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The Effect of *Block Grants* on The Level of Community Welfare Through Education Function Expenditure

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Abstract: This research is motivated by the high transfer funds (DAU and DBH) and the high expenditure on education functions in East Java. The high transfer funds and education function expenditure have not been able to make East Java have a high HDI compared to other regions in Java. Therefore, this study aims to determine the effect of DAU and DBH on HDI through education function expenditure in cities and districts in East Java Province in 2018-2022. The data in this study are panel data sourced from the APBD realisation data of 29 districts and 9 in East Java Province published by the Directorate General of Fiscal Balance (DJPB) of the Ministry of Finance. The research uses path analysis technique with the results of DAU has a significant positive effect on education function expenditure, DBH has no effect on education function expenditure, DAU has a significant negative effect on HDI, DBH has a significant positive effect on HDI, education function expenditure has no effect on HDI, DAU has no effect on HDI through education function expenditure, and DBH has no effect on HDI through education function expenditure.

Keywords: General Allocation Fund, Revenue Sharing Fund, Education Expenditures, Human Development Index.

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INTRODUCTION

Every local government must strive for high welfare for its people by formulating various policies and programs to ensure that welfare is provided to all its citizens (Nikmah & Rahaju, 2021). A common measure used to measure the high and low level of community welfare is the Human Development Index (HDI).

Unfortunately, a high level of community welfare has not been achieved by East Java Province because the province is still the province with the lowest HDI in Java.

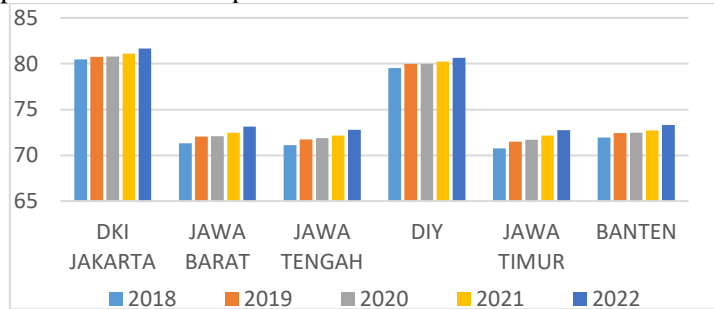


Figure 1. Graph of HDI Provinces in Java Island

Source: (Badan Pusat Statistik, n.d.)

One important aspect that can support the increase in HDI is education. Through investment in education, the level of literacy, knowledge, and skills of the community will increase, so that the resulting contribution will also increase, which in turn can have an impact on increasing HDI (Harsono et al., 2024). Therefore, the government through fiscal decentralization policy plays a role in funding to improve the quality of education in its region, namely in education function spending. This is in accordance with research (Maryozi et al., 2022) which states that education function spending has a significant positive effect on HDI. In contrast to HDI, East Java Province is one of the provinces on the island of Java that has a large realization of education function expenditure in 2018-2022 (third after DKI Jakarta Province and West Java Province).

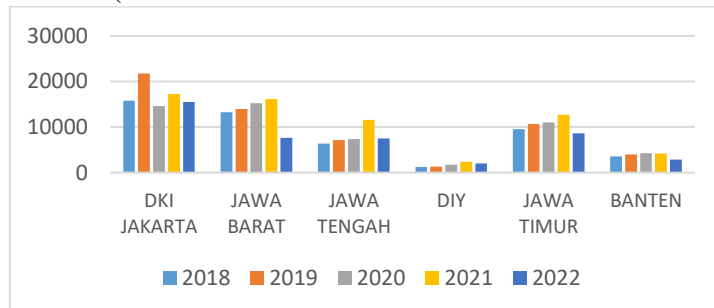


Figure 2. Graph of Realization of Provincial Education Function Expenditure In Java Island

Source: (DJPk Kemenkeu, 2020)

The high and low expenditure on education functions is certainly influenced by regional income, one of which comes from transfer funds whose management is fully submitted to local governments (block grants). Transfer funds that are block grants are the General Allocation Fund (DAU) and Revenue Sharing Fund (DBH) (Widodo, 2019). This is in accordance with research (Febriani & Andra Asmara, 2018) which states that DAU and DBH have a significant positive effect on education function spending. In addition to having a large realization of expenditure for the Education function, East Java Province also has the highest realization of DAU in Java and the second highest DBH in Java after DKI Jakarta Province in 2018-2022.

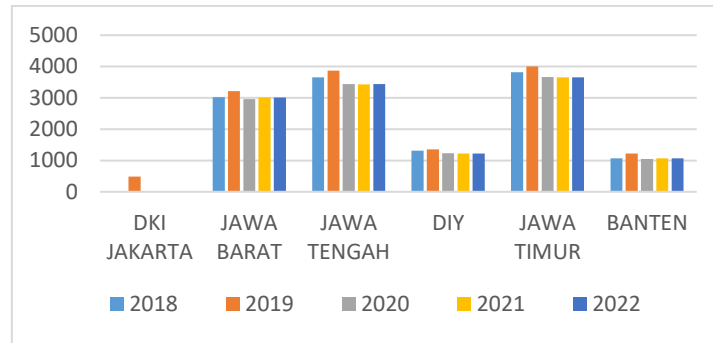


Figure 3. Graph of Realization of Provincial General Allocation Fund in Java Island
 Source: (DJPk Kemenkeu, n.d.)

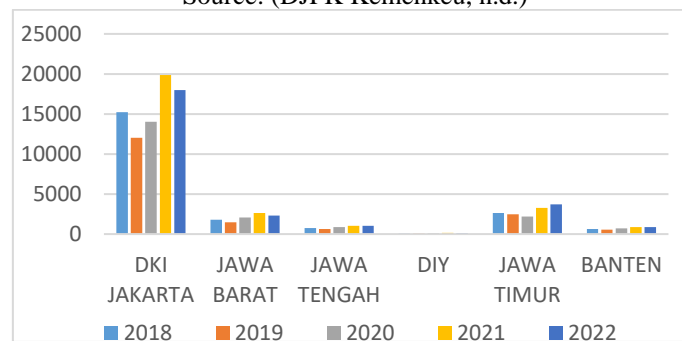


Figure 4. Graph of Realization of Provincial Revenue Sharing Fund in Java Island
 Source: (DJPk Kemenkeu, n.d.)

The high source of revenue should be able to increase the realization of expenditure on education functions that can affect the welfare of the community in accordance with the objectives of fiscal decentralization policy. However, based on the data obtained, the high revenue and expenditure on education functions have not been able to improve public welfare, especially in the field of education (as measured by HDI) in East Java.

In addition to the problems in East Java related to the high realization of DAU, DBH and expenditure on education functions that have not been able to increase HDI, researchers are interested in conducting this research because there is no previous research that examines the effect of DAU and DBH on HDI through education function spending, especially in the East Java region. Previous research that used some of the same variables as this study was research by (Amelia et al., 2019) with the title Analysis of Regional Expenditure in the Education Sector as a Mediator of the Influence of DBH, DAU, DAK, and PAD on Outcomes in the Education Sector in Provincial Governments in Indonesia in 2013-2015. so that this research is expected to add references that can later be further developed by further researchers.

On the basis of this phenomenon, the authors are interested in researching to examine the effect of the General Allocation Fund, Revenue Sharing Fund on HDI through education function expenditure in districts and cities in East Java Province. It is hoped that this research can find out which variables affect HDI through education function spending, so that it can be a suggestion for Regency and City Governments in East Java so that they can focus on allocating these variables to increase HDI through education function spending, because the increase in HDI in Districts and Cities is expected to affect the increase in HDI in East Java Province.

LITERATURE REVIEW

Theory of Fiscal Federalism

The relationship between general allocation funds and revenue sharing funds on education function expenditure can be explained through fiscal decentralization. The role of fiscal decentralization can be explained using the theory of fiscal federalism. There are two generations in

this theory, namely the first generation theory and the second generation theory. The first generation theory was developed by Hayek who stated that in the context of public finance, local governments have more knowledge about their regions than the central government, so they can make better decisions regarding the efficient provision of goods and services. The second generation theory was developed by Musgrave and Oates which states that local governments have more authority to manage the regional economy if the role of the central government is limited in managing development in the regions (Badan Kebijakan Fiskal Kementerian Keuangan, 2021)

Theory of Government Expenditure Development

The relationship between general allocation fund, revenue sharing fund and education function expenditure on HDI can be explained through the theory of government expenditure development. Rostow and Musgrave developed a theory of development and government spending that links government spending to the stages of economic development. They differentiated the early stages of economic development into intermediate and advanced stages. In the early stages the government plays a role in preparing the facilities needed by the community such as education, health, transportation and so on. In the intermediate stage the government still investment to overcome the complex inter-sectoral relations caused by the increasing role of private investment. At a later stage, the role of government shifted from preparing facilities to social programs to improve the welfare of the community such as health care programs, education and so on (Mangkoesebroto, 2001).

From this theory, it can be concluded that the government must make investments needed by the community, one of which is in the field of education (through the allocation of education function expenditures whose funding can be sourced from DAU and DBH). after the infrastructure is fulfilled, the government will switch to using the investment to carry out social programs (one of which is a social program in the field of education) to improve the welfare of the community which will have an impact on increasing HDI.

Research Framework

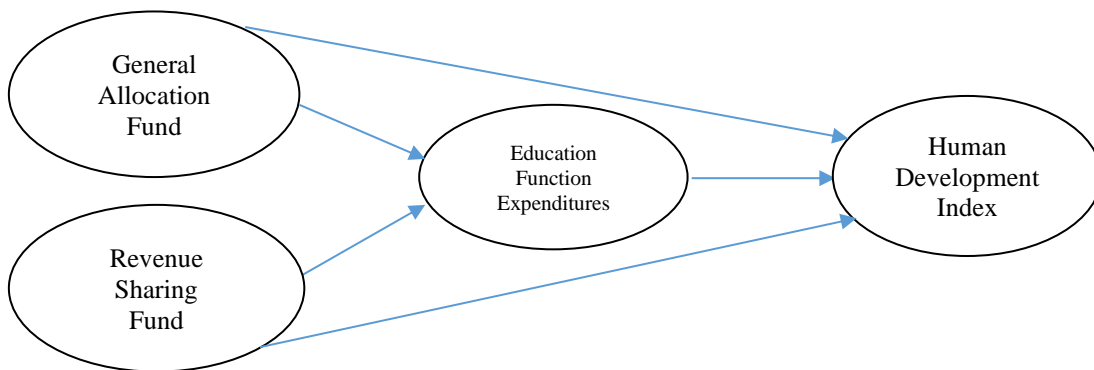


Figure 5. Research Framework
Source: Author (2024)

Hypothesis Development

The Effect of General Allocation Fund and Revenue Sharing Fund on Education Function Expenditure

Based on the theory of *fiscal federalism* and the expenditure approach in fiscal decentralization, local governments can strive to improve the quality of education through education function expenditures whose sources of funds can be obtained from General Allocation Fund and Revenue Sharing Fund, so there is a significant positive influence between General Allocation Fund and Revenue Sharing Fund on education function expenditures. The increase in General Allocation Fund and Revenue Sharing Fund will increase education function expenditure. The

previous studies that support this theory are research from (Febriani & Andra Asmara, 2018) and (Amelia et al., 2019) which state that General Allocation Fund and Revenue Sharing Fund have a significant positive effect on education function spending.

H1: General Allocation Fund has a significant positive effect on Education Function Expenditure

H2 : Revenue Sharing Fund has a significant positive effect on Education Function Expenditure

The Effect of General Allocation Fund, Revenue Sharing Fund, and Education Function Expenditure on HDI, and The Effect of General Allocation Fund and Revenue Sharing Fund on HDI through Education Function Expenditure

Based on the theory of government expenditure development, local governments can make investments that can be funded from general allocation fund and revenue sharing fund. These investments will be used to provide public facilities and infrastructure (one of which is in the field of education whose budget is included in the Education function expenditure). After the facilities and infrastructure are available, the government will switch to using the investment for social activities (one of which is social activities in the field of education) that can improve the welfare of the community which can have an impact on increasing HDI.

The previous studies that support this theory are research from (Kurniasari, 2021) and (Riviando & Agustin, 2019) which state that general allocation fund has a significant positive effect on HDI. About revenue sharing fund, the previous studies are from (Siswadi & Pituringsih, 2015) and (Patadang et al., 2021) which state that revenue sharing fund has a significant positive effect on HDI. The last research is research from (Fahmi & Khairul, 2018) and (Hadinata et al., 2020) which states that education function spending has a significant positive effect on HDI.

Unfortunately, there is no previous research that discusses the effect of general allocation fund and revenue sharing fund on HDI through Education Function Expenditure, therefore it is a novelty in this study.

H3: General Allocation Fund has a significant positive effect on HDI.

H4: Revenue Sharing Fund has a significant positive effect on HDI.

H5: Education Function Expenditure has a significant positive effect on HDI.

H6: General Allocation Fund has a significant positive effect on HDI through Education Function Expenditure

H7: DBH has a significant positive effect on HDI through Education Function Expenditure.

METHOD

This research is quantitative research with associative methods. The population in this study is East Java Province. From this population, the authors used a sample of 29 districts and 9 cities in East Java Province. This study uses secondary data obtained from the website of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance for 2018-2022 and the website of the Central Bureau of Statistics for 2018-2022, and uses the documentation data collection method. This research uses *path* analysis technique with two equations as follows :

Structural Equation 1: $Y = \rho_1 X_{1it} + \rho_2 X_{2it} + \epsilon_{(1it)}$

Structural Equation 2: $Z = \rho_3 X_{1it} + \rho_4 X_{2it} + \rho_5 Y_{(it)} + \epsilon_{(2it)}$

Information :

- X1 : General Allocation Fund
- X2 : Profit Sharing Fund
- Y : Education Function Expenditure
- Z : IPM
- P : Coefficient
- ϵ : error
- i : 29 regencies and 9 cities in East Java Province
- t : 2018-2022

RESULTS AND DISCUSSION

Model Selection Test for Equation 1 and 2

Tabel 1. Model Selection Test for Equation 1 and 2

Testing	Results	Conclusion
Chow test equation 1	0.0000 < 0.05	FEM
Hausman test equation 1	0.0060 < 0.05	FEM
Chow test equation 2	0.0000 < 0.05	FEM
Hausman test equation 2	0.0104 < 0.05	FEM

Source: Eviews, Data processed by researchers (2024)

From the results of the data model selection test, the data model used in equations 1 and 2 is the FEM model.

Classical Assumption Test

Because it uses the FEM model, the classic assumption tests used are multicollinearity test and heteroscedasticity test.

Tabel 2. Multicollinearity Test for Equation 1 and 2

	X1	X2	Y
X1	1.000000	0.058901	0.779559
X2	0.058901	1.000000	0.198974
Y	0.779559	0.198974	1.000000

Source: Eviews, Data processed by researchers (2024)

From the above results, it can be concluded that the data in this study does not contain multicollinearity because the correlation between all variables is <0.9.

Heteroscedasticity Test Equations 1 and 2

Tabel 3. Heteroscedasticity Test for Equation 1

Variables	Probability	Conclusion
X1	0.0704	Doesn't contain
X2	0.4840	Doesn't contain

Source: Eviews, Data processed by researchers (2024)

Tabel 4. Heteroscedasticity Test for Equation 2

Variables	Probability	Conclusion
X1	0.1902	Doesn't contain
X2	0.4390	Doesn't contain
Y	0.1067	Doesn't contain

Source: Eviews, Data processed by researchers (2024)

From the heteroscedasticity test above, it can be seen that the probability of all variables > 0.05, so the data from this study does not contain heteroscedasticity.

Hypothesis Testing

Table 5. Regression Results for Equation 1

Variables	Coefficient	Probability
C	0.1902	0.0021
X1	0.4390	0.0006
X2	0.1067	0.5914
Adjusted R-Squared	0.961609	
Probability (F-Statistic)	0.000000	

Source: Eviews, Data processed by researchers (2024)

In the regression results above, it can be seen that the general allocation fund (X1) has a significant positive effect on education function expenditure (Y) in city districts in East Java Province. This can be seen from the probability of X1 of 0.0006 which is smaller than 0.05. It can be concluded that the general allocation fund hypothesis has a significant positive effect on education function spending can be accepted.

In the regression results above, it can also be seen that revenue sharing funds (X2) have no effect on education function expenditure (Y) in city districts in East Java Province. This can be seen from the probability of X2 of 0.5914 which is greater than 0.05. It can be concluded that the DBH hypothesis has a significant positive effect on education function spending cannot be accepted.

For simultaneous influence (Probability F) in this equation is 0.000000 which means that DAU and DBH together have an effect on education function spending. The R-squared in this equation is 0.961609 or 96% which means 96% of the independent variables affect the dependent variable. while the remaining 4% is explained by other variables outside this study.

Table 6. Regression Results for Equation 2

Variables	Coefficient	Probability
C	79.48675	0.0000
X1	-0.009032	0.0000
X2	0.001116	0.0055
Y	0.000785	0.2789
Adjusted R-Squared	0.989444	
Probability (F-Statistic)	0.000000	

In the regression results above, it can be seen that the general allocation fund (X1) has a significant negative effect on the Human Development Index (Z) in the city districts in East Java Province. This can be seen from the probability of X1 of 0.0000 which is smaller than 0.05. It can be concluded that the general allocation fund hypothesis has a significant positive effect on HDI cannot be accepted.

In addition to measuring the effect of general allocation fund on HDI, the regression above also measures the effect of revenue sharing fund and education function expenditure. In the regression results above, it can be seen that revenue sharing funds (X2) have a significant positive effect on the human development index (Z) in the city districts in East Java Province. This can be

seen from the X2 probability of 0.0055 which is smaller than 0.05. The effect is that every increase in general allocation funds by 1 rupiah, it will increase the human development index by 0.001116.

For the effect of education function expenditure on HDI, it can be seen that education function expenditure (Y) has no effect on the human development index (Z) in city districts in East Java Province. This can be seen from the probability of X3 of 0.2789 which is smaller than 0.05.

For simultaneous influence (Probability F) in this equation is 0.000000 which means general allocation fund, revenue sharing fund and education function expenditure together affect HDI. The R-squared in this equation is 0.989444 or 99% which means 99% of the independent variables affect the dependent variable. while the remaining 1% is explained by other variables outside this study.

Sobel Test Results

The Effect of General Allocation Fund on HDI Through Education Function Expenditure

$$\frac{0,4 \times 0,0009}{\sqrt{(0,0009^2 \times 0,11^2) + (0,4^2 \times 0,0007^2)}} = 1,2 < 2,03$$

From the results of the sobel test, it can be seen that the resulting t value (1.2) < t table value (2.03). This means that education function spending is not able to mediate the relationship between the influence of general allocation fund on the human development index.

The Effect of Revenue Sharing Fund on HDI Through Education Function Expenditure

$$\frac{0,02 \times 0,0009}{\sqrt{(0,0009^2 \times 0,04^2) + (0,02^2 \times 0,0007^2)}} = 0,3 < 2,03$$

From the sobel test results above, it can be seen that the p-value (0.62266652) > 0.05. In addition to the p-value, the resulting t value (0.3) < the t table value (2.03). This means that capital expenditure is not able to mediate the relationship between the influence of general allocation funds on the human development index.

Relationship between Variables

The Effect of General Allocation Fund on Education Function Expenditure

The existence of a significant positive effect between general allocation funds on education function expenditure indicates that district and city governments in East Java Province do not only use general allocation funds for routine expenditures such as personnel expenditures, but are also used for more productive education function expenditures.

This is consistent with the theory of fiscal federalism, which states that with fiscal decentralization, local governments can finance their expenditures (including education function expenditures) using transfer funds (including general allocation fund), so that the increase in general allocation fund will increase education function expenditures.

The existence of a significant positive effect between general allocation funds on education function expenditure is due to the allocation of the education budget included in mandatory spending (expenditure that has been regulated by law), which is 20% of the APBD as mandated by the 1945 Constitution article 31 paragraph (4) and Law No. 20 of 2003 concerning the National Education System article 49 paragraph (1) (Kementerian Keuangan, n.d.). The source of funds used to finance the education budget is not only obtained from the education DAK, but can also use the DAU, because the DAU is block grants. So the increase in DAU will also increase spending on education functions.

The results of this study are also supported by researchers (Febriani & Andra Asmara, 2018) and (Amelia et al., 2019) which state that DAU and DBH have a significant positive effect on education function spending.

The Effect of Revenue Sharing Fund on Education Function Expenditure

The absence of influence between revenue sharing funds on education function expenditures indicates that revenue sharing funds in districts and cities in East Java Province have not been allocated to more productive expenditures such as education function expenditures.

This is not in accordance with the theory of fiscal federalism and the expenditure approach in fiscal decentralization, which is that with fiscal decentralization, local governments should be able to finance their expenditures (including education function expenditures) using transfer funds (including revenue sharing fund), so that the increase in revenue sharing fund will increase education function expenditures.

The absence of the influence of revenue sharing fund on education function expenditure is because revenue sharing fund is block grants (its use is fully submitted to local governments) so that its use is not only for education function expenditure. Meanwhile, the average contribution of revenue sharing fund to transfer funds in districts and cities in East Java Province is still low, so that the funds used are limited so that they have not been able to influence the size of education function expenditure.

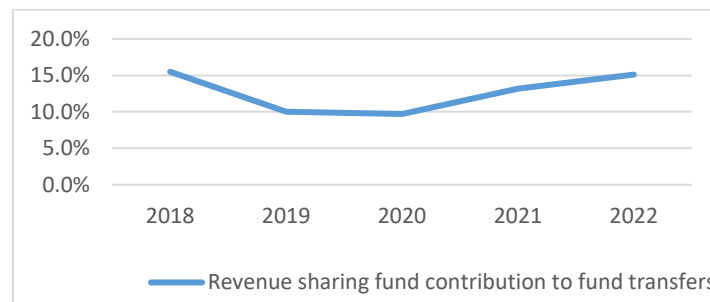


Figure 6. Revenue Sharing Contribution to Fund Transfers
 Source: (DJPk Kemenkeu, n.d.) data processed by researchers (2024)

The results of this study are supported by research (Ahlillah et al., 2022) which states that revenue sharing funds have no effect on education function spending.

The Effect of General Allocation Fund on HDI

The existence of a negative and significant influence between the general allocation fund on the human development index indicates the inaccurate allocation of general allocation funds made by the East Java regional government.

The existence of this negative effect is not in accordance with the theory of government expenditure development. From this theory, it can be concluded that local governments need to make investments (where these investments can be funded from general allocation fund and revenue sharing fund). The investment will be used to provide public facilities and infrastructure (one of which is infrastructure in the education sector whose budget is included in the Education function expenditure). Once the facilities and infrastructure are in place, the government will turn to using the investment for social activities that can improve community welfare.

The negative effect occurs because the use of general allocation fund, which is the largest revenue from transfer funds (above 50% in 2018-2022), is still dominated by the basic allocation component, namely unproductive personnel (employee) expenditure, so that the increase in general allocation fund will actually have an impact on decreasing HDI.

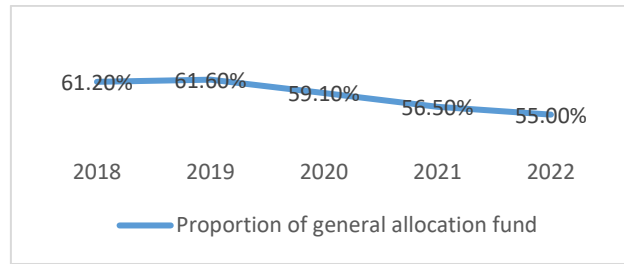


Figure 7. Proportion of General Allocation Fund to Transfer Funds

Source: (DJPk Kemenkeu, n.d.) data processed by researchers (2024)

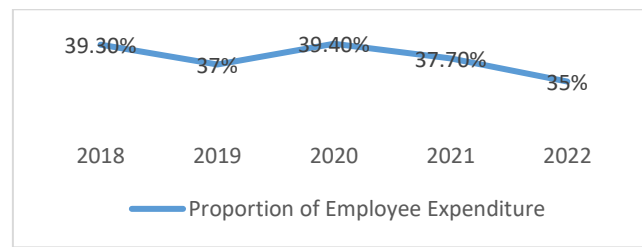


Figure 8. Proportion of Employee Expenditure to Total Regional Expenditure

Source: (DJPk Kemenkeu, n.d.) data processed by researchers (2024)

In addition, there are many factors that have the potential to reduce the human development index, such as an increase in the unemployment rate. Therefore, if general allocation funds are not allocated to reduce the factors that can reduce the human development index, the human development index will continue to decline.

The results of this study are also supported by research (Siswadi & Pituringsih, 2015), (Fretes, 2017), and (Malik et al., 2022) which state that general allocation funds have a significant negative effect on the human development index.

The Effect of General Allocation Fund on HDI

The existence of a positive and significant influence between revenue sharing funds on the human development index shows that the East Java regional government has utilized revenue sharing funds to improve the welfare of its people.

The positive effect is in accordance with the theory of government expenditure development where local governments need to make investments (where these investments can be funded from general allocation fund and revenue sharing fund). The investment will be used to provide public facilities and infrastructure. After the facilities and infrastructure are available, the government will switch to using the investment for social activities that can improve people's welfare.

The positive effect of revenue sharing fund on HDI is because revenue sharing fund in cities and regencies in East Java Province has been allocated to programs that support the improvement of community welfare. One of the utilization of revenue sharing funds for welfare that has been implemented by the East Java local government in accordance with the 2021 minister of finance regulation is the utilization of *DBH-CHT* (Tobacco Excise Revenue Sharing Fund). According to (Regulation of the Minister of Finance, 2021) 50% of the *DBH-CHT* allocation is used for the welfare sector, with details of 20% for improving the quality of raw materials, fostering industry and fostering the social environment (improving work skills). Meanwhile, 30% is used for activities to provide assistance in the form of direct cash assistance or in the form of assistance in paying tobacco production protection insurance contributions for tobacco farmers.

The results of this study are also supported by research (Patadang et al., 2021) and (Kamarni et al., 2022) which state that revenue sharing funds have a significant positive effect on the human development index.

The Effect of Education Function Expenditure on HDI

The absence of influence between education function expenditure and the human development index shows that education function expenditure carried out by the East Java regional government has not had a direct effect on community welfare.

These results (no effect) are not in accordance with the theory of government expenditure development which states that local governments need to make investments (where these investments can be funded from general allocation fund and revenue sharing fund). The investment will be used to provide public facilities and infrastructure (one of which is infrastructure in the education sector whose budget is included in the Education function expenditure). Once the facilities and infrastructure are in place, the government will turn to using the investment for social activities that can improve the welfare of the community as measured by the HDI.

The absence of this effect occurs because the proportion of education function expenditure in East Java is used more for personnel expenditure and expenditure on goods and services that are less productive than capital expenditure, which can actually have an impact on increasing the human development index.

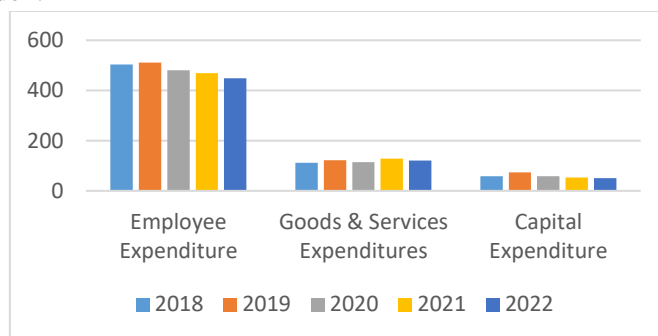


Figure 9. Graph of Types Expenditure on Education Function Expenditure

Source: (DJPk Kemenkeu, 2020) data processed by researchers (2024)

The results of this study are also supported by research (Ranadhani et al., 2021) which states that education function spending has no effect on the human development index.

The Effect of General Allocation Fund on HDI Through Education Function Expenditure

The existence of a P-value from the results of the sobel test that is greater than alpha and the results of the t-count < t-table indicate that the general allocation fund indirectly has no effect on the human development index through education function spending. This means that the increase in general allocation funds does not affect the increase in the human development index through the increase in education function expenditure.

The results of this study are inconsistent with the theory of government expenditure development, which states that local governments need to make investments (where these investments can be funded from general allocation fund). This investment will be used to provide public facilities and infrastructure (one of which is infrastructure in the education sector, whose budget is included in the Education function expenditure). Once the infrastructure is in place, the government will turn to using the investment for social activities that can improve community welfare.

The absence of an indirect effect between the general allocation fund and HDI through education function expenditure occurs because in cities and districts in East Java Province, the general allocation fund that affects the increase in education function expenditure is used more

for personnel (employee) expenditure in the education sector than capital expenditure in the education sector, where capital expenditure is more productive so that it can support the improvement of community welfare. So that the increase in education function expenditure caused by the increase in DAU has no effect on the human development index.

The Effect of Revenue Sharing Fund on HDI Through Education Function Expenditure

The existence of a P-value from the sobel test results that is greater than alpha and the t-calculated result $<$ t-table shows that revenue sharing indirectly does not affect the human development index through education function spending. This means that the increase in revenue sharing funds does not affect the increase in the human development index through the increase in education function spending.

The results of this study are not in accordance with the theory of government expenditure development which states that local governments need to make investments (where these investments can be funded from revenue sharing fund). The investment will be used to provide public facilities and infrastructure (one of which is infrastructure in the education sector whose budget is included in the education function expenditure). After the facilities and infrastructure are available, the government will switch to using the investment for social activities that can improve community welfare.

The absence of an indirect effect between revenue sharing funds on HDI through education function expenditure occurs because the average contribution of revenue sharing funds to transfer funds is still low so that the funds used are limited so that they have not been able to influence the size of education function expenditure. In addition, revenue sharing funds are block grants (their use is fully submitted to local governments), and the use of revenue sharing fund in cities and districts in East Java Province is mostly used for programs that support the improvement of community welfare without going through education spending. For example, the allocation of DBH-CHT is focused on improving welfare related to tobacco production.

CONCLUSION AND SUGGESTIONS

Conclusion

From this study it can be concluded that general allocation fund has a significant positive effect on education function expenditure, revenue sharing fund has no effect on education function expenditure, general allocation fund has a significant negative effect on Human Development Index, revenue sharing fund has a significant positive effect on Human Development Index, Education Function Expenditure has no effect on Human Development Index, and lastly general allocation fund and revenue sharing fund have no effect on HDI through education function expenditure.

Suggestion

Suggestions for further researchers are that further researchers are expected to examine factors that can increase HDI in a region using other variables besides block grants and education function expenditure, because the limitation of this study is that this study only uses block grants and education function expenditure as variables that are thought to have an effect on HDI.

IMPLICATIONS

This research can be an additional reference for future researchers who want to examine the use of block grants for community welfare. In addition, it is hoped that this research can provide some input for district and city governments in East Java Province to focus more on allocating block grants for the welfare of the people in East Java, considering that block grants are one of the large sources of income owned by the regions.

LIMITATIONS

The limitations in this study lie in the year, variables and samples in the study. This study only examines the effect of block grants on HDI through education function expenditures in districts and cities in East Java Province in 2018-2022.

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