Al-Kharaj: Journal of Islamic Economics and Business
Volume 8 (1), 2026
P-ISSN: 2686-262X; E-ISSN: 2685-9300

# Analysis of the Influence of General Allocation Funds (DAU), Special Allocation Funds (DAK) and Regional Original Income (PAD) on Economic Growth in South Buru Regency

**Fatimah Salampessy [1] , Djufri Rays Pattilouw [2] , Yerimias Manuhutu [3]**
[1] Magister Ilmu Ekonomi Pascasarjana Universitas Pattimura, Indonesia
[23]Ilmu Ekonomi Pascasarjana Universitas Pattimura, Indonesia
*Email: fatimahsalampessy@gmail.com*

***Keywords :***
*General Allocation Fund, Special Allocation Fund, Regional Original Income, Economic Growth*

***Abstract***
*The purpose of this study is to determine the influence of the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Regional Original Income (PAD) on economic growth. The data used are secondary data sourced from competent government institutions. The data are then analyzed using statistical tools in the form of multiple linear regression.*
*The research results show that DAK and PAD have a negative, though insignificant, effect on economic growth, while DAU has a positive and significant effect. This could indicate that the economy of South Buru Regency still has a significant fiscal dependence on the central government.*

## INTRODUCTION

The current government has begun implementing a decentralization system, manifested in regional autonomy. For some regions, regional autonomy presents a significant challenge, as it is based on the recognition that it presents an opportunity for regions to demonstrate their independence. Each region has the right to manage its potential as an asset that provides economic benefits to improve the well-being of its people.

Decentralization is essentially a tool/instrument for achieving efficient and participatory governance. It is not an end in itself. However, it must be understood that decentralization is a complex instrument, so it seems unlikely to be linked to a single, specific objective. Decentralization can have multiple objectives, so there is a risk of overestimating the policy's potential. However, the hope of improved public services and reduced poverty, while perhaps adding a dimension to decentralization, is perfectly natural and even valid. The implementation of decentralization in various parts of the world demonstrates that the driving force behind this policy is the desire or effort to achieve better public services, equality and equity in development, and increased public welfare.

Robinson and Harun (2004) stated that decentralization was seen as an effort to differentiate itself from previous regimes, which were deemed too centralistic and thus did not provide opportunities for regional development. This was inseparable from the failure of several centralized bureaucracies under previous regimes in developing countries. These governments faced various social, economic, and political problems, giving rise to a paradigm revolution that prioritized the holistic human dimension, such as respect for democratization, equality, and efforts to meet the basic needs of the community.

As a consequence of the issuance of various laws, each region must be able to develop regional autonomy broadly, realistically, and responsibly in empowering the community. Regional governments have the authority to manage their resources efficiently and effectively to become a source of funding for development programs. Regional governments must have adequate financial

resources to finance the implementation of their autonomy. The financial capacity of regional governments will determine their ability to carry out their governmental functions.

The reality is that not all regions have sufficient fiscal capacity to finance their development needs. At the very least, fiscal gaps still exist. Therefore, to achieve successful regional autonomy, adequate funding support is needed through financial balance between the central government and the regions. Recognizing the potential for widening disparities, a financial balance mechanism is needed, both vertically and horizontally. The financial assistance instrument provided by the central government to regional governments is better known as the balancing fund, which is regulated by law.

Compared to the pre-decentralization era, transfers from the central government to the regions in the form of Balancing Funds have increased dramatically, both in proportion and in absolute amounts. The Balancing Funds, which consist of the General Allocation Fund (DAU), Revenue Sharing Fund (DBH), and Special Allocation Fund (DAK), contribute to more than 85 percent of average district/city revenues and approximately 70 percent of average provincial revenues. As an illustration, when entering the decentralization era, the total amount of regional budget funds in various regions increased to 5 to 20 times their APBD in the final years of the New Order (Hirawan SB 2007). This is an indication that the level of financial dependence of regional governments on the central government remains high.

In Maluku Province, including South Buru Regency, the contribution of transfer funds in the form of the General Allocation Fund (DAU) and Special Allocation Fund (DAK) is significantly greater than Regional Original Income (PAD) in financing development activities. This indicates that, from a fiscal perspective, the central government still plays a dominant role in the development process in South Buru Regency.

A study conducted by Samal (2014) found that the pattern of financial relations between the Central Government and the Regional Government of Maluku Province is still instructive becauseThe average regional financial capacity is only 16.1 percent, which means it is classified as very low, because the original regional income is still much smaller compared to the amount of regional expenditure, or the Original Regional Income (PAD) has not been able to finance regional financial needs, meaning the role of the Central Government in providing regional finance in financing regional expenditures is still dominant. Or in other words, the level of dependence of the Maluku Provincial Government on the Central Government is still high or around 83.9 percent. In addition, it was also found that the degree of fiscal decentralization of Maluku Province is still included in the low category.

Balancing funds, both DAU (General Allocation Fund) and DAK (Special Allocation Fund), as well as internal financing sources such as PAD (Regional Original Revenue), are expected to significantly contribute to economic growth in South Buru Regency, thereby improving community welfare, an indicator of the success of regional autonomy. South Buru Regency's economic growth in 2024 is projected to be 4.97%, with a per capita income of Rp 23.34 million per capita per year. Meanwhile, the open unemployment rate is 1.35%, the Human Development Index (HDI) is 68.54, and the poverty rate is 14.91%. Compared to other regencies in Maluku Province, South Buru Regency is still relatively lagging behind.

Several studies have shown different conclusions. Specifically, a positive and significant influence of PAD on economic growth was found byQomaroyahti, ND and Hermanto, SB, (2017);Harahap, et al. (2019);Saputera, and Pandoyo, (2020). Research that found different conclusions was found byKusumawati and Wiksuana (2018); Ichsan and Zurrahmi (2022).

Meanwhile, regarding the General Allocation Fund (DAU), several studies have found that the DAU has a positive and significant impact on economic growth, such as Qomariyahti and Hermanto (2017); Harahap et al. (2019):Ichsan and Zurrahmi, A., (2022). In contrast, research fromKusumawati and Wiksuana (2018); Marpaung, et al. (2021) found thatDAU has no effect on economic growth.

Meanwhile, the positive and significant influence of DAK on economic growth was found byQomariyahti and Hermanto (2017): Kusumawati and Wiksuana (2018); on the other hand, DAK did not have a significant effect on growth, found by Maheni and Maryono (2021); Marpaung et al. (2021) and Dini et al. (2021).

These various studies have yielded varying results. This may be due to the characteristics of each region, its fiscal capacity, and its natural resource potential. This study aims to analyze the influence of the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Regional Original Revenue (PAD) on economic growth in South Buru Regency.

## LITERATURE REVIEW

Initially, economic development was understood to be synonymous with economic growth, even development in general, which looked at the phenomenon of increasing output or increasing efficiency of output measured by input units, although ultimately a distinction was made between the two. The definition of economic growth refers to the process of increasing output per capita in the long term, which has three main dimensions: the process, namely a dynamic picture of the economy by observing economic changes over time. Next, output per capita, which is seen as total output divided by the population. And a long-term time perspective.

The development of economic growth theory actually began with Smith (1776), building on the philosophical foundations of capitalism. However, intensive research was conducted in the late 1950s and 1960s, resulting in economic growth theories such as those by Rostow (1956), Harrod (1948), and Domar (1957), or neoclassical theory, primarily founded by Solow (1957) and Swan (1956), which focused on capital accumulation and its relationship to savings.

Capital accumulation has a direct impact on output due to increased production capacity, while its indirect impact is through increased labor productivity through the division of labor and specialization. Capital stock is a production element that actively determines output. Its role is central to the output growth process.

Two supporting factors behind the capital accumulation process that drives output growth are: expanding markets and above-normal profit levels. Market potential can be maximized if people are given the broadest possible freedom to engage in exchange and economic activity, and market growth must be in line with capital growth to prevent profit decline.

According to Ricardo (1821), capital accumulation can increase labor productivity, hindering the law of diminishing returns, although this role has its limits. If capital accumulation is used on certain natural resources (land), marginal productivity will decrease, resulting in a decline in profits received by capital owners to the minimum level of profit required for investment, until capital accumulation finally stops.

Theories related to fiscal decentralization and economic growth can be seen in two theoretical perspectives that explain fiscal decentralization and its impact on economic progress, namely traditional theories (first generation theories) and new perspective theories (second generation theories).

*Traditional Theories*(First Generation Theories).

This theory is more suited to the conditions of societies that adopt a button-up planning system. Development needs are adjusted to the dynamics of society itself, so that development planning is based on community aspirations. This theory developed from the 1940s to the 1970s, emphasizing two main advantages of fiscal decentralization (Khusaini, 2006). The first benefit was proposed by Hayek (1945). According to him, fiscal decentralization benefits local governments because of the knowledge within society. This means that local governments are more aware of and understand the needs and demands of their communities. The government understands the dynamics of community development from a social, economic, political, and cultural perspective.

The provision of public goods and services is more realistic and aspirational. This is called allocative efficiency. This view can be illustrated inFigure 1below this:

Figure 1. Optimization of Public and Private Goods Provision

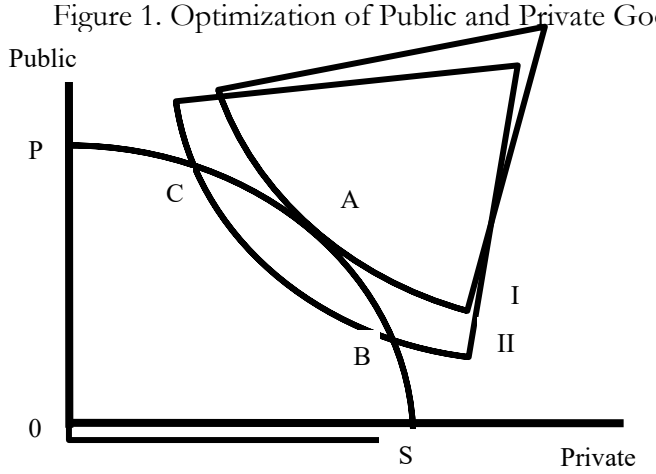


Figure 1 can explain how the provision of public goods and services in a centralized and decentralized system. The efficient allocation between public and private goods can be shown at point A which is the point of intersection between the production possibility curve PS and indifference curve I. At point A, public welfare is maximized and resource allocation is efficient. If the central government decides to provide public goods and services as much as indicated by point C, in this case the amount of public goods is greater than private goods, then public welfare is not maximized, because at this point, people can actually change their consumption patterns to achieve maximum welfare. In this case, public goods and services are more than what is needed (overproduction) so that resource allocation is inefficient.

At point B, the opposite occurs, meaning that society requires more public goods and services than those provided by the government, so that public welfare is not yet optimal. Points C and B are the intersections between the PS production possibility curve and indifference curve II. This condition illustrates that indifference curve II is lower than indifference curve I, which means that maximum public welfare is reflected in indifference curve I.

To achieve maximum prosperity, changing consumption patterns, specifically at point A, can be achieved. This is why the concept of decentralization plays a strategic role, thanks to the knowledge within society about people's needs and desires. Local governments can quickly change resource allocation and production patterns. However, in a centralized system, this is not easy because it requires bureaucratic processes, which can lead to longer decision-making processes.

Second, Tiebout (1956) introduced the dimension of competition between local governments, namely, local governments compete to provide public goods on the one hand, and the public has the freedom to determine the types of public goods and services they want and need on the other. The public has preferences regarding public services and the taxes they pay. The provision of public goods provides satisfaction to the public, while paying taxes causes dissatisfaction. The optimal condition expected by the public is that marginal satisfaction must equal marginal cost (from paying taxes).

This second-generation theory examines the behavior of local governments. It examines whether decentralization has a role in changing local government behavior compared to the era of centralization. The orientation should be directed toward improving public welfare. The implication is that economic growth, job creation, inequality reduction, and poverty reduction should become development priorities by optimizing available fiscal instruments.

Because local governments are knowledgeable about the needs and desires of their communities, the allocation of resources for the provision of public goods and services should be directed toward increasing community income and well-being. Legislation should stimulate the emergence and development of community-based economic enterprises, increasing investor interest in investing in the development of natural resource potential.

Essentially, second-generation theory focuses on two mechanisms for aligning local government interests with economic development: horizontal interactions between local governments and vertical interactions between levels of government. In a highly mobile market for goods and services, competition between local governments is an important incentive for the provision of public services. Competition between local governments in providing services to the market will drive economic growth in the region. Conversely, if government regulations and the public services provided are not market- and community-friendly, it will actually lead to the mobility of production factors to other regions.

Second, the close relationship between regional revenue and regional expenditure can also serve as an incentive for local governments to increase regional economic prosperity. Conversely, large transfers from the central government will create a disincentive for local governments to increase regional revenue. (Khusaini, M, 2006)

## METHODS

The data used in this study is quantitative secondary data published by competent government institutions such as the National Statistics Agency (BPS) and the Maluku Province BPS and BPSSouth Buru Regency., National Development Planning Agency (Bappenas), Directorate General of Taxes of the Ministry of Finance and the Regional Revenue and Financial Management and Asset Agencyin South Buru Regency.and other related agencies.

ModeThe analysis used adopts the Cobb Douglas function, namely Q = f (A Kα Lβ) with the assumption that Q is economic growth which is proxied byn GRDP, K is capital and L is labor and A is technological progress.

Inin this research case, it is assumed that economic growth isThe function of capital in the sense of regional income in the form of fiscal decentralization funds and Regional Original Income (PAD) which is then used in the form of government expenditure consisting of direct and indirect spending, so that by modifying the Cobb–Douglas production function, it can then be written:

$Q = \alpha DAU\beta 1\ DAK\beta 2\ PAD\beta 3\varepsilon$ …… (1)

Where Q is economic growth, DAU is the General Allocation Fund, DAK is the Special Allocation Fund and PAD is local revenue, while β1, β2, β3, are the elasticity of the DAU, DAK and PAD variables to economic growth and ε is the error factor.

Formally, the form of the production function is non-linear, so to make the function linear, it can be done by transforming it into natural logarithmic form (ln), so that it becomes:

$$\ln Q = \alpha + \beta 1\ \ln DAU + \beta 2\ \ln DAK + \beta 3\ \ln PAD + \varepsilon \text{..... (2)}$$

Where :

lnQ = Economic growth
lnDAU = General Allocation Fund
lnDAK = Special Allocation Fund
lnPAD = Local Original Income
α=Constant
β1, β2, and β3, = elasticity of DAU, DAK and PAD variables to economic growth.
ε=Nuisance error *(error term).*

To find the regression coefficient (growth elasticity), the OLS (Ordinary Least Squares) method is used. This solution method is intended to obtain the minimum sum of the squares of ε. (Gujarati, 2003):

## RESULTS AND DISCUSSION

The results of the data analysis can be seen in table 1 below.

Table 1. Results of Multiple Linear Regression Calculations

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -1079,187 | 423,073 | | -2,551 | ,034 |
| | DAU | 47,925 | 19,310 | 1,444 | 2,482 | ,038 |
| | DAK | -4,388 | 3,535 | -,450 | -1,241 | ,250 |
| | PAD | -2,704 | 2,870 | -,478 | -,942 | ,374 |

Based on the calculation results in table 4.11 above, this research model can be rewritten in an econometric equation as follows:

lnQ = -1079,187 – 4,388lnDAK + 47,925lnDAU - 2,704lnPAD
Se = (423.073)(3.535)(19.310)(2.870)
t = -2.551 -1.241 2.482 -0.942
F = 3.621
R = 0.759
R2 = 0.576

Looking at the results of the calculations above, we can provide an explanation for each regression coefficient value or economic growth elasticity value as follows.

1. Intercept value α =-1079,187meaning if there is no change in the variableSpecial Allocation Fund(DAK), General Allocation Fund (DAU), and Regional Original Income (PAD), then the minimum economic growth is-1079,187unit.
2. The elasticity value of the General Allocation Fund (DAU) towards economic growth β2 =47,925This means that if there is a change in the General Allocation Fund (DAU) of 1 percent, economic growth will increase by47,925percent assuming that there is no changeSpecial Allocation Fund(DAK) and Regional Original Income (PAD).
3. The elasticity value of the Special Allocation Fund (DAK) towards economic growth β1 =-4,388This means that if there is a change in the Special Allocation Fund (DAK) of 1 percent, economic growth will decrease by4,388percent assuming that there are no changes to the General Allocation Fund (DAU) and Regional Original Income (PAD).
4. The elasticity value of Regional Original Income (PAD) towards economic growth β4 =-2,704This means that if there is a change in Regional Original Income (PAD) of 1 percent, economic growth will decrease by2,704percent assuming that there is no changeSpecial Funds and Allocations(DAK), General Allocation Fund (DAU).

To see the significance of the influence of the DAU, DAK and PAD variables on economic growth, a Statistical Criteria Test was conducted.The calculation results in Table 1 show that the DAK has a ρ value of 0.250. If α is set at 5 percent, then ρ is greater than α, so it is concluded that the Special Allocation Fund (DAK) has a negative and insignificant effect on economic growth.

This could be due to the relatively small, fluctuating, and unsustainable funds received, which can lead to the ineffectiveness of development activities or projects in increasing community economic activity. In 2023, for example, the nominal value of DAK was Rp.111,980,595,950.00, or approximately 16.81% of total regional revenue. On the other hand, the use of DAK is still dominated by non-physical projects, amounting to 56.67%. These activities include education, health, and investment, while physical activities account for 43.33%, including education, health, and transportation (sea and regular rural areas). The target was not achieved due to delays in activity reporting.

The physical activities that absorb the largest budget are DAK affirmative actions in the health sector, strengthening basic infrastructure for community health centers, and the smallest are affirmative actions in junior high school education. Meanwhile, non-physical activities include

special allowances for teachers, and the smallest are the development of cooperatives and SMEs. These allocations fluctuate from year to year according to needs and national priority programs.

The DAK budget allocation shows that physical activities have not had a significant multiplier effect, despite activities such as the provision of regular housing and settlements, as well as self-help housing, agriculture, maritime affairs and fisheries, and clean water in previous years.The Special Allocation Fund (DAK) is relatively small compared to the balancing funds received by South Buru Regency. The annual average is only 3.3 percent. This is the smallest amount compared to other balancing funds.

The General Allocation Fund (DAU) variable has a ϱ value of 0.038. If α is set at 5 percent, then ϱ is smaller than α, so it is concluded that the General Allocation Fund (DAU) variable has a positive and significant effect on economic growth.This study found that the General Allocation Fund (DAU) has a positive and significant impact on economic growth. These results indicate that the General Allocation Fund (DAU) received by South Buru Regency has been used optimally. The regional government has been able to prioritize development projects funded by the General Allocation Fund (DAU), which can have a multiplier effect on economic activity.

Theoretically, the South Buru Regency Government can allocate the General Allocation Fund (DAU) for development activities, thereby optimizing the growth function of government spending. This is related to the theory.Tiebout (1956), then the use of the General Allocation Fund (DAU) can provide public services and the provision of public goods and services that make the community love it (happy to invest and carry out economic activities) in South Buru Regency.

The General Allocation Fund (DAU) is indeed the top recipient of balancing funds. In accordance with Law No. 33 of 2004, the provisions for the General Allocation Fund (DAU) have been amended and increased to 27 percent since 2008. This change separates the General Allocation Fund (DAU) into two parts: the basic allocation fund, which is primarily used to pay employee salaries, and the fiscal gap, which covers the shortfall in regional funding needs that cannot be met by the region's own capacity. This provision provides benefits for regions that still have a large fiscal gap.

The Regional Original Income (PAD) variable has a ϱ value of -0.374. If α is set at 5 percent, then ϱ is smaller than α, thus concluding that the Regional Original Income (PAD) variable has a negative and insignificant effect on economic growth.This study found that local revenue (PAD) actually has a negative, though not significant, impact on economic growth. This may be due to the highly fluctuating annual tax revenues. Furthermore, it demonstrates that regional capacity to increase PAD remains relatively limited. This is evident in annual PAD realization, which often falls short of targets. For example, from 2019 to 2023, realization fell short of targets.

This could indicate that efforts to increase revenue from this component have not been optimal. There are two possible causes: the lack of accurate data on the tax base or taxable object and suboptimal tax/levy rates. This means that the South Buru Regency Government needs to map the various tax potentials, as well as a study of optimal tax or levy rates to ensure they are not detrimental to the public or the government. Theoretically, the determination of tax rates should be commensurate with the benefits received by the public as taxpayers. This is because taxes affect production and consumption, or in other words, economic activity, including economic growth.

The types of taxes that contribute the most revenue in South Buru Regency are: non-metallic mineral and rock taxes, street lighting taxes, and restaurant taxes. Meanwhile, the types of taxes with the smallest contributions are entertainment taxes, followed by hotel taxes. This may be due to the fact that this region is the result of regional expansion, resulting in a lack of entertainment venues and hotels/lodgings and not yet supported by the rapid development of the tourism sector. Meanwhile, the highest types of levies come from health service levies at similar health service facilities, followed by health services at community health centers and regional hospitals. The smallest are market service levies and special parking lots. The realization of these types of taxes and levies fluctuates from year to year, thus affecting Regional Original Income (PAD).

South Buru Regency still faces various obstacles, so optimizing local revenue (PAD) and

its allocation has not had a significant impact on the regional economy. In fact, there are several types of taxes and levies whose collection could be optimized by the local government, such as motor vehicle tax, non-metallic mineral and rock tax, and street lighting tax. Meanwhile, levies include health services, market services, and building permits (Duwila et al., 2024).

## CONCLUSION

The research results show that only the General Allocation Fund (DAU) has a positive and significant impact on economic growth. This indicates that South Buru Regency has a high fiscal dependence on the central government. While Regional Original Income (PAD) and the Special Allocation Fund (DAK) have a negative, though insignificant, impact. It can be concluded that internal financing sources are not yet capable of driving economic growth.

## SUGGESTION

Special Allocation Funds (DAK) should be allocated to productive economic sectors with a significant multiplier effect. Mapping the bases or objects of taxes and levies is necessary to intensify and expand tax and levy collection to increase regional revenue (PAD).

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