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REGIONAL OWN-SOURCE REVENUE, GOVERNMENT EXPENDITURE, AND INVESTMENT IN RELATION TO INCOME INEQUALITY IN WEST SULAWESI

Faika Kadriana Ishak[1], Arifuddin[2], Kartini Hanafi[2], Ahmad Nurzaki Azhar B[3]

[1]Development Studies Program, Graduate School, Hasanuddin University, Indonesia
[2]Department of Economics and Business, Hasanuddin University
[3]Department of Psychology, Hasanuddin University

Faika.kadriana@gmail.com[1]

ABSTRACT

Income inequality refers to disparities in prosperity, living standards, and the income received or generated by individuals or households within a society. These disparities often result in regional imbalances due to uneven access to production factors and available resources. This study aims to examine the influence of regional own-source revenue (PAD), government expenditure, and investment on income inequality in West Sulawesi. Using a descriptive quantitative approach, the study applies multiple linear regression analysis to time-series data from 2017 to 2022, measured on a weekly basis. The findings reveal that PAD is strongly and significantly correlated with government expenditure and income inequality. However, PAD and government expenditure show no significant correlation with investment, nor do government expenditure and investment significantly correlate with income inequality. Causally, the third sub-structure model indicates that PAD, government expenditure, and investment all have a positive but statistically insignificant influence on income inequality. While PAD reflects a region's financial independence, its effect on inequality is limited due to uneven distribution. High PAD levels tend to be concentrated in more developed regions with large economic sectors, thus offering little benefit to underdeveloped areas.

Keywords: Local Revenue, Regional Expenditure, Investment, and Income Inequality

1. INTRODUCTION

Economic development in Indonesia is not solely aimed at achieving high growth but also at creating fair and equitable income distribution across all regions. However, in reality, many regions still experience income inequality, including West Sulawesi Province. This inequality is reflected in disparities in welfare between regions and individuals, posing a major challenge in regional development planning. High inequality not only indicates uneven distribution of development outcomes but also hinders the achievement of social justice and inclusive welfare.

In the context of regional autonomy, local governments are granted broad authority to manage local finances and resources to improve community welfare. One crucial instrument in regional financial management is Regional Original Revenue (PAD). PAD reflects a region's fiscal capacity and is derived from local economic sources such as local taxes, levies, proceeds from managed regional assets, and other legitimate revenues as regulated by law. In West Sulawesi, PAD remains relatively low compared to other provinces in Eastern Indonesia, indicating limited fiscal capacity to independently fund development. High dependence on central government transfers persists, and this could exacerbate inequality, especially if fund allocations do not reach all societal layers fairly.

A robust PAD is expected to finance productive regional expenditures aimed at reducing inequality. Regional expenditure, which includes routine and capital spending, is the primary instrument for the government to fulfill its distributive and allocative functions. Through social spending, subsidies, basic infrastructure development, and economic empowerment programs for the poor, the government can directly reduce income inequality. However, in practice, regional expenditure is often absorbed more for administrative and bureaucratic operational needs rather than for programs directly impacting the poor and underdeveloped regions. In West Sulawesi, the gap between relatively developed coastal areas and inland regions with minimal infrastructure shows that regional spending patterns have not been fully effective in reducing interregional inequality.

Another equally important factor is investment, both domestic (PMDN) and foreign (PMA). Investment is a key driver of economic activity, job creation, and income growth. However, in regions like West Sulawesi, investment flows are uneven and tend to concentrate in specific sectors, such as mining and plantations, which involve only a small portion of the local population. Income inequality will remain high if investment is not directed toward empowering the informal sector and low-income communities. Moreover, incoming investments are often exploitative, with minimal technology transfer or local labor absorption, limiting their impact on reducing inequality.

According to data from the Central Statistics Agency (BPS), the expenditure inequality index (Gini Ratio) in West Sulawesi has shown fluctuations in recent years, with values still above the caution threshold. This indicates that economic growth has not been evenly enjoyed by all societal layers. Inequality occurs not only horizontally between regions but also vertically between income groups. Meanwhile, the vast potential of natural resources and agriculture in West Sulawesi has not been fully optimized for equitable welfare.

This situation raises critical questions: To what extent do PAD, regional expenditure, and investment play a role in reducing income inequality in West Sulawesi? Does an increase in PAD significantly contribute to equitable welfare? How effective is government spending in narrowing the income gap? And has incoming investment been directed toward inclusive sectors?

Answering these questions is essential to formulate fiscal and investment policies that are more pro-poor and pro-underdeveloped regions. Through empirical analysis of the three main variables—PAD, regional expenditure, and investment—this study aims to identify clear and relevant patterns in their relationship with income inequality in West Sulawesi. Understanding this dynamic will enable local governments to design more inclusive and sustainable development strategies that target not only economic growth but also the fair distribution of development outcomes.

Research on the influence of PAD, regional expenditure, and investment on income inequality in West Sulawesi is highly important and relevant. This study contributes not only theoretically to regional economic development literature but also provides empirical foundations for formulating more effective policies to reduce inequality and improve societal welfare equitably. The analysis employs path analysis processed through multiple linear regression to examine the third substructure of the relationships between independent and dependent variables. The results are expected to serve as a basis for more targeted policy formulation to address social inequality, accelerate poverty reduction, and enhance community welfare in the region.

2. MATERIALS AND METHODS

2.1 Materials

One of the persistent challenges faced by developing countries is inequality, which stems from uneven regional development. This issue is addressed in the Indonesian National Long-Term Development Plan (RPJPN) for 2005–2025. Income inequality refers to disparities in prosperity, living standards, and income among individuals or households, leading to regional imbalances due to variations in production factors and resource availability (Riadi, 2020).

Income inequality is a classic issue in economic development and remains a major challenge in many countries, including Indonesia. It reflects disparities in income distribution among individuals or groups within a region, with implications for social stability and long-term economic growth. According to Todaro and Smith (2011), high inequality not only signifies the unequal distribution of development benefits but can also hinder economic growth by limiting participation in productive economic activities. In the context of regional development, income inequality is influenced by how governments manage fiscal resources, including Regional Original Revenue (PAD), regional expenditure, and investment.

PAD is an indicator of a region's fiscal capacity to independently fund development. High PAD reflects strong local economic potential and the regional government's ability to generate revenue from productive sectors. Halim (2004) argues that increased PAD can expand fiscal space for more equitable and inclusive budget allocations. However, if PAD growth is concentrated in specific sectors without broader economic participation, income inequality may worsen. Thus, regional governments must focus not only on increasing PAD but also on ensuring its sources are inclusive and pro-poor.

Regional expenditure is another critical tool for reducing inequality. Through public spending, governments can provide basic services such as education, healthcare, and infrastructure across all regions. Musgrave and Musgrave (1989) emphasize that fiscal policy's distributive function can be achieved through social spending, subsidies, and infrastructure projects that improve accessibility for low-income populations. Expenditures targeting the informal sector, small businesses, and underdeveloped regions can narrow gaps between rich and poor, as well as between advanced and lagging areas. However, the effectiveness of such spending is key. If public funds are absorbed by bureaucracy or projects that do not address the needs of the poor, inequality will persist despite increased budgets.

Investment has a dual impact on inequality. On one hand, it drives growth, job creation, and income generation. Labor-intensive and locally rooted investments can uplift low-income communities and reduce disparities. On the other hand, investments concentrated in capital-intensive sectors or benefiting specific groups may widen inequality. Kuznets (1955) posits that inequality tends to rise in early development stages as growth benefits are unevenly distributed. Thus, investment quality—not just quantity—matters, including sectoral focus and local economic integration.

High income inequality affects not only the economy but also social stability and public trust in government. Therefore, inclusive development strategies—through optimized PAD, equitable spending, and pro-people investments—are essential for reducing disparities. Regional governments play a pivotal role in ensuring fiscal and investment resources target not just growth but also equitable development, aligning with sustainable development principles that balance economic efficiency, social justice, and environmental preservation.

Trimo (2022) defines income inequality as a facet of poverty that reflects relative deprivation based on regional income distribution. It measures how development benefits are shared among populations or derived from factor ownership. Inequality is typically higher in developing countries, whereas advanced economies exhibit more equitable distributions.

Fiscal decentralization is one policy tool to mitigate inequality (Nurman, 2013). Qian and Weingast (1997) argue that decentralization enhances efficiency but can also reduce existing disparities, as efficient public services correlate with lower inequality. However, its implementation may impact welfare policies and political stability. Kharisma (2013) found that fiscal decentralization in Indonesia improved regional welfare and financial management, empowering local governments to leverage regional potential.

Mardiasmo (2009) outlines principles of fiscal decentralization, including:

- Minimizing fiscal gaps between central and local governments (vertical imbalance) and among regions (horizontal imbalance).
- Improving public service quality and reducing interregional service disparities.
- Enhancing national resource efficiency.
- Ensuring transparent, accountable, and targeted intergovernmental transfers.
- Supporting macroeconomic fiscal sustainability.

Despite central transfers aimed at reducing inequality, their impact remains limited (Aryaputra et al., 2022). Optimal use of funds tailored to regional needs and rigorous oversight are crucial for maximizing development outcomes.

Investment also influences inequality. Wahyuni et al. (2014) highlight that regional potential can be unlocked through investment, but uneven distribution—often concentrated in specific areas—exacerbates disparities. Darwin Damanik et al. (2021) found that investment significantly affected income inequality in Jambi Province, underscoring the need for balanced spatial allocation.

2.2 Method

This study adopts a quantitative research method. As stated by Daniar Paramita et al. (2021), quantitative research emphasizes theory testing through the measurement of research variables using numerical data and applying statistical procedures. It aims to quantify relationships and explain phenomena using mathematical models. According to Ibrahim et al. (2018), quantitative research is designed systematically, planned clearly, and structured from the initial formulation of the research problem to the final presentation of findings.

The research was conducted in West Sulawesi Province, focusing on the performance of the provincial government over the period of 2017 to 2022. The primary objects of analysis include regional economic growth, investment, local revenue, and regional expenditure. Data were collected from various authoritative sources, including the Central Statistics Agency (BPS) for economic growth data, the Investment Coordinating Board (BKPM) for investment data, and the Regional Government Information System (SIPD) for PAD (Regional Original Revenue) and regional spending figures.

The population in this study comprises all recorded data on PAD, regional expenditure, investment, and income inequality in West Sulawesi from 2017 to 2022. This research employed a saturated sampling technique or total sampling, in which all population elements are used as the research sample. According to Sugiyono (2008), this technique is appropriate when the entire population is sufficiently small and manageable. The dataset is in the form of weekly time-series data, providing a comprehensive view of dynamic fluctuations over the six-year period.

All data used in this research are secondary data, obtained through documentation from relevant institutions. Data were collected from official publications, reports, and periodically released statistics by BPS, BPKAD, and other credible sources. These data were accessed directly or via official institutional websites. The use of official and verified data sources ensures the reliability and validity of the information analyzed.

The primary analytical tool employed in this research is multiple linear regression analysis. This method extends simple linear regression by enabling the modeling of relationships involving more than one independent variable. The goal is to determine how much variation in the dependent variable—income inequality—can be explained by three independent variables: PAD (X_1), regional expenditure (X_2), and investment (X_3). According to Suryono (2015), the general form of the regression equation is expressed as:

$$Y=\beta 0+\beta 1X1+\beta 2X2+\beta 3X3+\epsilon$$

Where Y represents the dependent variable (income inequality), X1, X2, and X3 are independent variables, ϵ\ denotes the random error, and β0, β1, β2, and β3 are population parameters. Income Inequality (Y): Measured using the Gini Ratio in percentage terms, this variable reflects the disparity in income distribution within the population during the observation period. Regional Own-Source Revenue (PAD) (X_1): Refers to revenues obtained from regional taxes, service fees, proceeds from regional assets, and other legitimate income sources as defined by law. Regional Expenditure (X_2): Comprises all regional government obligations recognized as reductions in net assets within the relevant fiscal year, including operational and capital spending. Investment (X_3): Denotes all forms of domestic and foreign capital investment used to carry out business activities within Indonesia.

Drawing on the theoretical framework and previous studies (Todaro & Smith, 2006; Roy, 2013), this study hypothesizes that PAD, regional expenditure, and investment significantly influence income inequality in West Sulawesi—both individually and simultaneously. The hypothesis is derived from the assumption that increasing revenue and investment should positively impact income distribution if managed effectively.

The hypothesis is tested using the coefficient of determination (R^2) to evaluate the extent to which the independent variables explain the variation in the dependent variable. A higher R^2 indicates a better-fitting model. Additionally, the F-test is employed to assess the collective significance of all independent variables, while t-tests are used to evaluate each variable's individual contribution. The standard significance level for testing is set at $\alpha = 0.05$. Decision rules are as follows: for the F-test, if F_calculated > F_table, the alternative hypothesis is accepted; for the t-test, if t_calculated > t_table, the respective independent variable is considered to have a significant effect.

3. RESULT AND DISCUSSION

The results of the regression analysis reveal key insights into the influence of Regional Own-Source Revenue (PAD), regional expenditure, and investment on income inequality in West Sulawesi. Based on the determinant coefficient (R^2), the adjusted R^2 value is 0.077, indicating that only 7.7% of the variation in income inequality can be explained by the three independent variables. The remaining 92.3% of the variation is influenced by other external factors not included in the model. This suggests that while PAD, regional expenditure, and investment may have some relevance, their overall explanatory power for income inequality is weak in this context.

The F-test was conducted to assess the simultaneous effect of PAD, regional expenditure, and investment on income inequality. The result shows an F-statistic of 1.903 with a significance value (p) of 0.137, which is greater than the 0.05 threshold. This indicates that the joint influence of the three variables on income inequality is not statistically significant. In other words, taken together, PAD, regional expenditure, and investment do not have a meaningful combined effect on reducing or increasing income disparity in the region.

Further analysis was performed using t-tests to evaluate the partial effects of each independent variable. For PAD, the regression coefficient (β) is 1.212 with a t-value of 1.669 and a p-value of 0.100. Although the relationship is positive, it is statistically insignificant, indicating that higher PAD is not associated with a measurable reduction in income inequality. This may be due to the concentration of PAD in economically developed areas, where economic activity and infrastructure are already advanced, limiting its redistributive impact on less developed regions.

In the case of regional expenditure, the coefficient is β = 0.235, with a t-value of 0.456 and a p-value of 0.650, signifying no significant effect on income inequality. The insignificant relationship can be attributed to the nature of regional spending in West Sulawesi, which is heavily dominated by routine operational expenditures, such as salaries and administrative costs, rather than capital investments that directly benefit low-income groups. As a result, the redistributive potential of public spending remains minimal.

Finally, investment also shows a non-significant impact on income inequality, with a coefficient of β = 0.399, a t-value of 0.859, and a p-value of 0.393. Although investment is expected to stimulate economic growth and employment, the results suggest that in the case of West Sulawesi, investment tends to be concentrated in capital-intensive sectors such as mining and large-scale agribusiness. These industries offer limited employment opportunities for the local population and fail to significantly increase incomes among low-income groups, thereby having a negligible effect on inequality.

Overall, the findings indicate that none of the three variables—PAD, regional expenditure, or investment—has a statistically significant effect on income inequality in West Sulawesi during the 2017–2022 period. These results highlight a disconnect between fiscal capacity and equitable outcomes, suggesting that efforts to reduce inequality must go beyond increasing revenue and investment. Instead, greater attention must be given to the quality, distribution, and targeting of public finance and investment to ensure more inclusive development.

4. CONCLUSION

Based on the results and discussion, it can be concluded that local revenue, local expenditure, and investment each have a positive but statistically insignificant impact on income inequality in West Sulawesi. This shows that although these fiscal and economic variables are generally related to income distribution trends, the current structure and allocation have not made a significant contribution to reducing inequality in the region. This limited impact shows that increasing revenue or investment, inherently, is not enough unless it is strategically directed towards inclusive and equity-oriented development goals. To increase the distributional impact of fiscal and investment policies, several strategic policy adjustments are recommended. Reducing income inequality in West Sulawesi requires not only financial capacity, but also a strategic approach that focuses on equity in fiscal and investment management. By aligning public revenue and expenditure with inclusive development priorities, policymakers can ensure that economic growth translates into tangible improvements in the welfare of all segments of society.

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