The Role of Locally-Generated Revenue in Mediating The Influence of Credit Distribution on Economic Growth in East Java

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Abstract:

This study aims to test the role of locally-generated revenue in mediating the influence of credit distribution on economic growth in East Java. The research population was all cities and districts in East Java, and all of them were studied. The method used is the structural equation model and the Sobel Test to test its mediation role. Data from 38 cities and districts during 2018-2022 were processed using Eviews 12. The results of this study indicate that the distribution of working capital, investment and consumer credit has a positive and significant effect on economic growth in East Java. The distribution of working capital, investment and consumer credit does not have a significant influence on locally-generated revenue. Locally-generated revenue also does not have a significant influence on economic growth, so locally-generate revenue is also unable to mediate the positive influence of the credit distribution on economic growth in East Java.

Keywords*: Locally-Generated Revenue, Credit Distribution, Economic Growth, East Java.*

1. Introduction

The success of a region in improving the welfare of its society can be measured through the level of economic growth of the region. Maimunah and Emi (2013) stated that the economic growth of a region can be measured by GRDP or what is called gross regional domestic product. East Java Province is one of the provinces in Indonesia which has enormous potential in contributing to national economic growth. In 2022, East Java's Gross Regional Domestic Product in the amount of 5.34 percent are dominated by the processing industry, which means that the productive sector will be the leading sector in East Java (BPS East Java; 2024). Economic growth is an increase in the ability of a region's economy to produce goods and services. As stated by Sukirno (2011) that regional economic development is a condition where the regional government together with the community manage the resources in their regional area which results in a positive relationship between the regional government and the private sector in order to grow new jobs to boost the regional economy. The increase or development that occurs in a region can be seen from the fiscal economy, improvements in public facilities to support the needs of the community, improvements in industry in this case, namely increasing production, increasing and equalizing economic activities, infrastructure and others are a picture of the country's

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economic growth, especially the economic growth of a region (Firmansyah, 2021). The economic growth of a region can be assessed using Gross Regional Domestic Product (GRDP).

Locally-generated income (PAD) is a source of income obtained by regional governments to carry out development and public services as well as efforts to increase economic growth in that area. PAD is income obtained by a particular region which is collected on the basis of regional regulations in accordance with applicable regulations, which means income received by the regional government are funds from the region as well (UU No. 33 of 2004). According to Mardiasmo (2002:243), PAD as a source of regional funding comes from PAD which consists of regional tax income, regional levy income, regionally owned company income, the income of other separated regional wealth management and other legitimate PAD, which means PAD as regional revenue obtained from sources within its own territory obtained based on regional regulations in accordance with applicable regulations. The potential of the real sector which can contribute to increasing PAD through various tax mechanisms and levy on income obtained from businesses in various real sectors which end in regional economic growth. This is in line with research by Anggita R and Sari L.K. (2021), Laloan V, Laoh. O.E.H and Pakasi C. (2018), and Rizky (2022) state that PAD has a significant effect on economic growth.

Efforts to develop the real sector also require funding sources, one of which comes from collaboration with banks through the distribution of credit, whether working capital, investment or consumer credit, depending on the use. Distribution of working capital credit can encourage SMEs and entrepreneurs in various real sectors to fulfill their operations with the aim of developing their business. This can have a positive influence on the real sector on the regional economy because it can stimulate people's purchasing power, more SMEs and industry will develop so that the economic cycle runs well. Hopefully the distribution of working capital credit by banks will encourage PAD and economic growth in East Java. Consumer credit distribution can be used for useful things such as education cost, health, purchase of motor vehicles for activities and purchasing a house for personal assets investment. The impact of good use of consumer credit will have an impact on increasing society's level of welfare, which is also a representation of increasing PAD and economic growth in a region. Banking as a financial intermediation institution has the task of collecting funds from the society and then distributing them back to the society in the form of working capital, investment and consumer credit. The role of credit, whether working capital, investment and consumption towards economic growth is to encourage society's purchasing power, SMEs turnover increases due to additional capital, industry develops due to business development through building factories and purchasing of advanced technology machines and individual community needs are met through consumer credit, situations such as this can represent that economic growth is increasing. This is in line with research by Goni, et.al. (2022), Lestari, et.al. (2021), Maherika, et.al. (2019), Nurjannah dan Nurhayati (2017) which proves that the distribution of working capital, investment and consumer credit has a significant effect, both partially and simultaneously towards economic growth and is in line with credit distribution theory, where the process of distributing credit provided by banks

to the society has an effect on overall economic activity and Joseph Schumpeter stated that "credit generation" where banks can create money through credit distribution which also stimulates economic growth. Research by Anggita and Sari (2021), Laloan, Iaoh and Pakasi (2018), and Rizky (2022) discusses the influence of PAD on economic growth without the credit distribution variable. Ratag, Kumenaung and Rotinsuli (2023) explain the effect of the amount of credit on PAD without differentiationg credit based on its use and the dependent variable is PAD, while research by Nurjannah and Nurhayati (2017), Maherika, Nurjanah and Achmad (2019), Lestari, Febriani and Putri (2021) , Goni, Rotinsulu and Maramis (2022) only discuss the influence of working capital distribution, investment and consumer credit towards economic growth without PAD as an intervening variable, considering that economic growth can also be influenced by PAD. The existence of gaps in previous research so that research needs to be carried out to confirm whether PAD is able to mediate the influence of distribution of working capital credit, investment credit and consumer credit towards the economic growth of a region so that it can be useful academically and can provide suggestions and input regarding economic policy to regional governments. In this research, the variable distribution of working capital credit, investment credit and consumer credit is used as the independent variable, economic growth as the dependent variable and PAD as the intervening variable, so that the hypothesis to be tested is stated in Figure 1.

Figure 1. Research Model
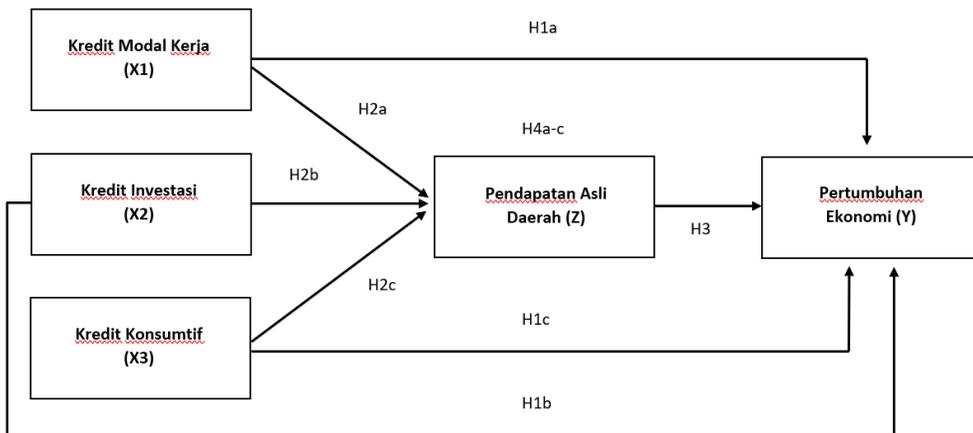
2. Methodology

This research is included in the type of quantitative research because it takes data in quantitative form. Based on the time and subjects studied, this research is included in research that uses panel data. Panel data itself is a combination of cross section and time series data where the data used is a collection of credit distribution in several cities and districts in East Java province during the time period determined by the researcher. This research is limited to data on distribution of working capital credit, investment credit and consumer credit, PAD and GRDP data for each city and district in East Java province with data provided for 2017 - 2022 or the growth period of 2018 - 2022. Unit of analysis in this study are 38 cities and districts in East Java. This

research uses a saturated sampling technique which is carried out because all members of the population are used as research samples. The process of analyzing and testing hypotheses using descriptive and inferential analysis techniques namely panel data regression which is processed using Eviews 12 Student Lite. Basuki and Prawoto (2017:276) define that there are three tests used to select the best panel data regression model, namely the Chow Test, Hausman Test and Lagrange Multiplier (LM) Test. After getting the best model, hypothesis testing continues. Based on the framework of thought and analysis techniques used, the following structural equation is obtained:

$Y_{it} = \beta_0 + \beta_1.X_{1it} + \beta_2.X_{2it} + \beta_3.X_{3it} + \text{\euro}_{it}$ ……………………………………………(1)

where:

Y_{it} = Economic Growth

X_{kit} = Credit Distribution

$Z_{it} = \beta_0 + \beta_1.X_{1it} + \beta_2.X_{2it} + \beta_3.X_{3it} + \text{\euro}_{it}$ ………………………………………(2)

where:

Z_{it} = Locally-generated Revenue (PAD)

X_{kit} = Credit Distribution

$Y_{it} = \beta_0 + \beta_1.Z_{1it} + \text{\euro}_{it}$ ………………….…………………………………………(3)

where:

Y_{it} = Economic Growth

Z_{it} = Locally-generated Revenue (PAD)

3. Empirical Findings/Result and Discussion

The variables in this research consist of independent variables (distribution of working capital, investment and consumer credit), dependent variables (economic growth) and intervening variables (PAD). A descriptive analysis was carried out on these variables to obtain an overview of these variables with analysis results including minimum, maximum, mean and standard deviation. The results of descriptive statistics can be seen as follows:

Table 1. Result of Descriptive Statistic

Variabel	N	*Minimum*	*Maximum*	*Mean*	Deviation STD
Ec.Growth (Y)	190	-0,060	0,090	0,030	0,035
PAD (Z)	190	-0,470	0,870	0,038	0,183
Working Capital Credit (X1)	190	-0,470	0,760	0,102	0,152
Investment Credit (X2)	190	-0,760	3,800	0,199	0,460
Consumer Credit (X3)	190	-0,150	0,350	0,050	0,060

Based on the table above, the lowest economic growth variable was experienced by Batu, Kediri (city), Bangkalan, Tuban in 2020 and Bojonegoro occurred in 2021 and 2022, while the highest economic growth was experienced by Tuban district in 2022. The PAD variable experienced the lowest position was experienced by the city of Blitar in 2022, while the highest PAD was obtained by Tulungagung in 2021. The lowest working capital credit distribution was in the city of Kediri in 2020 and the highest working capital credit distribution was in the city of Kediri also in 2021. Investment credit distribution in Jombang experienced the lowest in 2021, while Blitar Regency was the region with the highest investment credit distribution in 2021. The lowest consumetive credit distribution was in Sumenep in 2019 and the highest was also in Sumenep in 2021.

This research uses panel data so that data processing uses panel data regression analysis techniques. Before testing the hypothesis, it is necessary to test the best model. The best model selection method uses the Chow test, Hausman test and LM test. The first step in selecting the best model in this research is the Chow test and then the LM test is carried out.

Teble 2. Result of Best Method Test

Test	Significant	Conclusion	Best Model	Advanced Test
Chow Test	0,1123	H0 accepted	*Common Effect* (CEM)	LM Test
LM Test	0,9616	H0 accepted	*Common Effect* (CEM)	Hypothesis Test

Based on Table 2, a Chow test was carried out first with a significance value of 0.1123, greater than 0.05, so that the hypothesis results obtained were accepting H0, which means the best model selected was Common Effect (CEM). After getting these results, the LM test was continued where the significance value of 0.9616 was greater than 0.05 so that the hypothesis results obtained accepted H0, meaning that the best model chosen for hypothesis testing was Common Effect (CEM). It is because the best model chosen is Common Effect (CEM), before continuing to test the hypothesis it is necessary to test the classical assumptions first.

The first classic assumption test is the normality test. The probability result is 0.000508, which is smaller than 0.05, so the residual data is not normally distributed. Then a multicollinearity test was carried out which had results of 0.054953, 0.102000 and -0.053419,where all three were smaller than 0.80, which means that the three independent variables did not have multicollinearity or had no correlation between the independent variables. After that, the final classical assumption test is carried out, namely the heteroscedasticity test, where the result is that probability X1 is 0.0344, which is smaller than 0.05, which means heteroscedasticity occurs, probability X2 is 0.8254 is greater than 0.05, which means heteroscedasticity does not occur, probability X3 is 0.0000 is smaller than 0.05, which means heteroscedasticity occurs, while probability Z is 0.1758 is greater than 0.05, which means heteroscedasticity does not occur. Hypothesis testing with the t test and Common Effect (CEM) are the

best model of choice. The t test was carried out on structural equation (1) and the results were obtained in table 3.

Table 3. Result of T Structural Equation Test (1)

Variable	Coefficient	t calculated	t table	Sig.	Conclusion	
					H_0	H_1
Working Capital Credit (X1)	0,042	2,902	1,973	0,0042	Rejected	Accepted
Investment Credit (X2)	0,010	2,101	1,973	0,0370	Rejected	Accepted
Consumer Credit (X3)	0,258	7,119	1,973	0,0000	Rejected	Accepted

In table 3, the results obtained for the working capital credit variable are 2.902 > 1.973 (t table) while the significance value obtained is 0.0042 < 0.05, meaning that H_{1a} is accepted, which means that the working capital credit distribution variable has a positive and significant influence on economic growth. The calculated t value of the investment credit variable is 2.101 > 1.973 (t table) while the significance value obtained is 0.0370 < 0.05, meaning that H_{1b} is accepted, which means the investment credit distribution variable has a positive and significant influence on economic growth. The calculated t value of the consumer credit variable is 7.119 > 1.973 (t table) while the significance value obtained is 0.0000 < 0.05, meaning that H_{1c} is accepted, which means the consumer credit distribution variable has a positive and significant influence on economic growth. This is due to the multiplier effect caused by the distribution of credit on economic growth. This can encourage society's purchasing power, SMEs turnover increases due to additional capital, industry develops due to business development through building factories and purchase of advanced technology machines and the needs of individual people are met through consumer credit, a situation like this can represent that economic growth is increasing. This shows conformity with the research of Nurjannah and Nurhayati (2017); Maherika, Nurjanah and Achmad (2019); Lestari, Febriani and Putri (2021); Goni, Rotinsulu and Maramis (2022) which proves that the distribution of working capital, investment and consumer credit has a significant effect, both partially and simultaneously, on economic growth and is in line with the credit distribution theory explained by Knut Wicksell (1898) where the credit distribution process is provided by banks to society influences overall economic activity and Joseph Schumpeter (1937) stated that "credit generation" is where banks can create money through lending which also stimulates economic growth. So it can be concluded that the first to third hypotheses are that the distribution of working capital, investment and consumer credit has a positive and significant effect on economic growth.

The next step is the second structural equation test to test the influence of the independent variables (working capital, investment, consumption) on the intervening variable (PAD). The results obtained are in table 4.

Table 4. Result of t Structural Equation Test (2)

Variable	Coefficient	t calculated	t table	Sig.	Conclusion	
					H0	H1
Working Capital Credit (X1)	0,139	1,582	1,973	0,1154	Accepted	Rejected
Investment Credit (X2)	0,007	0,258	1,973	0,7968	Accepted	Rejected
Consumer Credit (X3)	-0,357	-1,617	1,973	0,1076	Accepted	Rejected

In table 4, the results show that the calculated t value of the working capital credit variable is $1.582 < 1.973$, while the significance value obtained is $0.1154 > 0.05$, which means H_{2a} is rejected, which means that the working capital credit distribution variable does not have a significant influence on PAD. It is known that the calculated t value of the investment credit variable is $0.258 < 1.973$, while the significance value obtained is $0.7968 > 0.05$, which means that H_{2b} is rejected, which means that the investment credit distribution variable does not have a significant influence on PAD. It is known that the calculated t value of the consumer credit variable is $1.617 < 1.973$, while the significance value obtained is $0.1076 > 0.05$, which means that H_{2c} is rejected, which means that the consumer credit distribution variable does not have a significant influence on PAD. This is due to the limited types of taxes collected by regional governments in accordance with Law number 1 of 2022 concerning financial relations between the central government and regional governments so that not all types of taxes can be recognized as PAD so it is natural that the distribution of working capital, investment and consumer credit does not have a significant effect. towards PAD. This is not in line with previous research by Ratag and Rotinsuli (2023) which defined that banking performance, namely credit distribution to the community, has a significant positive effect on increasing PAD as well as with fiscal policy theory which explains that credit distribution can influence regional income. So it can be concluded that the fourth to sixth hypotheses are that the distribution of working capital, investment and consumer credit does not have a significant effect on PAD.

The next step is the third structural equation test to test the influence of the intervening variable (PAD) on the dependent variable (economic growth). The results obtained are in table 5.

Table 5. Result of t Structural Equation Test (3)

Variable	Coefficient	t calculated	t table	Sig.	Conclusion	
					H0	H1
PAD (Z)	0,004	0,298	1,973	0,7662	Accepted	Rejected

In table 5, the calculated t value of the PAD variable is $0.298 < 1.973$, while the significance value obtained is $0.7662 > 0.05$, which means that H3 is rejected, which means that the PAD variable does not have a significant influence on economic growth. This is due to the limited types of taxes that can be collected by regional governments so that the PAD contribution is a smaller portion when compared to contributions through other income such as TKD (Transfers to Regions) from the

center to the regions which have a more dominant influence on regional economic growth so it is reasonable if PAD has no effect on regional economic growth. This does not support research of Laloan V, Laoh, O.E.H and Pakasi C. (2018), Anggita R and Sari L.K. (2021) and Rizky (2022) who state that PAD has a significant positive effect on economic growth both in the short and long term. Harrod-Domar's theory (1939) states that economic growth is realized if there is an increase in investment obtained from sources of income, one of which comes from regional income, so that the greater the income of a region, the greater the investment made by the government in serving the needs of the society which will have an impact on economic growth. This theory states that PAD is one of the government's sources for serving the society needs which will later have an impact on economic growth, which means that there are still other sources of income that can have an impact on regional economic growth. So it can be concluded that the seventh hypothesis is that PAD has no significant effect on East Java's economic growth.

Next a Sobel test was carried out to find out whether PAD could mediate the relationship between working capital, investment and consumer credit distribution on economic growth. The results of the Sobel test can be seen in table 6.

Table 6. Result of Sobel Test

Variable	Variable Z	$Z_{calculated}$	z table	Conclusion	
				H0	H1
Working Capital Credit (X1)	PAD	0,285	1,96	Accepted	Rejected
Investment Credit (X2)	PAD	0,186	1,96	Accepted	Rejected
Consumer Credit (X3)	PAD	0,285	1,96	Accepted	Rejected

In table 6, the calculated z value for the working capital credit variable is 0.285, which is smaller than 1.96, so H_{4a} is rejected, which means that PAD is unable to mediate the positive influence of working capital credit distribution on economic growth. The calculated z value for the investment credit variable is 0.186, which is smaller than 1.96, so H_{4b} is rejected, which means that PAD is unable to mediate the positive influence of investment credit distribution on economic growth. The calculated z value for the consumer credit variable is 0.285, which is smaller than 1.96, so H_{4c} is rejected, which means that PAD is unable to mediate the positive influence of consumer credit distribution on economic growth. This is due to the limited types of taxes that can be collected by regional governments and income tax collection from SMes, entrepreneurs and industry is recorded first by the central government in the form of state income and then distributed back to the regions through balancing funds for regional development so it is reasonable that PAD is not able to mediate the positive influence of working capital, investment and consumer credit distribution on economic growth. This does not support the research of Nurjannah and Nurhayati (2017); Maherika, Nurjanah and Achmad (2019); Lestari, Febriani and Putri (2021); Goni, Rotinsulu and Maramis (2022) prove that the distribution of working capital, investment and consumer credit has a significant effect, both partially and

simultaneously, on economic growth. Ratag and Rotinsuli's research (2023) explains that the amount of credit has a significant positive effect on PAD and research by Laloan V, Laoh. O.E.H and Pakasi C. (2018), Anggita R and Sari L.K. (2021) and Rizky (2022) also define a positive and significant relationship between PAD and economic growth. So it can be concluded that the eighth to tenth hypothesis is that PAD is unable to mediate the positive influence of working capital, investment and consumer credit distribution on East Java's economic growth.

4. Conclusions

The results of this research conclude that credit distribution for working capital, investment and consumption has a positive and significant effect on economic growth in East Java. This means that the higher the level of working capital, investment and consumer credit distribution, the higher the level of economic growth in East Java. However, there is no significant influence between credit distributions, whether working capital, investment or consumption, which has a significant effect on PAD. PAD itself also does not have a significant influence on economic growth and PAD is unable to mediate the influence between working capital, investment and consumer credit distribution on economic growth in East Java. Based on the results obtained from this research, the implication is that local governments need to pay attention to important factors, in this case namely credit distribution and PAD. For credit distribution to be more optimal, the strategy that needs to be implemented is the implementation of a credit digitalization system to accelerate the credit process, massive outreach both offline and online via social media, establishing collaboration and synergy between banks and regional governments and related agencies for several financing such as regional government credit, BLUD for public service facilities and the needs of employees, thereby creating a sustainable business ecosystem. While the PAD factor in this research has not been optimally positioned towards economic growth thus it is necessary to pay attention to efforts such as identifying untapped tax potential, expanding sectors that have not been covered by tax collection carried out by local governments, optimizing digitalization to make it easier for taxpayers to pay taxes and socialization to the society about the importance of taxes for regional development and the greater prosperity of the society so that economic growth also increases.

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