FISCAL DECENTRALIZATION AND INVESTMENT TOWARDS ECONOMIC GROWTH IN ISLAMIC PERSPECTIVE

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ABSTRACT

This study aims to determine the effect of the General Allocation Fund (DAU), Special Allocation Fund (DAK) and Investment on Gross Regional Domestic Income (GRDP) in an Islamic economic perspective. The research approach carried out in this study is quantitative with secondary data. The data collection technique in this study used purposive sampling with data sourced from the Central Statistics Agency, Ministry of Finance and Bappenas. The data processing tool in this study used SPSS25 software. The result of this study is that the General Allocation Fund variable affects the Gross Regional Domestic Product, the result of the Special Allocation Fund variable does not affect the Gross Regional Domestic Product and the investment variable affects the Gross Regional Domestic Product. In the perspective of Islamic economics, economic growth is not only to grow and advance the material and spiritual side of human beings. The measurement of economic growth in the Islamic economy is the same as conventional, but there are additional aspects of zakat, infaq and alms in the calculation of GNP, GDP and GDP. In the discussion of Islamic economics can be used as a measure to see economic growth and community welfare through people's per capita income income which is a parameter of falah in it.

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INTRODUCTION

Economic growth is related to economic development, where economic growth has become a major aspect of development. The country will experience an increase in economic growth if there is an increase in its national income. Indonesia is a developing country with a level of economic development that is highly dependent on regional economic development. Regional economic development aims to prosper by creating new jobs and increasing the development of economic activities carried out by local governments and the private sector. Regional economic development aims to prosper the community by creating new jobs and increasing the development of economic activities carried out by local governments and the private sector (Intan Fadilla et al., 2022). The development of a region is one aspect of government policy to equalize regional growth and reduce inequalities between regions. This growth development is expected to have an impact on the region or regions to grow through growth center activities. The pole of economic growth is in urban areas or industrial areas. Increasing economic growth in a region can be seen in the Gross Regional Domestic Product (GDP) as a reference to determine economic conditions in a region (Sicily &; Harsono, 2021).

Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Financial Balance between Central and Regional Governments form the legal basis for the implementation of fiscal decentralization in Indonesia. The implementation of fiscal decentralization aims to provide more optimal services to the community. To support the implementation of government tasks in the regions, the central government allocates balancing funds or transfer funds to the regions. Law number 32 of 2004 was later revised into law number 23 of 2004 concerning regional government and law number 33 of 2004 concerning financial balance between the central and regional governments demanding local governments to implement decentralization and spur economic growth to improve community welfare where the purpose of implementing regional autonomy is to improve public services and advance the regional economy.
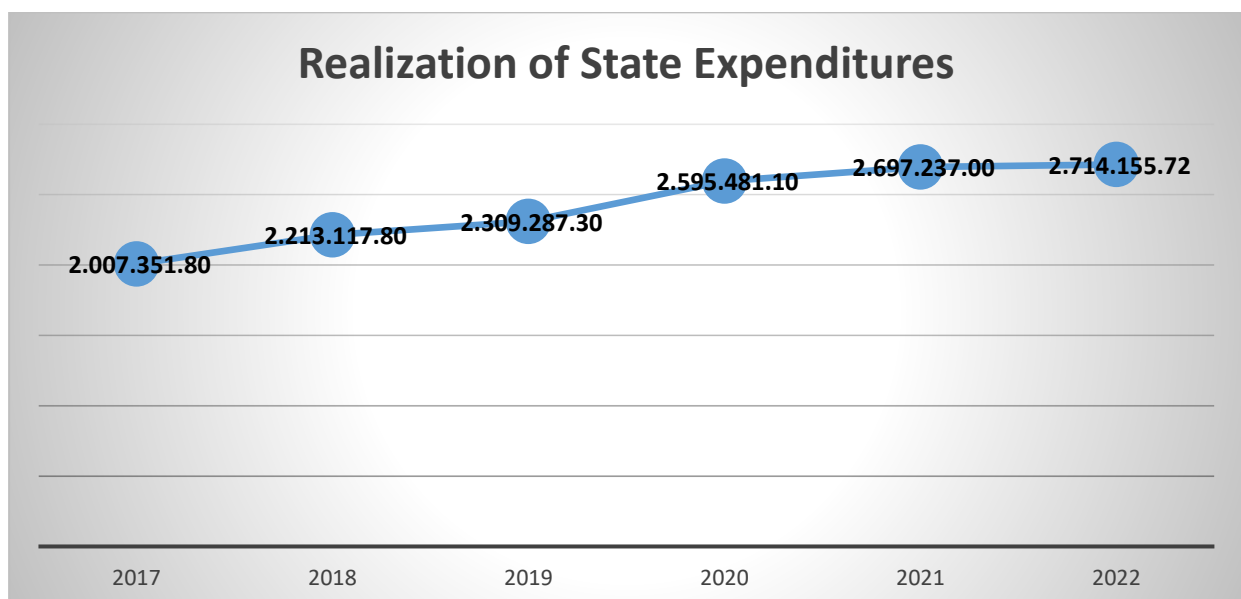

Figure 1. Realization of State Expenditures

Source: BPS, 2023

From the chart above, it can be seen that state expenditure from 2017 to 2022 continues to increase. This is due to the increasing need for government services to the community, the increase in the provision of government services to the community and the increasing inefficiency of service delivery (Nahumuri, 2019). From this aspect, the government is obliged to obtain sufficient revenue as a basis for determining the size of government spending. This is closely related to the preparation of the State Budget Draft (RAPBN) and the government is always vigilant in analyzing the determination of macroeconomic assumptions.

NO	YEAR	DAU	DAK
1	2017	55.763.530.032	59.998.473.695
2	2018	56.606.500.497	60.548.838.048
3	2019	58.691.805.994	66.244.328.451
4	2020	53.313.673.855	67.973.780.481
5	2021	60.669.496.563	74.738.449.422

Source: Central Bureau of Statistics

From the table above, it can be seen that the value of DAU from 2017 to 2021 continued to increase not too significantly, but in 2020 it decreased. This is due to the pandemic disaster that hit the country and affected DAU in Indonesian provinces which hampered the allocation of funds for infrastructure development, health, education and others. In 2021, it began to increase again and quite significantly, this is a sign that economic growth in Indonesia is starting to recover after the pandemic hit. Then the value of DAK also experienced an insignificant increase from 2017 to 2021. In economics, investment means spending made to increase the stock of capital goods (capital stock) in a certain period (Ibrahim, 2013). Investment itself is influenced by foreign and domestic investment. Investment that occurs in the region consists of government investment and private investment. Investment from the private sector can come from within the country or abroad (foreign). Government investments are made to provide public goods. The amount of government investment can be calculated from the difference between the total government budget and its routine expenditure (Rustiono, 2008).

Investment realization throughout Indonesia in 2017 reached 26.23%, in 2018 it reached 32.86%, in 2019 it reached 38.64%, in 2020 it was 41.35% and for 2021 it reached 44.70% (Central Statistics Agency). The years 2017 to 2021 showed that the realization of domestic investment was the highest growth in 2021. Where the percentage of investment realization continues to increase from 2017 to 2021, with a significant percentage value. Investment is one of the benchmarks of regional economic growth, but apart from that there are other roles of government spending such as public services. Local government expenditure is measured from the total routine expenditure and development expenditure allocated in the regional budget. The greater the productive local government expenditure, the greater the

economic level of a region. In general, government spending has a positive impact on economic growth (Rustiono, 2008).

The overall value added of goods and services produced by production units in a region in a certain period of time and within a period of one year, is known as Gross Regional Domestic Product. Economic growth in a region that can be said to be good when it has a high GDP. Conversely, when the GDP of a region is low, the economy in the region is not good. The GRDP of a region is high because it can optimize the potential of its territory by utilizing facilities and infrastructure well. In reality, high economic growth does not guarantee that a region will have a low poverty rate (Hafiz Nabawi, 2020). In fact, the problems of poverty, unemployment and other economic problems continue to be the center of the economy in big cities. Results of research conducted by (Kurniawan, 2018) shows that fiscal decentralization has no effect on economic growth, in contrast to research conducted by (Sabilla &; Kirana Jaya, 2014) The results show that fiscal decentralization has an effect on economic growth. From the results of the research above, research was again conducted on the effect of fiscal decentralization on economic growth in 2017 to 2021.

Kuznets (1966) defines economic growth as the long-run increase in a country's ability to provide more and more types of economic goods to its population that grows as technology advances and the institutional and ideological adjustments it requires. (Jhingan, 2012) meanwhile, defines economic growth by the process of increasing per capita output in the long run (Boediono, 1999). An indicator that can be used to measure economic growth is per capita income. This indicator reflects the efforts of a region to increase GDP at a point where the GDP growth rate is greater than the population growth rate. The Solow Growth Model shows how the effects of capital stock growth, labor force growth, and technological advances interact within an economy on a country's total output of goods and services. Population growth and labor force growth are considered factors that spur economic growth. A larger workforce will increase its productive workforce while greater population growth will increase the size of its domestic market. But Solow's model also predicts that countries with higher population growth will have lower levels of GDP per capita. This means that the larger the population, the smaller the amount of labor capital and has an impact on the low output of workers. Technological progress according to Solow is an exogenous variable that can increase people's ability to produce all the time.

Rostow's theory states that the transition from underdeveloped to advanced economies can be outlined in terms of a series of steps or stages that all countries must initiate, as argued in his book The Stages of Economic Growth presents economic historians generalizing the course of modern history. All societies in relation to various dimensions of the economy, can be grouped into one of five categories: traditional societies, preconditions before take-off to achieve sustainable growth, take-off, stages towards economic maturity, and stages of high mass consumption (Todaro &; Smith, 2011). In Adam Smith's view, laissez faire policies or market mechanisms will maximize the level of economic development that can be achieved by society. According to Adam Smith's view of property rights development, specialization and division of labor are factors that have been intertwined in the process of historical economic growth. Smith divided the history of human civilization into four stages, namely: first, the stage of hunting (huting), the second stage of livestock (pastoral), third, agriculture (agriculture), the four stages of trade (commerce) (Arsyad, 2015).

Increasing economic growth is an Islamic concern in the context of classical Islamic economic theory. Here is an excerpt from Surah Hud verse 61 from the words of Allah SWT: "He created you from dust and makes you happy." In other words we believe that Allah (swt) made us slaves to kill our bodies. As Ali ibn Abi Talib told a governor in Egypt: "It is necessary to pay attention to the welfare of the planet with the broader aspect of the direction of tax collection, because taxes themselves can only be optimized by the welfare of the planet. Whoever collects taxes in a prosperous country, the country will be ruined. Economic growth according to Islamic economics, is not only related to the increase in goods and services, but also related to aspects of morality and moral quality and balance between worldly goals and ukhrawi. The measure of success of economic growth is not only seen in terms of material achievement alone or the results of quantity, but also in terms of improving religious, social and social life. Islam defines economic growth as a continuous trend resulting from significant factors of production that can benefit human well-being. Therefore, Islam considers economic growth as an important feature. Limitations caused by a factor of production should not be interpreted as an obstacle to economic growth, for example causing the production of goods and services which among others have adverse and fatal consequences for mankind. In addition, economic change consists of all-encompassing productive activities that are strongly associated with equitable distribution. Growth, in the sense of human growth and development, tends to occur on a larger scale, both material and spiritual. In other words, this message is not only about the economics of human life as we know it, but also about legal, social, political and religious values.

According to (Tiebout, 1956) and (Klugman, 1994) the theory of fiscal decentralization starts from the superiority of information and a good understanding of the preferences of the community, so that local governments are better able to provide public services and goods in accordance with the needs of the community. Fiscal decentralization is the delegation of responsibility and the division of power and authority for fiscal decision-making which includes aspects of revenue and expenditure (Pose &; Ezcurra, 2010). In implementing fiscal decentralization, the principle (rules) money should follow function is one of the principles that must be considered and implemented. Any transfer or delegation of government authority has consequences on the budget needed to exercise that authority. Central and regional financial balance policies are derivatives of regional autonomy policies. The more authority that is delegated, the greater the tendency of costs needed by the region. Growth theory states that one of the factors affecting economic growth is capital accumulation. One of the objectives of this fiscal decentralization is to increase capital accumulation in the regions by giving broad authority to the regions in planning and budget utilization. Capital accumulation in the regions is expected to have a positive impact on the regional economy (Khamdana, 2016).

Harrod-Domar in (Arsyad, 2010) developed Keynes's theory by giving a key role to investment in the process of economic growth, especially regarding the dual nature of investment. First, investment creates income (is the impact of investment demand), and second, investment enlarges the productive capacity of the economy by increasing the stock of capital (is the impact of investment supply). Solow and Swan in (Arsyad, 2010) then corrected the Harrod-Domar theory by showing that economic growth depends on the availability of factors of production (population, labor, and capital accumulation) and the level of technological progress. The assumptions used are a constant return to scale, the

substitution between capital (K) and labor (L) is perfect, and the existence of diminishing marginal productivity of each input. Population growth and labor force growth are considered as one of the positive factors spurring economic growth. A larger workforce means an increase in the number of productive forces, while greater population growth means that the size of the domestic market is quite large. GDP is basically the amount of added value produced by all business units in a particular area, or is the sum of the final value of goods and services produced by all economic units. GRDP on the basis of current prices describes the added value of goods and services calculated using prices in the current year, while GRDP on the basis of constant prices shows the added value of these goods and services calculated using prices that apply in a certain year as the base year, for example the calculation of GDP and GRDP in Indonesia using the base year, namely 2000. GDP according to current prices is used to determine the ability of economic resources, shifts, and economic structure of a region. Meanwhile, constant GDP is used to determine real economic growth from year to year or economic growth that is not influenced by price factors. GRDP can also be used to determine price changes by calculating the GDP deflator (implicit index change). where the implicit price index is the ratio between GDP according to prevailing prices and GDP according to constant prices (Arifin, 2009).

RESEARCH METHODS

This research uses a quantitative approach with a method where the presentation of data is dominated in the form of numbers and the data analysis used is statistical with the aim of testing hypotheses. This study used secondary data from the Central Statistics Agency, Ministry of Finance and Bappenas. This study used the technique purposive sampling with the aim that the author gets relevant samples in accordance with the criteria in the study (Siregar, 2013). The population in this study is the sum of all data reports of general allocation funds, special allocation funds and investments in 33 provinces with the sample used is data from 2017 to 2021 Growth theory states that one of the factors that influences economic growth is capital accumulation. One of the objectives of fiscal decentralization is to increase regional capital accumulation by giving regions broad authority in planning and utilizing budgets. The key role of investment in the process of economic growth, especially regarding the dual nature of investment. First, investment creates income (which is the impact of investment demand), and second, investment increases the economy's production capacity by increasing the capital stock (which is the impact of investment supply.
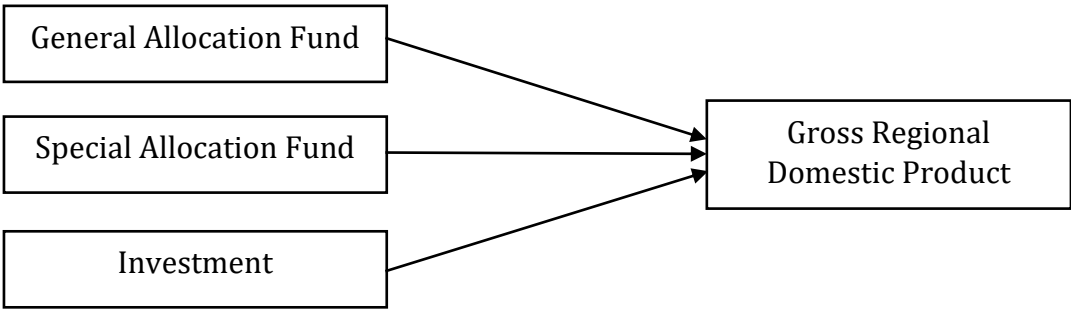
Figure 2. Research Framework

RESULT AND DISCUSSION

Classical Assumption Test

Table 1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		165
Normal Parametersa,b	Mean	.0000000
	Std. Deviation	.13110311
Most Extreme Differences	Absolute	.046
	Positive	.046
	Negative	-.042
Test Statistics		.046
Asymp. Sig. (2-tailed)		.200c,d
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source: SPSS25

Based on the results of the normality test above, it can be seen that the value of Asymo. Sig (2-tailed) 0.200 means greater than 0.50, therefore it can be concluded that the data is normally distributed.

Table 2. Heteroscedasticity Test Results (Scatterplot)
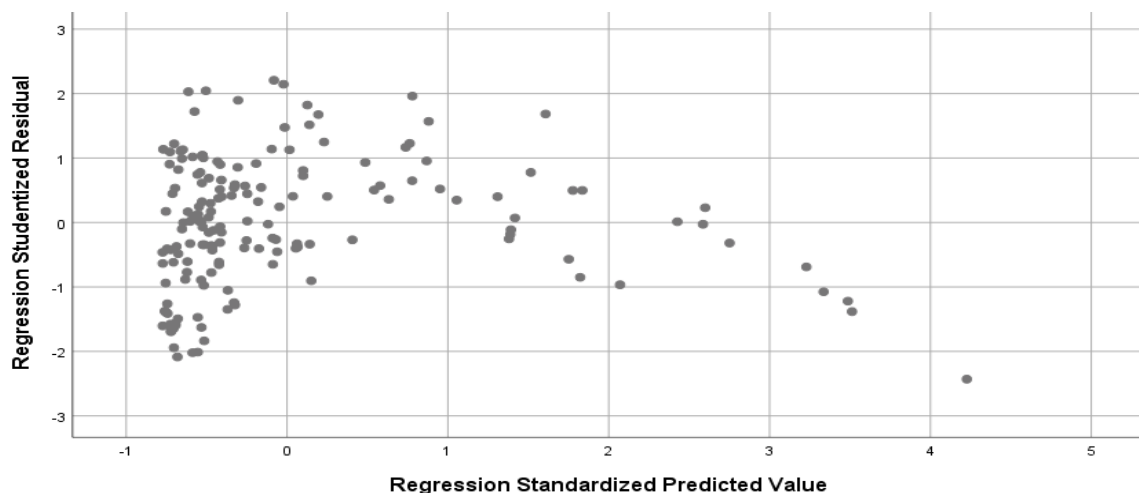
Source: SPSS25

Based on the figure above, it can be seen that the points cannot form a clear pattern and the dots spread above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity problem.

Table 3. Multicollionality Results

Coefficientsa

	Type	Tolerance	VIF
1			
	DBH	.691	1.447
	DAK	.856	1.168
	Investment	.756	1.323
a. Dependent Variable: GRDP			

Source: SPSS25

From the results of the multicollinearity test, it can be concluded that the variables DAU, DAK and Investment do not have a tolerance value of less than 0.10 and the VIF value shows the same thing, there is no correlation with the independent variable that has a VIF value of more than 10, it can be concluded that there is no multicollinearity.

Table 4. Lagrange Multiplier Autocorrelation Test Results

Model Summary

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745a	.554	.546	.27353
a. Predictors: (Constant), DBH, DAK, Investment				

Source: SPSS25

Based on the table, it is known that Chi Square counts as 91.41 where N x R Square (165 x 0.554). Then with the formula df = n (k-1) = 2 at a confidence level of 5%, the Chi Square table is obtained at 193.79. Thus Chi square calculate < Chi square table (91.41 <193.79). This indicates that there are no symptoms of autocorrelation.

Table 5. Multiple Linear Regression Test Results

	Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.021	.014		357.348	.000
	DBH	-3.994	.000	-.073	-2.384	.018
	DAK	-2.671	.000	-.002	-.088	.930
	Investment	3.199	.000	.976	33.269	.000
a. Dependent Variable: GRDP						

Source: SPSS25

(Y) = 5.021 + 3.994 (X1) + 2.671 (X2) + 3.199 (X3) + e

Based on the description of the regression equation above, it is known that GRDP is influenced by the General Allocation Fund variable with a regression coefficient value of 3.994, the Special Allocation Fund variable with a regression coefficient value of 2.671 and the Investment variable with a regression coefficient value of 3.199.

Tabel 6. F Test Results

	Type	Sum of Squares	Df	Mean Square	F	Sig.
			ANOVAa			
1	Regression	24.089	3	8.030	458.619	.000b
	Residuals	2.819	161	.018		
	Total	26.908	164			
		a. Dependent Variable: GRDP				
b. Predictors: (Constant), DBH, DAK, Investment						

Source: SPSS25

Based on the results of the table above, it can be seen that the value of f-count is 458.619 and f-table is 3.051, then f-calculate > f-table (458.619>3.051) with a confidence level = 0.05%. It can be concluded that the variables General Allocation Fund, Special Allocation Fund and Investment have a simultaneous positive and significant influence on GDP.

Table 7. Test Results T

	Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.021	.014		357.348	.000
	DBH	-3.994	.000	-.073	-2.384	.018
	DAK	-2.671	.000	-.002	-.088	.930
	Investment	3.199	.000	.976	33.269	.000
a. Dependent Variable: GRDP						

Source: SPSS25

The t-test shows the extent to which one independent variable has an individual effect on the dependent variable, using real α = 5% or 0.05 (Ghozali, 2013). The independent variable of the General Allocation Fund has a significance value of < 0.05, which is 0.18, which means that the variable of the General Allocation Fund has an effect on the variable of GDP. The independent variable of the Special Allocation Fund has a significance value of > 0.05, which is 0.930, meaning that the variable of the Special Allocation Fund has no effect on GDP, and the independent variable of Investment has a significance value of < 0.05, which is 0.00, meaning that the Investment variable has an effect on GDP.

Table 8. Coefficient of Determination Test Results (R-Square)

		Model Summaryb		
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.946a	.895	.893	.13232
a. Predictors: (Constant), DBH, DAK, Investment				
b. Dependent Variable: GRDP				

Source: SPSS25

Determination (R2) is used to assess the extent to which the model's ability to explain variations in dependent variables. The value of the coefficient of determination is between 0 and 1. An R2 value close to 1 indicates that the independent variables provide almost all the information needed in predicting the dependent variable (Ghozali, 2013). The magnitude of the value of the coefficient of determination (R Square) in this study is 0.895 which means that 89.5% of the three independent variables, namely General Allocation Funds, Special Allocation Funds, and Investments, are able to explain variations in the dependent variable, namely GDP, while the rest are explained by other variables outside the study

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CONCLUSION AND SUGGESTION

The General Allocation Fund (DAU) has an influence on the Gross Regional Domestic Product (GRDP) in all Indonesian provinces. This is based on the results with simultaneous test values f-count > f-table (12.445>3.051) which means it has an effect simultaneously, then for a partial test with a value of 0.018<0.05 which means that partially the General Allocation Fund has an influence on GDP. The General Allocation Fund in all Indonesian provinces that experience this increase will increase economic growth in the region. The more central government budget goes to provincial and local governments, the more advanced the economy, the more productive regional regions, so that it will increase economic growth. The Special Allocation Fund (DAK) has a simultaneous influence with the simultaneous test value of f-calculate > f-table (12.445>3.051), then for the partial test with a value of 0.930>0.05 which means that the variable Special Allocation Fund partially has no effect on the GDP Variable. Special allocation funds provided by the central government to regional governments have not been used to share programs or activities in sectors related to economic growth, such as the industrial sector, trade, services, and other sectors, so that they are less able to increase economic productivity and ultimately cannot affect regional economic growth. Investment has an influence on Gross Regional Domestic Income (GRDP) in all provinces of Indonesia. This is based on the results with simultaneous test values f-count > f-table (12.445>3.051) which means it affects simultaneously, then for partial tests with a value of 0.000<0.05 which means partially Investment has an influence on GDP. Investment is an economic instrument that has a considerable impact on economic development or growth. Capital infusion or investment activities will enable the community to continue to increase economic activities and, increase national income and improve the level of public welfare. Economic growth is not only to grow and advance the material and spiritual side of man. The

measurement of economic growth in the Islamic economy is the same as conventional, but there are additional aspects of zakat, infaq and alms in the calculation of GNP, GDP and GDP. In the discussion of Islamic economics can be used as a measure to see economic growth and community welfare through people's per capita income income which is a parameter of falah in it. Islam also sees the importance of equity because economic growth does not reflect overall prosperity, especially if much income and factors of production are concentrated for a small group of people.

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