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ANALYSIS OF GOVERNMENT EXPENDITURE ON INCLUSIVE ECONOMIC DEVELOPMENT IN PAPUA

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Abstract:
One of the efforts to develop an inclusive economy in the poorest province in Indonesia, Papua, is through fiscal policy. This research has two main objectives: (i) assessing the Inclusive Economic Development in Papua and (ii) analyzing the relationship between fiscal policy and realizing Papua Inclusive Economic. Papua Province has Indonesia's lowest Inclusive Economic Development Index (IEDI) ranking. This low level caused 26.8 percent of the poor population in Papua Province. Economic development interventions through fiscal policy need to be carried out. Analysis of regional fiscal policy factors that are significant to the IEDI of each city/district can pay attention to policy directions from the past that need to be prioritized so that policy strategies can be developed. Novelty: This research is the first to observe Papua's IEDI through government expenditure factors. This research is the first to show how statistically IEDI is modeled. The fiscal policy is observed through the budgeting of the General Allocation Fund (GAF), Physical Special Allocation Fund (PSAF), Nonphysical Special Allocation Fund (NPSAF), and Village Fund (VilF). Data is observed in 2019 to 2021. A panel data regression model is used to analyze the effect of expenditure. The REM model obtained gives an R-sq of 41.9% with high IEDI prediction accuracy. This study found that PSAF and NPSAF were the source of the increase in IEDI. These findings indicate that the PSAF and NPSAF (physical and non physical) are more efficient than the GAF and VilF in inclusive economic Development in Papua.
Keywords: Economy Inclusive, Fiscal Policy, Panel Regression, Papua Province, Government Expenditure

INTRODUCTION

Inclusive Economic DevelopmentDevelopment is equitable and fair throughout society by creating fair opportunities for all communities. According to (Bappenas, 2018), inclusive economic Development is Development that equitably creates broad access and opportunities for all levels of society, improves welfare, and reduces disparities between groups and regions. Inclusive economic Development is the agenda of the Sustainable Development Goals (SDGs) in 2030, which aims to maintain a sustainable increase in the economic welfare of the community, maintain the sustainability of the social life of the community, maintain the quality of the environment and implement inclusive Development. Governance that can maintain the improvement in the quality of life from one generation to the next.

SDGs are a refinement of the Millennium Development Goals (MDGs), which are more comprehensive because they were prepared by involving more countries, both developed and developing countries, expanding funding sources, emphasizing human rights, being inclusive with the involvement of Community Organizations (CSOs). and media, Philanthropists and Business Actors, as well as Academics and Experts. Efforts to achieve the SDGs targets are a national development priority, requiring synergy of planning policies at the national, provincial and district/city levels. The SDG targets at the national level are in line with the National Medium-Term

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Development Plan (NMTDP) in the form of programs, activities, measurable indicators, and indications of financial support.

From a conventional point of view, the role of government includes three important things, namely (i) providing public goods, (ii) redistributing income, and (iii) stabilizing the economy so that regional spending becomes an important government instrument (Musgrave, 1989). In the new perspective, the role of government covers a broader dimension. The government must create economic Growth with an inclusive character as outlined in an integrated program to achieve economic Growth capable of increasing per capita income quickly without neglecting distributive justice and an undivided focus on poverty alleviation (Naqvi, 2012). For this reason, the government must evolve following the direction of development policies from time to time (Biswas, 2016).

The Inclusive Economic Development Index (IEDI) is a tool used to see an area's level of development inclusiveness. Papua Province has the lowest IEDI ranking in Indonesia, only 4.14 percent (Bappenas, 2018). This low development inclusiveness impacts the high percentage of poor people in Papua. Based on (Badan Pusat Statistik, 2021), as many as 26.86 percent of the population in Papua Province are poor. This percentage is the highest in Indonesia.

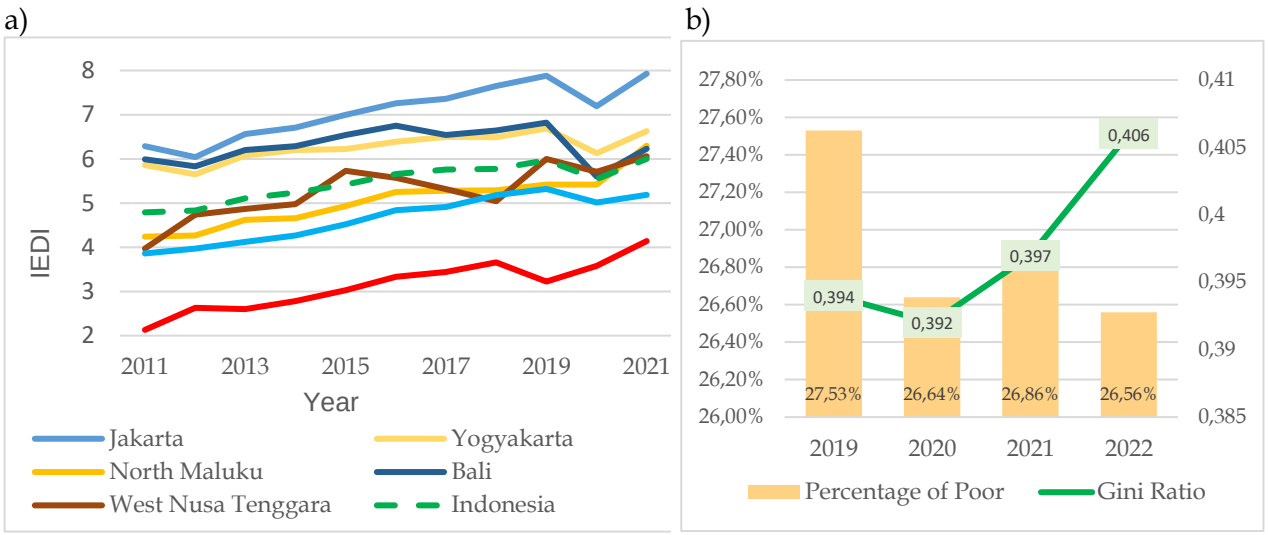

Figure 1. Economic Inclusivity of Papua Province. a) Papua's IEDI vs other provinces in Indonesia. b) Percentage of poor people and Gini Ratio in Papua Province.

The low Inclusive Economic Development Index for Papua illustrates how the government is performing in building an inclusive economy. The graph above shows that the Papua Province has had many poor people. The degree, 26,56 % in 2022, indicates that one in four Papua residents was poor. The Gini Ratio has increased over the years, indicating that income inequality is increasing. This economic condition is worrying.

Inclusive economic Growth is about economic Growth and ensuring that all societal segments benefit from Growth. Government fiscal policy can be promoted by investing in neglected or under-resourced areas, such as rural areas, marginalized communities, and sectors critical for sustainable Development (Estrada et al. l, 2014). Fiscal policy plays a significant role in achieving inclusive economic Growth as it can reduce inequalities, mitigate poverty and generate productive employment opportunities by regulating public expenditures. Ahmed (2007) highlighted the importance of the composition of public expenditures for economic GrowthGrowth and poverty alleviation. Health, education and infrastructure expenditures positively impact economic Growth

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when controlled for other factors. Roberts (2003) concluded that increased public spending on education may create opportunities for low-income people to get an education; however, demand-side factors may reduce this effect. Such factors may include perceptions regarding paybacks of education, household income and other costs to parents for sending their children to educational institutions.

Inclusive economic development interventions through fiscal policy need to be carried out. This paper analyzes regional fiscal policy factors that are significant to the IEDI of each city/district. The government can pay attention to policy directions from the past that need to be prioritized so that policy strategies can be developed. Based on the problem description above, the panel data regression approach can be applied to analyze the influence of government expenditure on IEDI in Papua Province.

In recent years, international economic organizations have shared similar concerns about economic inequality. The World Bank, IMF, and OECD have shown the relationship between economic Growth and economic inequality from a new perspective, leading to a new idea of 'inclusive growth' as an economic equalization solution. The World Bank defines inclusive Growth as economic Growth through increased productive employment to alleviate poverty. It means having a job is not enough to decrease inequality but it must be good productivity. (Ianchovichina and Lundstrom, 2009). IMF defines inclusive Growth as economic Growth that can reduce opportunity and income inequality (Anand et al., 2013). The OECD looks at inclusive Growth from the perspective of spreading economic performance, which must be spread equitably across society (OECD, 2014). Then, the World Economy Forum (WEF) defines inclusive Growth as improving the quality of life of economic actors by reducing income and opportunity inequality (Samans et al., 2015).

Inclusive Growth is a new theory that has spread rapidly among economic academics. It has become an incorporated factor into economic development decision-making. Although this theory is new, some scholars are still considering implementing it because it lacks clear mechanisms for achieving equitable economic Growth and the distribution of social benefits (Lee, 2019).

Some research aimed at a suitable methodology to measure inequalities. (Nailya K. Nurlanova et al., 2019) Proposed the theoretical concepts of inclusive Development about the spatial context, assessed the disparities in the social and economic Development of the regions of Kazakhstan and substantiated the main mechanisms for overcoming them. In their article, some methodological tools are used to obtain indexes as a standard form of evaluation of social and economic Development in the regions of Kazakhstan. Some researchers highlight the causes of increasing societal inequality, for example, the non-involvement of certain community groups in the development process. (Harrison, 2012; Storper, 2013; N. K Nurlanova & Brimbetova, 2017). The group's non-involvement limits opportunities for economic certainty and undermines inclusiveness.

The government of Indonesia considers the economic concept of inclusive Growth that various international institutions have issued, but it needs to reflect Indonesia's specific development goals. Some of the indicators used need to be aligned with Indonesia's development indicators, and the focus indicators do not address the issues experienced by Indonesia. The issue in question is gender, region, and income inequality. Standards for achieving inclusive economic Growth in Indonesia are then compiled and published by the National Development Planning Agency (BAPPENAS) in the Indonesian Inclusive Economic Development Index (IEDI) (Bappenas, 2018). The Inclusive Economic Development Index (IEDI) is a tool to measure and monitor the extent of inclusiveness of Indonesia's Development at the national, provincial, and district/city levels year by year. IEDI measures the inclusivity of Development in Indonesia through three main aspects, namely economic

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Growth (Pillar-I), inequality and poverty (Pillar-II), and access and opportunity (Pillar-III). These pillars have 8 subpillars and 21 forming indicators, as seen in Table 1.

Much research aimed at the impact of government expenditure or budgeting on inclusive Growth (Ernawati et al., 2021; Bose et al., 2007; Zhang & Zou, 1998; Sabir & Qamar, 2019; Pratiwi & Ismal, 2017; Zouhar et al., 2021; Nwaolisa & Chinelo, 2017). Fiscal policy is using government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable Growth and reduce poverty. The role and objectives of fiscal policy are very influential for a country because it uses government spending to support the financial system, boost Growth, and mitigate the impact of crises on vulnerable groups.

Table 1. Forming Indicators of the Indonesian Inclusive Economic Development Index

Pillar	Sub Pillar	Forming Indicators
I. Economic Growth and Development	1.1 Economic Growth	Growth GPD per capita
		Share manufacturer to GPD
		The ratio of Bank Credit to GPD
	1.2 Job Opportunities	Employment Rate
		Percentage of Population Working Full-time
		Percentage of workers with secondary or higher education levels
	1.3 Economic Infrastructure	Percentage of households using electricity/PLN
		Percentage of the population who own a mobile phone
		Percentage of roads in good and fair condition
II. Income equality and poverty alleviation	2.1 Inequality	Gini Ratio
		Women's income contribution
		The ratio of average rural to urban household expenditure
	2.2 Poverty	Percentage of poor people
		Average per capita protein consumption per day
II. Income equality and poverty alleviation	3.1 Human Capabilities	Expected Years of Schooling
		Percentage of Toddlers Who Get Complete Basic Immunization
		Percentage of the population who have health insurance
	3.1 Human Capabilities	Percentage of Households with an Improper Source of Drinking Water
		Percentage of Households with Own Toilet Facilities
	3.3 Inclusive Finance	Ratio of number of third-party fund accounts (DPK)
		MSME banking credit ratio

Several studies have analyzed the effect of fiscal policy on inclusive economic Development. (Nwaolisa & Chinelo, 2017) Their research explained that education spending has a positive and very significant relationship, while health spending has a positive but insignificant impact on inclusive Growth. Research conducted by (Pratiwi and Ismal, 2017) shows that health expenditure positively and significantly affects inclusive Growth in Malaysia and Qatar in the short and long term. On the other hand, education spending positively and significantly affects inclusive Growth in Indonesia and Saudi Arabia. Inflation is only significant in the long run, while domestic credit positively and significantly affects inclusive Growth in Saudi Arabia, Malaysia, and Qatar in the long run.

Santos et al. (2017) stated that there is a relationship between the quantity and quality of education to inclusive Growth, as well as the role of the government in allocating education

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investment to accelerate inclusive Growth in a region. This is in line with (Safitri et al., 2021) research results showing that spending on economic functions, health, education, and GDP per capita has a positive and significant effect on inclusive economic Growth as stated by the inclusive economic development index in the long run, while the open unemployment rate has a negative effect. In the short term, spending on health and education functions positively and significantly affects inclusive economic GrowthGrowth. However, spending on economic functions, GDP per capita, and open unemployment rate do not affect inclusive economic GrowthGrowth. At a disaggregated level, government investment in education and total expenditure on education are the only expenditures significantly associated with Growth when budget constraints and eliminated variables are considered (Bose et al., 2007). IEDI, as a measurement tool for Development, can be used to prepare development budgets or fiscal policies.

Indonesian Government spending is also intended for the public interest in growing the regional economy and improving the community's ability. Government spending is prioritized in improving and protecting the community's quality of life as a mandatory fulfillment for the region through improving health, education, public and social facilities, basic services, and the Development of social security as stipulated in Law Number 32 of 2004.

Indonesia's Government budget policy at the regional level has been implemented since regional autonomy was established in 2001 through Law Number 22 of 1999 in an effort to provide opportunities for local governments to manage the economy independently. Therefore, local governments are authorized to obtain their sources of income and the government according to their respective needs based on real and responsible regional economic principles.

In Indonesia's fiscal policy, local governments will receive transfers from the central government as part of fiscal decentralization. The transfer of funds from the central government will be added to local original revenues, which then become the Regional Revenue and Expenditure Budget. The central government has developed a transfer policy to the regions with several funding allocation schemes, namely the General Allocation Fund (GAF), Production Sharing Fund (PSF), Physical Special Allocation Fund (PSAF), NonphysicalNonphysical Special Allocation Fund (NPSAF) and Village Fund (VilF).

The Profit Sharing Fund (PSF) transfers the central government to the regions based on the tax and excise revenue ratio. Meanwhile, the General Allocation Fund is a salary allowance for state civil servants by considering a region's needs and fiscal capacity. Fiscal needs are calculated based on the calculation for a regency/city area, calculated based on the multiplication of the weight of the district/city area concerned by the number of GAF of all districts in Indonesia. Regional weight compares the fiscal gap of the province, district/city concerned with the total fiscal gap of all provinces or districts/cities in Indonesia. Based on (Nawawi & SetAwan, 2021). The GAF calculation uses the following formula: GAF=AD+CF

, wherein AD is the basic allocation of total salary financing of state civil servants. At the same time, CF is the Fiscal Gap, which is the difference between Fiscal Needs (KbF) and Fiscal Capacity (KF). The calculation of KF uses a function of the total average expenditure of the Regional Budget (TBR) with the input weights of the Total Population Index (IP), Area Index (IW), Construction Costliness Index (IKK), Human Development Index (HDI) and GDP Index per capita (IPDRBK) as in the following equation KbF = TBR(α_1 IP + α_2 IW + α_3 IKK + α_4 IPM + α_5 IPDRBK) meanwhile, KF is calculated by adding up Regional Revenue (PAD), Profit Sharing Fund from natural resources (DBHSDA) and taxes (DBHP) which can be seen in the following equation. KpF = PAD + DBH SDA + DBHP

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According to Indonesian Government Regulation Number 2 of 2018, Government Minimum Service (SPM). Standards are provisions regarding the type and quality of basic services which are mandatory government affairs that every citizen is entitled to at a minimum, namely (1) education, (2) health, (3) public works and spatial planning, (4) public housing and residential areas; (5) peace, public order, and public protection; and (6) social. In SPM measurement, detailed material is based on type, quality, and recipients of basic services. The fulfillment of SPM is one of the bases on which the government allocates SAF to each region. Furthermore, SAF is divided into two types: Physical SAF (PSAF) and NonphysicalNonphysical SAF (NPSAF). (Mujiwardhani et al., 2022).

The targets of PSAF are the construction and rehabilitation of educational buildings/facilities, the construction and rehabilitation of Community Health Centers (CHC), the construction of drinking water management systems, and the handling of roads, bridges, irrigations, and other infrastructures. Meanwhile, NPSAF allocates funds for student assistance, teacher professional allowances, CHC health operational assistance, and funding for capacity building of small and medium enterprises (Kementerian Keuangan Republik Indonesia, 2021).

Dana Desa (VilF) is an Indonesian government fiscal policy that provides funds to villages for their Development and welfare. The policy was introduced in 2015 and has been implemented since then. The funds are transferred from the central government to the local governments and distributed to the villages. The policy aims to empower the villages by providing them with the necessary resources to develop their infrastructure, improve their economy, and enhance their social welfare. The calculation of VilF is a weighting function that takes into account inputs in the form of the Number of Villages, Number of Population, Number of Villages, Village Area, Village Poverty Rate, Construction and composite Expensive Index, Developing Village Index, Village Revenue and Expenditure Budget, Village Revenue and Village Performance & Achievement Index. (Kementerian Keuangan Republik Indonesia, 2021).

GAF, PSAF, NPSAF, and VilF are funding schemes in the government's fiscal policy. These four services are Transfers of State Government Funds to Regional Governments as part of decentralization. Various inputs have become factors in government spending to achieve satisfactory economic Development.

Table 2. The objective of Government Expenditure: GAF, PSAF, NPSAF and VilF.

Schemes of Transfer	Definition	Objectives
General Allocation Funds (GAF)	Expenditure in the State Budget is allocated to the Regional Budget to equalize financial capacity between regions to fund regional needs.	Salary financing of state civil servants regional basic (authority) needs reducing the fiscal disparity between regions
Physically Special Allocation Fund (PSAF)	Expenditure in the State Budget allocated to the Regional Budget helps fund activities that are regional affairs and in accordance with national priorities, such as providing basic public service infrastructure and facilities.	Education Building Health Infra Building Drink Water System Roads Sanitation Housing and settlements
Non-Physically Special Allocation Fund (NPSAF)	Expenditure in the State Budget is allocated to the Regional Budget to help fund special nonphysical activities that are	Operational Student Teacher profession honor Health Operational Birth Control

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	regional affairs in accordance with national priorities.	Medium Small Enterprise.
Village Fund (VilF)	Expenditure in the State Budget allocated to the Village Budget aims at villages in the context of administering government, implementing Development Development, empowering, and developing the community.	Village Infrastructures: Roads, Bridge, Market, Boat Mooring, Housing, Electricity, Sports, Telecommunication, Etc. Village Economics and Education: Village-Owned Enterprise and Preschool,

Source: Publication of General Transfer Funds and Special Allocation Funds, Ministry of Finance of the Republic of Indonesia, 2021

METHODS

The data in this research are government transfer fiscal data and inclusive economic development index data for cities/regencies in Papua from 2017-2021. The data used is secondary data from the Directorate General of Fiscal Balance of the Indonesian Ministry of Finance and the National Development Planning Agency of Indonesia. The variables studied consist of the regional allocation variable as the independent variable and the inclusive economic development index of districts in Papua variable as the dependent variable. The definitions and units of variables used can be seen in the details of Table 3.

Table 3. Variable Description 244

Variables/Index	Definition	Unit
General Allocation Fund (GAF_{it})	Total Transfer of State Budget General Allocation Fund of the *i*-district in the *t*-year	Rp
Physical Special Allocation Fund ($PSAF_{it}$)	Total State Budget Transfer of the Physical Special Allocation Fund *for* the *i*-district in the *t*-year	Rp
NonphysicalNonphysical Special Allocation Fund ($NPSAF_{it}$)	Total State Budget Transfer for NonphysicalNonphysical Special Allocation Fund of the *i*-district in the t-year	Rp
Village Fund ($VilF_{it}$)	Number of State Budget Transfer of Village Fund *in the* i-district in the t-year	Rp
Inclusive Economic Development Index ($IEDI_{it}$)	Inclusive Economic Development Index of *the* i-district in the *t*-year	%
i	The observation area index refers to Districts in Papua, i = 1,2,…,16	
t	The observation time index, which is from 2019 to 2021, t = 2019,2020,2021	

The method used in this study is descriptive analysis and analysis of a data panel regression. The descriptive analysis method was used to describe the characteristics of IEDI data and regional expenditures during 2019-2021. After descriptive analysis, the data was modeled with panel data regression to see the influence of the factor variables on inclusive economic Development in Papua during 2019-2021.

Panel Data Regression Analysis is an analysis with a data structure combining cross-section and time series data. There are several panel data models based on effect cross-section and time series that may occur, namely the common effect model (CEM), fixed effect model (FEM), and random effect model (REM).

- CEM Equation

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$$IEDI_{it} = \alpha + \beta_1 GAF_{it} + \beta_2 PSAF_{it} + \beta_3 NPSAF_{it} + \beta_4 VilF_{it} + e_{it} \quad (1)$$

- FEM Equation

$$IEDI_{it} = \beta_{0i} D_{it} + \beta_1 GAF_{it} + \beta_2 PSAF_{it} + \beta_3 NPSAF_{it} + \beta_4 VilF_{it} + \varepsilon_{it} \quad (2)$$

- REM Equation:

$$IEDI_{it} = \alpha + \beta_1 GAF_{it} + \beta_2 PSAF_{it} + \beta_3 NPSAF_{it} + \beta_4 VilF_{it} + e_{it} + \gamma_i \quad (3)$$

The Ordinary Least Square (OLS) approach is used to estimate parameters in CEM, and the Least Square Dummy Variable (LSDV) for the FEM's parameters. We use the Generalized Least Square (GLS) approach in REM parameters estimation by following Baltagi (2008). There are three specific types of tests used to select the best panel data model based on the model approach that has been carried out, namely the Chow test, the Hausman test, and the Lagrange multiplier test.

Test Chow. The Chow test is a test used to determine the best panel data regression model that has been obtained based on CEM and FEM approaches. The test statistics used are:

$$F_{value} = \frac{\frac{(SSE_{CEM} - SSE_{FEM})}{(n-1)}}{\frac{SSE_{FEM}}{(nt-n-k)}} \quad (4)$$

Hausman Test. The *Hausman* test is a test used to determine the best panel data model among the models obtained with the REM and FEM approaches. The test statistics used are:

$$W = \hat{q}' \ [var(\hat{q}'')]^{-1} \hat{q}$$
$$\text{with } \hat{q} = (\hat{\beta}_{FEM} - \hat{\beta}_{REM})' \left[var(\hat{\beta}_{FEM} - \hat{\beta}_{REM})\right]^{-1} (\hat{\beta}_{FEM} - \hat{\beta}_{REM}) \quad (5)$$

Lagrange Multiplier Test. This test determines the best panel data regression model from the REM and CEM approaches. The test statistics used are:

$$LM = \frac{nT}{2(T-1)} \left[\frac{[\sum_{i=1}^{n} [\sum_{t=1}^{T} e_{it}]^2]}{[\sum_{i=1}^{n} \sum_{t=1}^{T} e_{it}^2]} - 1 \right]^2 \quad (6)$$

Thus, the overall stages of data processing and analysis carried out are as follows:

1. A descriptive analysis was used to determine the picture of inclusive economic Development in Papua Province from 2019 to 2021.
2. Checking a multicollinearity assumption violation.
3. Perform parameter estimation using OLS, LSDV, and GLS methods.
4. Perform a Chow test to select the better model between CEM and FEM. If the result fails to reject H_0, the selected model is CEM (completed testing). If the result is to reject H_0, FEM is determined and proceed to step (5).
5. Perform the Hausman test to select the best estimation method between FEM and REM. If the result fails to reject H_0, the selected model is REM (testing complete). If the result is to reject H_0, then FEM is determined and proceed to step (4).
6. Perform a Lagrange Multiplier test to choose between CEM and REM. If the result fails to reject H_0, the selected model is CEM (completed testing). If the result is to reject H_0, then the selected model is REM (testing is complete).

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7. When testing the significance of parameters, if there are still insignificant variables, remodeling is carried out without including them in the model.
8. Perform model interpretation.
9. Conclude and provide recommendations for the policies.

RESULT AND DISCUSSION

This study examines the Inclusive Economic Development Index (IEDI) and its factors in sixteen (16) districts in Papua Province during 2019-2021. The data characteristics of each variable can be seen through the statistical description in Table 2. The mean of each variable illustrates the difference between the middle values, which is striking. The mean of 〖GAF〗_it is the highest, reaching 722 million Rupiah, followed by 〖PSAF〗_it (150 million Rupiah), 〖VilF〗_it (166 million Rupiah), and 〖NPSAF〗_it (51 million Rupiah) and 〖IEDI〗_it (4.621 percent). Standard deviation describes the size of the spread of data. The greater the standard deviation, the farther the data is spread from that middle value. The difference of data characters in this research is striking from the middle value and the spread. 〖GAF〗_it data is spread very far, with standard deviations reaching 164 million Rupiah. At the same time, 〖IEDI〗_it has the smallest standard deviation with a value of 0.753. 〖GAF〗_it, 〖PSAF〗_it, 〖NPSAF〗_it, and 〖VilF〗_it have a positive skewness, indicates that the tail is on the right side of the distribution, which extends towards more values above the mean. 〖IEDI〗_it, as a dependent variable in this study, has a negative skewness, which shows the character of data distribution contrary to that of independent variables.

Table 4. Descriptive Statistics

Stat.	GAF_{it}	$PSAF_{it}$	$NPSAF_{it}$	$VilF_{it}$	$IEDI_{it}$
Mean	722.594.508,33	150.580.337,94	51.219.735,46	166.708.924,73	4,621
Max	1.272.040.970	275.588.566	99.078.823	409.146.088	5,88
Min	508.416.806	53.345.114	17.631.235	25.805.239	3,01
SD	164.223.536,32	51.243.466,57	18.520.010,55	89.368.883,31	0,753
Skew.	1,679	0,285	0,331	1,066	-0,411
Kurt.	3,724	-0,538	-0,345	1,230	-0,619
Obs.	48	48	48	48	48

In Figure 3, we can see that each district has different IEDI progress. Four districts from the sample have an IEDI below 4 and received an unsatisfactory predicate in 2021. The four districts are Yahukimo, Mamberamo Raya, Mappi, and Asmat. The rest of the district has a satisfactory IEDI predicate. Of the sixteen districts observed, only Mimika, Nabire and Sarmi districts consistently experience IEDI growth each year. The Other districts have yet to be able to raise IEDI consistently. Sadly, Boven Digoel District has decreased IEDI every year.

By comparing IEDI in 2021 against 2019, it was obtained that Mimika District experienced IEDI growth of 1.21 percent. This is the highest IEDI growth, followed by Nabire's IEDI growth (0.26) and Yapen Islands (0.20). Meanwhile, the largest decline in IEDI was experienced by Boven Digoel District (-0.26), followed by Waropen (-0.19), Merauke (-0.13), Mamberamo Raya (-0.03) and Keerom (-0.01). Thus, of the 16 districts observed, 5 tend to experience a decrease in IEDI while 11 other districts experience IEDI growth.

The inclusive economic Growth Growth of districts in Papua has yet to be unified and has not moved towards the same Growth Growth. Many districts are still experiencing economic weakness,

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while others are experiencing Growth Growth. Maintaining economic Growth and consistency every year is still a challenge. The effects of fiscal policy must be assessed through panel data regression models to find significant policy factors.

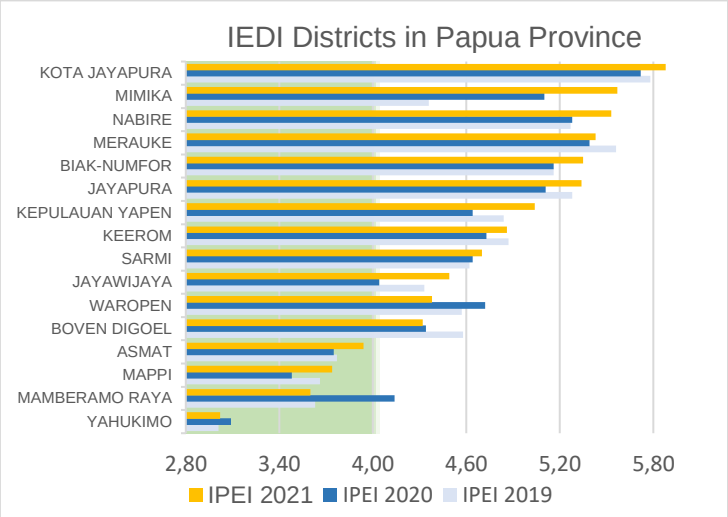

Figure 3. IEDI of Districts in Papua

Given that independent variables have very large data metrics and data distribution characteristics quite different from those of dependent variables, it is necessary to transform the data. Ln will transform each variable before modeling, so this research model uses $LIEDI_{it}$ as natural logarithm transformation of Inclusive Economic Development Index data, $LGAF_{it}$ as natural logarithm transformation of General Allocation Fund data, $LPSAF_{it}$ as natural logarithm transformation of Physically Special Allocation Fund, $LNPSAF_{it}$ as natural logarithm transformation of Non-physically Special Allocation Fund, and $LVilF_{it}$ as $LVilF_{it}$ natural logarithm transformation of Village Fund.

Testing of the multicollinearity assumption is carried out to detect the attachment between dependent variables that is too high to avoid dependence between factors in modeling. Table 5 summarizes the multicollinearity assumption test. No factor correlation value reaches 0.8. These results show that the assumption of multicollinearity is not violated in the data.

Table 5. Correlation matrix of variables

	$LGAF_{it}$	$LPSAF_{it}$	$LNPSAF_{it}$	$LVilF_{it}$	$LIEDI_{it}$
$LGAF_{it}$	1				
$LPSAF_{it}$	0,164968	1			
$LNPSAF_{it}$	0,225067	0,243487	1		
$LVilF_{it}$	0,382242	0,268424	0,14448	1	
$LIEDI_{it}$	-0,17012	-0,05605	0,421058	-0,57091	1

The only significant variables in estimating the inclusive economic growth equation parameters using the Ordinary Least Square (OLS) method are Nonphysical Special Allocation Funds and Village Funds. The R-square model is quite good (58.68%). The parameter estimation

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results using the Least Square Dummy Variable (LSDV) and Generalized Least Square (GLS) methods showed a significant increase in the number of variables at various confidence levels.

Table 6. Result of Parameters Estimation

PARAMETERS	METHOD		
	OLS	LSDV	GLS
CONSTANT	1,701427	8.33088	4.180448 ***
$LGAF_{it}$	−0.040378	−0.381938**	−0.210209***
$LPSAF_{it}$	−0.003658	0.05986**	0.049171**
$LNPSAF_{it}$	0.232539*	0.15266 ***	0.21168 *
$LVilF_{it}$	−0.181343*	−0.152026	−0,162234*
R-SQ	0,5868	0,970422	0.419165
F.STAT(PROB.)	15,267 (0,00000)	48,34934(0,0000)	7.7578 (0,000085)

Note: *) significance with level α=1 %
**) significance with level α=5 %
***) significance with level α=10%

The Chow, Hausmann, and Lagrange Multiplier Test are used to determine the best of the three models. The comparison of models shows that the best model is REM, which is formed from the results of estimation using the GLS method. A summary of the model comparison can be seen in Table 7.

Table 7. Model Comparison

Test	Statistics (Prob.)	Comparison Results
Chow Test	24.209 (0,0000)	FEM is better than CEM
Hausman Test	3.308298(0,5076)	REM is better than FEM
Lagrange Multiplier Test	35,14645 (0,000)	REM is better than CEM

Table 8. REM is the best model.

Parameters	Value	Description
CONSTANT	4.180448	
$LGAF_{it}$	- 0.210209	Negative Significant
$LPSAF_{it}$	0.049171	Positive Significant
$LNPSAF_{it}$	0.21168	Positive Significant
$LVilF_{it}$	- 0,162234	Negative Significant

With significant variables, the REM equation can be written as

$$LIEDI_{it} = 4.180448 - 0.210209\, LGAF_{it} + 0.049171\, LPSAF_{it} + \cdots + 0.21168\, LNPSAF_{it} - 0{,}162234\, LVilF + \gamma_i \quad (7)$$

where γ_i is the error term between districts, the constants for each district model can be obtained by summing the general model constants (4.180448) with the error terms of each district. Thus, the constants of each district city can be seen in Table 8 below. Based on that, we have the IEDI prediction model of Sarmi District as

$$LIEDI_{Sarmi\,t} = 4.262348 - 0.210209 LGAF_{it} + 0.049171 LPSAF_{it} + \cdots + 0.21168\, LNPSAF_{it} - 0{,}162234\, LVilF + \gamma_i \quad (8)$$

Meanwhile, the model for the IEDI prediction of Jayapura City is

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$$LIEDI_{Kota\_Jayapura\,t} = 4.08282 - 0.210209LGAF_{it} + 0.049171LPSAF_{it} + \cdots + 0.21168\,LNPSAF_{it} - 0{,}162234\,LVilF + \gamma_i \quad (9)$$

With this analogy, we will obtain an IEDI model for each district.

Table 9. The Constant of Each District IEDI Model

i	Y_i	$Constant_i$
Asmat	0.009636	4.190084
Biak-Numfor	0.088035	4.268483
Boven Digoel	0.043987	4.224435
Jayapura	0.052122	4.232570
Jayawijaya	0.047852	4.228300
Keerom	-0.037470	4.142978
Kepulauan Yapen	0.017409	4.197857
Jayapura City	-0.097628	4.082820
Mamberamo Raya	-0.036658	4.143790
Mappi	-0.131048	4.049400
Merauke	0.222391	4.402839
Mimika	0.023905	4.204353
Nabire	-0.003178	4.177270
Sarmi	0.081900	4.262348
Waropen	0.019736	4.200184
Yahukimo	-0.300990	3.879458

The constants in the model of each district are intercepts of each model in predicting IEDI. This intercept means that if there is no influence from GAF, PSAF, NPSAF, and VilF or all independent variables are considered 0, then IEDI will experience Growth equal to each intercept. Thus, the IEDI growth of the Sarmi district will be 〖LIEDI〗_Sarmi = 4.262348 If other factors are considered zero. Likewise, for other districts, IEDI.

By evaluating the observation data to the model, we can obtain the residual of IEDI prediction for every district in each year. Figure 3 shows the residual values around small intervals (-0.2 to 0.2) for 14 districts. Small residuals show that the influence of GAF, PSAF, NPSAF, and VilF on the IEDI is quite significant. However, we have large residuals found in Merauke and Yahukimo districts. Those indicate that other factors beyond this study significantly affect its IEDI. Our model obtains an R-square value of 0.4191. This shows that 41.91% of IEDI can be explained by the fiscal policies GAF, PSAF, NPSAF, and VilF. This indicates that the resulting model can predict the IEDI district very well in 87,5% of districts in Papua.

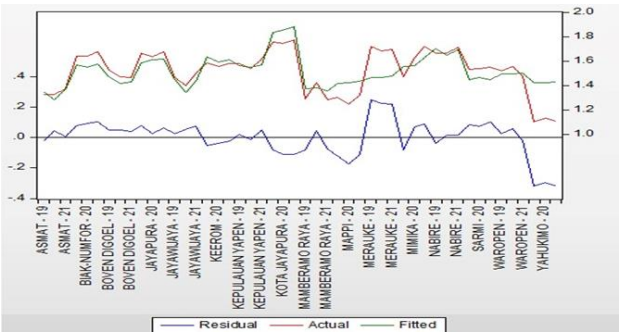

Figure 4. Residual of IEDI Prediction

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The GAF significantly negatively influences IEDI modeling, with -0.210209 as the LGAF parameter. This means that every 1 percent increase in LGAF will decrease the LIEDI by a 0.210209 percent on average, assuming the other variables do not change. The PSAF had a cynical positive influence on IEDI modeling. Every 1 percent increase in LPSAF will raise the LIEDI by a 0.049171 percent on average, assuming the other variables do not change. The NPSAF has a cynical positive influence on IEDI modeling. Every 1 percent increase in LNPSAF will raise the LIEDI by a 0.21168 percent on average, assuming the other variables do not change. Village Funds have a cynical negative influence on IEDI modeling. Every 1 percent increase in LVilF will decrease the LIEDI by a 0,162234 percent on average, assuming the other variables do not change.

Discussions regarding regional government spending are closely related to regional autonomy and fiscal decentralization. Implementing fiscal autonomy and decentralization began with Law (UU) No. 22 of 1999 and Law No. 25 of 1999. These two regulations underwent several revision processes until they finally became Law No. 32 of 2004 and Law No. 33 of 2004. Based on Article 1 number 7 of Law No. 32 of 2004, decentralization means the transfer of government authority by the central government to autonomous regions to regulate and administer government affairs in the system of the Unitary State of the Republic of Indonesia. The cost aspect is also distributed with the implementation of the decentralized system.

Delegation of duties from the central government to regional governments in autonomy must also be accompanied by financial delegation (money follows functions). Therefore, regional governments are required to be able to finance their own regional Development Development. One manifestation of the implementation of regional autonomy is autonomy in the aspect of regional financial management, which is called fiscal autonomy or fiscal decentralization.

According to (Bahl, 2013), fiscal decentralization is community empowerment through fiscal empowerment of regional governments. (Pujiati, 2008), fiscal decentralization is the delegation of responsibility and distribution of power and authority for decision-making in the fiscal sector, including revenue aspects (tax assignment) and expenditure aspects (expenditure assignment). This fiscal decentralization is linked to the duties and functions of regional governments in providing public goods and services. In other words, fiscal decentralization can be interpreted as distributing budgets from higher levels to lower levels of government to support government functions or tasks and public services by the number of areas of government authority delegated (Saragih, 2003).

The Central Government provides support by handing over revenue sources to the regions to be managed optimally so that they can finance the regions in carrying out their duties and functions. The Central Government also provides transfer funds that regions can manage to finance the implementation of the Regional Government. The aim is to overcome fiscal imbalances between the Central Government and other Regional Governments. To minimize the dependence of the Regional Government on the Central Government through transfer funds, regions are required to optimize their ability to explore their revenue potential.

In implementing regional authority, the central government aids regions through transfers. Central government transfers are the transfer of fiscal income between the central government and regional governments, which plays an important role in determining the level of social disparities so that, in the long term, it can develop the country's economy.

Before the regional autonomy period, the amount of central government transfers to regional governments was realized in three forms, namely: (1) Autonomous Regional Subsidy (SDO), (2) Presidential Assistance, and (3) Project List (DIP). Meanwhile, in the era of regional autonomy, these three forms of transfer have been eliminated. Instead, the central government transfers to regional governments through Balancing Funds (Profit Sharing Fund, Special Allocation Fund, and General

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Allocation Fund). General Allocation Funds (GAF) and Profit-Sharing Funds (PSF) are generally classified as unconditional transfers. Meanwhile, the Special Allocation Fund (SAF) is classified as a conditional transfer or what is usually called a conditional transfer (Azwardi & Abukosim, 2007 in Ndadari & Adi, 2008).

Generally, the central government provides fund transfers in the form of GAF. GAF is funds sourced from the APBN, which aims to equalize financial capabilities between regions and is intended to reduce disparities in financial capabilities between regions by applying formulas that consider regional needs and potential (UU No. 33 of 2004). To reduce disparities in financing needs and tax control between the center and regions, GAF is given to regions of at least 26% of net domestic revenue (Ndadari and Adi, 2008). Law no. 33 of 2004 concerning the financial balance between the central government and regional governments states that the GAF needs of a region (province, district, city) are determined using the fiscal gap concept approach and basic allocation. The fiscal gap is calculated based on fiscal needs minus regional fiscal capacity. In other words, GAF is used to cover gaps that occur due to regional needs that exceed the potential revenue of the region concerned. Usually, the GAF distribution for regions with relatively large capabilities will be smaller. Conversely, regions that have relatively small capabilities will receive relatively large GAF. The basic GAF allocation concept is calculated based on the number of civil servants in the region.

The results show that GAF and VilF significantly negatively influence IEDI in urban districts. This contradictory relationship between GAF and IEDI or VilF with IEDI shows that GAF and VilF spending increase inequality. GAF is essentially to answer the funding needs for civil servants, while VilF is expected to be managed by the village government to realize village development.

Overall, the Papuan government's role is increasing and increasing in stimulating the economy. This can be seen through the impact of government spending from the revenue and expenditure sides on encouraging economic GrowthGrowth, as reflected in the results above. However, (Murad, 2019) stated differently in his research that there was no inclusive economic growth in districts/cities in NTB regarding reducing poverty, economic inequality and labor absorption. Inclusive Economic Growth can only be enjoyed by the upper middle class, while lower society cannot feel the benefits of economic Growth. According to him, fiscal decentralization using local own-source revenue (PAD) cannot influence inclusive economic Growth in reducing poverty and economic inequality except for increasing labor absorption, where PAD influences inclusive economic Growth through labor absorption. This is due to the small contribution of PAD to Economic Development, which only reached 8 percent during the research period and coulonlyot reach all levels of society.

The results of this data analysis show that government spending influences inclusive economic Development. (Safitri et al., 2021) Analyzed spending on education functions has a positive and significant influence on the inclusive economic development index, a measuring tool for the inclusiveness of inclusive economic Growth in cities/districts in East Java. Increased government spending on education provides inclusive economic Growth (Echekoba & Chinelo, 2017).

There are several reasons why the General Allocation Fund and Village Funds negatively influence IEDI. This means that the higher the government's capital expenditure, the smaller the tendency for inclusive economic GrowthGrowth. This indicates that the economic Growth in Papua is still exclusive, as research (Prasetyia, 2021) found a similar phenomenon in the East Java region. This negative relationship is caused by inaccurate management of capital expenditure from the General Allocation Fund and Village Funds, which cannot increase economic Growth or hinder it (Fajri, 2017). Economic Growth should be addressed in the concept of inclusive Growth. This impacts

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capital expenditure in the form of GAF and Village Fund, reducing inclusive economic Growth in Papua.

According to Mehmood and Sadiq (2010), government spending stimulates economic Growth in the long term by increasing aggregate demand. Government spending provides sufficient stimulus to encourage economic Growth. Government spending on the education sector increases human capital and employment opportunities, with the economy increasing due to increased human resources.

Looking back at GAF's financing goals, it is central government expenditure for Regional Civil Servant Honor. We can understand that the increase in GAF will not cause poverty. However, we can also figure out that the negative relationship with IEDI arises from the initiation of income inequality. The higher GAF value indicates an increase in the number and income of civil servants. A comparable increase in the income of people with low incomes has yet to accompany this increase in the number and income of civil servants. GAF's financing is not for low-income people, even though the calculation includes regional fiscal needs.

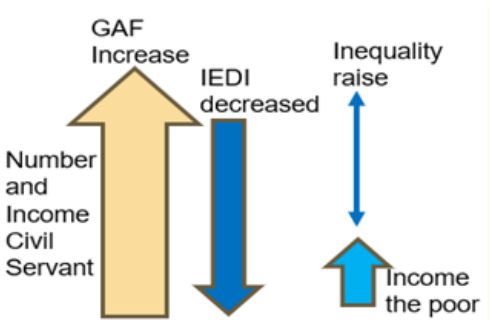

Figure 5. Indication of the insignificant increasing GAF on the model

Similar indications have emerged from VilF. VilF's goal is to reduce rural poverty through DevelopmentDevelopment, which rural communities plan and implement. The negative relationship between VilF and IEDI indicates that there are several possibilities. The first possibility is that VilF does not increase income for rural communities, and the second possibility is that VilF does not reduce income inequality. These two indications can occur simultaneously in rural communities if the plan and use of budget by the community do not focus on the outcomes of increasing the capability of rural communities and the productivity of rural communities or if the village fund realization does not focus on the output of increasing economic and basic infrastructure.

Our results show that PSAF and NPSAF positively and significantly impact districts IEDI in Papua Province. PSAF expenditures are used for physical Development to build infrastructure in education, health, connectivity, irrigation, and training centers for small and medium enterprises. Meanwhile, the distribution of NPSAF supports the Development of students and teachers and CHC operations. Government expenditures under the PSAF and NPSAF schemes seem to increase people's capabilities and income through Development.

PSAF expenditure has outputs that align with the objectives of Development in the sub-pillars of basic infrastructure (3.2) and economic infrastructure (1.3), namely, indicators of increasing the quantity and quality of roads, irrigation, and sanitation. Likewise, NPSAF expenditures have outcomes that are in line with IEDI indicators. In line with the development objectives, increasing human capabilities supports connectivity, irrigation, etc., aligning with the intent of inclusive development standards.

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Another conclusion is that PSAF and NPSAF are mandatory spending policies for local governments. Mandatory expenditure gives local governments authority in budget management but with controlled achievements. Through the PSAF and NPSAF issuance mechanisms, the central government can mitigate the risk of failure in implementation. This expenditure scheme differs from VilF, which gives villagers authority to determine their achievements.

The central government can use the PSAF and NPSAF issuance schemes to intervene and accelerate Development in a region. If optimized, this scheme can be a powerful weapon in realizing an inclusive economy. This opinion comes from our findings about the misalignment of our expenditure's expected outcome/output with the expected outcome/output from our inclusive economic development standard.

CONCLUSION

From the results of this research, it can be concluded that the Growth of inclusive economic districts in Papua Province has not been unified and consistent from 2019 to 2021. The random effect model obtained in this study is feasible for analyzing the effect of fiscal policies of the General Allocation Fund, Physical Special Allocation Fund, Nonphysical Special Allocation Fund, and Village Fund on Papua's Inclusive Economic Growth Index. From this model, we can also conclude that the four independent variables influence economic Growth. The General Allocation Fund and Village Fund negatively and significantly affect IEDI. Meanwhile, the variables influencing the increase in IEDI are physical and nonphysical nonphysical special allocation funds.

The Physical and Nonphysical Nonphysical Special Allocation Fund schemes have succeeded in increasing the Papuan Inclusive Economic Development Index because some output/outcome is mandatory and aligned with output/outcome IEDI. Setting achievements by the central government through PSAF and NPSAF can help Development in the region focus more on inclusive economic goals.

Based on our findings, fiscal policy objectives need to be reoriented to core needs spending to improve Papua's inclusive economic development index; correspondingly, the Village Fund spending mechanism needs to be reviewed to ensure that the results of Village Funds are aligned with the results of inclusive economic Development Development. The government is expected to strengthen the capacity of the Physical and Nonphysical Special Allocation Fund in inclusive economic development interventions in the regions.

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