DAU) has proven to have a positive effect on the Human Development Index. So that the increase in the General Allocation Fund (DAU) has played a role in improving the quality of human development on the island of Java.

The budget provides transfer funds or central government aid to help regional governments implement their plans for extending autonomy to the regions, particularly by enhancing services and enhancing community welfare. The allocation being prioritized by the regional government for the purpose of human development, according to Riviando, et al. (2019), is what causes the DAU to have an impact on the human index. According to the rationale behind awarding this DAU, namely to close the fiscal deficit, which may also have an effect on local residents' access to services and raise the region's human development index.

### **Special Allocation Fund**

According to this study, The DAK variable is less than 0.05, or 5%, and has a significance value of 0.000. Therefore, it can be said that H1 is accepted. Which mean Special allocation fund has a favorable impact on the Human Development Index. So that the Special Allocation Fund (DAK) rise contributed to raising the level of human development on the island of Java.

The Special Allocation Fund is a resource that the federal government distributes to regions for local needs. Specific local government initiatives that are top priorities for the federal government can be funded by local governments through DAK. To reduce inequality in public infrastructure, particularly that which is specialized in nature, such as education, health, agriculture, public works, government infrastructure, and the environment that can support community activities, the local government allocates this through infrastructure development. On Java Island, district/city governments take advantage of DAK opportunities to raise the human development index.

## **5. Conclusion**

Based on the study's findings, it can be inferred, in part, that Local Own Revenue (PAD), General Allocation Funds (DAU), and Special Allocation Funds have an impact on the human development index in districts and cities on Java Island (DAK). In order for local governments to best use the regional income source both transfer income and regional original income for human development.

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