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Ananalysis Of Determinants Of Poverty Rates In Indonesia

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Abstract

This study aims to determine and analyze the effect of government spending in this case balancing funds, village funds, infrastructure budgets and inflation on poverty levels through investment variables, economic growth and income inequality. This study uses an explanatory design. The type of data used is panel data which is a combination of data from 33 provinces in Indonesia from 2015 to 2019. The analytical model used in this study is the econometric structural equation model in the Eviews 12 program. The findings reveal that significant negative effect on the poverty level, but indirectly the balancing fund has no significant effect through investment, economic growth and income inequality. Likewise, village funds have no significant direct and indirect effect on poverty levels through investment, economic growth and income inequality. The infrastructure budget has a significant negative effect on the poverty level directly and indirectly has a significant negative effect through investment, economic growth and income inequality. Inflation directly has an insignificant positive effect on the poverty level, indirectly has an insignificant effect through investment, economic growth and income inequality, but inflation directly has a significant positive effect on income inequality.

Keywords : Poverty rate, income inequality, economic growth, investment, balancing funds

INTRODUCTION

Poverty is a global problem faced and a concern for every country in the world because it is closely related to various aspects of life. Some poor countries are still faced with problems of growth and unequal income distribution. Meanwhile, in reality many developing countries have high economic growth, but also produce high levels of poverty. Since the arrival of the colonial occupiers, the Indonesian nation has always been overshadowed by the twins of poverty. Indonesian people live in poverty in the midst of Indonesia's abundant natural wealth.

Indonesia as a developing country is faced with a poverty dilemma that cannot be ignored. After the second world war, developing countries tried to pursue economic growth as one of the primary indicators of development. Poverty is a complex and multidimensional social problem that is still debated by various parties, including academics, bureaucracy, political elites, and development practitioners.

The collapse of the Indonesian economy was caused by the global economic crisis in 1998 which was marked by the weakening of the rupiah exchange rate, rising inflation, high unemployment along with declining employment opportunities, thus causing poverty levels. This is caused by the inability to access capital sources, also because the infrastructure is not yet supported for use by the people, and is strengthened by the absence of strong micro-support, increasing practices of corruption, collusion and nepotism (also refers to KKN in Indonesia) and less competitive human resources, and etc (Boediono, 1992 in (Ingratubun, 2019)).

Among the complex problems that are very complicated to be addressed so far in the country, especially in the provinces and districts/cities, namely the problem of poverty which is increasingly taking the economy of the people in the region (Balqis & Suriani, 2020; Gumelar, 2019). Poverty is a common place in Indonesia, and it is interesting to be discussed in depth as a place to argue in various seminar activities and serve as the core material in the discussion forum. Overcoming the problem of poverty must be done by integrating various other dimensions that make this problem easier to solve (Paseki et al., 2014; Gumelar, 2019). Another dimension that is often tied to poverty is the low level of education to improve a better quality of life, the level of health that is still inadequate to increase life expectancy, the increase in the total population which makes people's needs increase and total unemployment which is increasing because of reduced poverty. Employment (Nurhidayah & Hendikawati, 2018; Gumelar, 2019).

Incidents of increasing the number of poor people is always related to the basis and problems of arbitrariness by parties that make people feel they are being treated unfairly and create divisions in Indonesia, all parties should support each other for the poor. The theoretical basis used so that the community is interconnected can be through a framework of thought and understanding of individual problems as well as studies carried out by carrying out the concept of integration (Wijaya et al., 2018; Gumelar, 2019). People who are increasingly connected to each other will have a positive connectivity impact. The number of poor people in the region will continue to increase when there is partiality towards certain groups which can cause hatred, jealousy, and reduce brotherhood, so that later other problems will also arise such as national disintegration and social injustice (Permatasari and Dwirandra, 2018; Gumelar, 2019).

Poverty can be defined as a situation where a person or region has difficulty raising a more decent life or it can be said that the inability to improve a better standard of living by utilizing natural resources that can be used to meet the needs of life and improve the welfare of a group of people. Various definitions of poverty have been put forward as well as the subject of debate among poverty observers. As emphasized by Central Bureau of Statistics (2021), poverty is an inability from an economic point of view to meet basic food and non-food needs as measured from the expenditure side. Poverty can occur as a result of capability deprivation, namely the freedom to achieve something in one's life (Amartya Sen (in Ingratubun, 2019)). Judging from the causes, poverty can be divided into two, namely natural poverty and structural poverty. Natural poverty occurs because of the scarcity of natural resources so that community productivity is low, while structural poverty occurs because the allocation of existing resources is not evenly distributed.

DSen's practice often uses rankings, when comparing spaces to measure development and equality: (1) ability, the set of life options one can choose from, is placed first because priority is given to freedom; (2) function, or how a person actually lives; (3) utility, which means feelings of satisfaction or the fact that preferences are relatively low ranked because preferences can be formed without much reflection or are formed in situations of lack of information or choice; and (4) goods/commodities, may be placed last as a measure of welfare because people have different requirements. We can see the normative priority given to ability as an evaluative rule that ability is more important than function.

The phenomenon of poverty has been going on for a long time, although various efforts have been made to overcome it. The World Bank, stated that at least 767 million people live below the international poverty line. Where they meet their needs with an expenditure of USD 1.9 per person per day. Nearly every person in the world or 10.7 percent of the total global population is below the deepest poverty line. The highest number of poor people is in sub-Saharan Africa where it reaches 388.7 million people. Meanwhile, the second is in southern Asia where it reaches 256.2 million people. East Asia and the Pacific were ranked third with 71 million people, followed by Latin America and the Caribbean, which recorded 33.6 million people (Laucereno, 2017).

The total population of Indonesia reaches 270.6 million people, although it is able to reduce the number of poor people every year, there are still around 24.79 million people living below the poverty line in 2019. The government has not been able to face or solve these problems by having a poverty level an average of 9.22 percent, this thing cannot be said to be successful because it is still far from the expected target. Meanwhile, the average economic growth is 6 percent during the period 2011-2019 (BPS, 2021).

The number of poor people in Indonesia has decreased nationally from 2011 to 2019, and during the period from 2015 to 2019 there has been a decline in the poverty rate by 3.45 million people or 1.81 percent, namely 28.59 million poor people in in 2015 decreased to 25.14 million poor people in 2019. The development of the poor in Indonesia is still dominated by people living in rural areas compared to urban areas. In 2019 the percentage of the total poor was 9.22 percent, of which 6.56 percent lived in urban areas or 9.99 million people, the rest in rural areas were 12.60 percent or 15.15 million people (BPS, 2021).

Although poverty and income inequality in Indonesia fluctuate and tend to decrease, this figure can be said to be far from good, because the level of poverty and income inequality in Indonesia is still quite high. This has an impact on government policies that do not synergize with capital owners or investors to invest in the regions. Thus, income inequality is closely related to the poverty rate. Income inequality has a significant relationship with the poverty rate when income inequality increases, the poverty rate will also increase.

The advanced development of a country or region is largely determined by the existence of investments that are expected to improve the income per capita (per capita income) of the community will increase and be stable. If the development of the investment climate in the future will have better prospects, automatically reducing poverty with an approach to increasing economic growth, then the expansion of employment opportunities is created so that employment occurs and has a positive effect on equitable income inequality and poverty reduction (Ingratubun, 2019).

Table 1 Urban and Rural Poverty Rates per Province in Indonesia in 2019

Province	**Urban and Rural Poverty**			
	Total Population (Thousand People)	**urban**	**rural**	**Urban+Rural**
Aceh	5.372	35.10	27.20	32.10
North Sumatra	14.563	33.70	26.20	31.50
West Sumatra	5.441	31.90	26.50	30.70
South Sumatra	8.471	35.50	31.10	33.90
Riau	6.972	36.90	27.80	33.10
Riau Island	2.190	33.50	26.20	33.70
Bengkulu	1.992	37.00	27.90	32.90
Jambi	3.625	34.60	29.00	32.40
Lampung	8.448	34.90	29.40	33.10
Bangka Belitung Island	1.489	27.20	22.30	26.20
Banten	12.927	35.50	29.20	36.10
In Yogyakarta	3.843	43.00	32.60	42.80
West Java	49.317	40.80	31.80	39.80
Central Java	34.718	37.90	31.50	35.80
East Java	39.699	37.40	31.40	36.40
Bali	4.337	36.50	30.60	37.00
West Nusa Tenggara	5.070	40.10	33.30	37.40
East Nusa Tenggara	5.456	33.80	31.30	35.50
West Kalimantan	5.069	34.40	27.90	31.80
South Kalimantan	4.244	35.80	27.90	33.40
Central Kalimantan	2.715	36.70	29.30	33.50
East Kalimantan	3.721	33.30	28.90	33.50
North Kalimantan	749	28.70	28.40	29.20
Gorontalo	1.203	39.90	39.30	41.00
North Sulawesi	2.507	37.50	34.60	37.60
Central Sulawesi	3.054	33.90	29.20	33.00
West Sulawesi	1.380	43.80	32.00	36.50
Southeast Sulawesi	2.705	40.20	35.30	39.30
South Sulawesi	8.851	39.30	35.40	39.10
Maluku	1.803	29.40	28.90	32.00
North Maluku	1.256	30.30	25.80	31.00
Papua	960	28.80	41.00	39.10

West Papua	3.379	32.00	41.60	38.10

Source: Central Bureau of Statistics, 2019

As shown in Table 1 that the poverty rate in Indonesia, where most of the population lives in rural areas with the main occupations being farmers and fishermen. Areas where the community or residents are farmers and fishermen, who have long lived in suburban areas. In suburban areas, development programs have not been fulfilled according to needs and the economic development process has not developed properly. One of the methods used by the community is migration to urban areas.

The worst poverty rates living in urban and rural areas are in 5 (five) provinces in Indonesia, namely Special Region of Yogyakarta Province at 43.80 percent, Gorontalo Province at 41.00 percent, West Java Province at 39.80 percent, Southeast Sulawesi Province at 39.30 percent and Papua Province. Meanwhile, the lowest poverty rate below the national average for those living in urban and rural areas is North Kalimantan Province at 29.20 percent. This shows that the eastern region of Indonesia has not maximally implemented macroeconomic development policies and implementations that experienced development distortions and even infrastructure development was one of the factors that resulted in the deepening of the poverty gap in eastern Indonesia, in other words the development gap in Indonesia.

To reduce the level of poverty in Indonesia, it is best to find out the factors that cause poverty in Indonesia so that in the future it is hoped that the government from both the central and regional levels can make various policies and poverty alleviation programs that are effective in overcoming the poverty level in Indonesia. Poverty alleviation is basically a government effort in creating fundamental development that is carried out with the aim of prospering the community even though the problem of poverty is still difficult to overcome.

Based on the description above, there are several motivations that underlie researchers on each variable, including the variable balance funds, village funds, infrastructure budgets and inflation at the poverty level through investment variables, economic growth and income inequality. Therefore, several new things were developed in this study, namely: placing investment, economic growth and income inequality as intermediary variables in the econometric structural equation model to see a series of interdependence relationships jointly between exogenous and endogenous variables and to create typology of 33 (thirty three) provinces in Indonesia

Therefore, the role of the government is urgently needed to continuously suppress this poverty rate. One way to do this is to reduce unemployment by creating as many jobs as possible and by increasing the efficiency of the government's budget, which should be allocated more to build infrastructure, thereby encouraging job creation. This can happen if the business climate is more conducive, investment continues to increase, thus causing higher economic growth, which has an impact on the creation of welfare for the people in Indonesia.(Marisa, 2019). Based on the description above, the writer is interested in researching the determinants of the poverty rate in Indonesia.

LITERATURE REVIEW

Poverty Level

The world's children define poverty as a deprivation in welfare, and poor absolute as living with income below USD1 per day and moderate poverty for income below USD2 per day or at the level set by each country. Then the Central Statistics Agency views poverty as aa situation where a person or region has difficulty raising a more decent life or it can be said that the inability to improve a better standard of living. This inability condition is characterized by the low ability of income to meet basic needs in the form of clothing and food, while the poverty rate is one of the factors that describes the level of community welfare and suppresses the growth rate as one of the goals of a country's economic development.

The cause of poverty begins with the Vicious Circle of Poverty theory. According to Nurkse (1961) Poverty rests on the theory of a vicious cycle of poverty, the existence of market imperfections, lack of capital, and underdevelopment of human resources resulting in low productivity. Low productivity will result in low income, low income will cause investment and savings to decrease. If income continues to decline, it will lead to poverty because the capital to meet the needs of life is not met.

Poverty that occurs in Indonesia cannot be separated from the influence of globalization which causes life in this country to be controlled only by a few people or parties who can access important sources of production factors. Poverty is a social disease and a big enemy that must be faced together, both by the government and society as a whole. Meanwhile, Robert Chambers (1983) in Kadji (2004) asserts that the factors that cause poverty are the entanglement of poverty, the loss of rights or wealth that is difficult to return, perhaps due to the need for pressure that exceeds the threshold of its strength, for example expenditures that have been calculated previously, but the amount is very large, or suddenly faced with a severe crisis. . Usually, the need that drives someone in poverty is related to five things: ordinance obligations, calamities, physical incapacity, and unproductive expenses. Hence, this shows that the factors causing poverty are internal factors in the form of immediate needs that must be met, but do not have the relative ability to manage the resources they have.

Income Inequality

According to Hightower (2018), income inequality is guided by the extent to which income is evenly distributed among the population. Income inequality can also be defined as the gap between rich and poor. In the test results, the correlation between poverty and income inequality is positive, meaning that if poverty increases, income inequality will also increase or vice versa. Poverty is one of the factors that can affect the occurrence of income inequality.

Poverty and income inequality in Indonesia are serious problems and themes, but on the other hand, this inequality problem is actually less popular than the problem of poverty, even though income inequality and poverty are like two things that are equally urgent, where one another is a unity. intact and inseparable can hamper the rate of economic growth itself. In addition, poverty and income inequality will also have an impact on social instability, uncertainty and human tragedies such as poor health, hunger, and malnutrition.

Reducing inequality has become a commitment to achieve the welfare of the population, not only in Indonesia but all countries that are members of the United Nations. The agreement has been realized as the 10^{th} target of the SDGs, namely reducing inequality within and between countries. Countries seek to ensure equal opportunity and reduce income/outcome inequalities, including by eliminating discrimination against regulations, policies and practices and promoting legislation, policies and actions that are appropriate for their implementation. Thus, it is crucial to emphasize the issue of inequality, especially income, which is of concern to development (Hirschman 1958).

Economic Growth

The World Bank (2011) in the World Development Report explained that economic growth plays a central role in efforts to reduce poverty and achieve global development goals. Economic development will provide business opportunities and wider employment opportunities for the community, including poor households. On the agenda 21 United Nations Conference on Environment & Development (1992) that encouraging economic growth in developing countries is a direct form of poverty alleviation through the creation of job opportunities and programs to increase people's incomes and emphasizes more firmly that poverty alleviation cannot be done if the economy does not grow.

Indonesia is one of the countries that believes that poverty can be reduced by building high economic growth (especially during the New Order era) where the economic growth rate has reached 7%, but the results are far from expected, the poverty rate is still high. Economic growth and poverty are classic problems in economic development. Economic growth is a primary requirement in overcoming the problem of poverty, because growth can increase the income of the poor proportionally through overall growth (Dollar & Kraay, 2002). Although in general economic growth is useful for poverty alleviation, in some countries it is not, that growth is directed at reducing poverty (The World Bank, 2011).

Economic growth which is manifested in GDP or GRDP means one of the indexes in overcoming poverty. With the increase in GRDP, it can encourage people's income which will have a positive impact, namely reducing poverty. Economic growth based on Kuznet reflects network ties that affect poverty, economic growth gradually impacts on sustainable poverty reduction. Therefore, this shows that economic growth embodied in GDP or GRDP has a negative effect on poverty.

Investation

Investment has been recognized as an important source of economic development. Many experts are of the opinion that FDI and PMDN flows can fill the gap between desired investment and mobilizing domestic savings. Then, PMA can also increase tax revenues and improve management skills, technology, and labor in the host country. As a result, PMA can help the host to get out of the cycle of poverty and underdevelopment.

Investment aims to obtain or increase income and profits / profits in the future. Investment is a commitment to allocate a number of funds to one or more assets (at this time) which are expected to be able to provide a return (profit) in the future.

Investment includes increasing the stock of capital or goods in a country, such as buildings, production equipment, and inventory items within one year. Investment is a step to sacrifice consumption in the future (Samuelson, 2011 in (Sondakh et al., 2009)). Investments or expenditures to purchase capital goods and production equipment are divided into 4 components, namely: investment in private companies, expenditures for building housing, changes in company inventory and investments made by the government.

Investment is essentially the beginning of economic development activities. Investments can be made by the private sector, the government or a collaboration between the government and the private sector. Investment is a way that can be done by the government to increase economic growth and in the long term can raise the standard of living of its people (Mankiw, 2003 in (Sulaksono, 2015)).

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One of the economic theories that is often used in the investment world is the theory of the economist John Maynard Keynes who is also known as the originator of Keynesianism. Keynes's theory describes investment and its influence on economic growth and people's behavior at that time. According to classical economic theory, there are 3 factors to determine investment, namely costs, returns and expectations and opportunities. Meanwhile, based on investment theory according to Keynes, investment decisions are taken by comparing the Marginal Efficiency of Capital (MEC) with the real interest rate. MEC is the rate of return when a project reaches the break-even point (BEP) or the expected return on an investment. When the value of the MEC becomes greater than the real interest rate, then there is no more investment in investment assets that earn income. Investment theory according to Keynes also states that the amount or amount of investment does not only depend on returns or one factor, but is also influenced by the cost of capital or interest rates. An investment is said to be profitable at a point where the value of the MEC with the cost of capital is at the same level.

Balancing Fund

Poverty is a condition where the annual income of individuals in an area cannot meet the minimum standards needed by individuals to be able to live properly in that place. The problem of poverty is still a big problem in every country, almost all countries face the problem of poverty. Central Bureau of Statistics (2018) states that poverty is a condition that describes individuals who experience disabilities in their lives in the form of basic needs. Basic needs, both food and non-food that cannot be fulfilled by individuals due to not being able to live properly, originate from the distribution of basic needs or in other words, poverty is the inability to consume minimum needs, lack of shelter and clothing to support life.

Poverty alleviation can be achieved through increased economic growth. Equitable income distribution among citizens, and the allocation of the use of appropriate policies by the government is reflected in the budgeting of government revenues and expenditures directed at the poor (pro-poor budgeting). local. The State Revenue and Expenditure Budget (APBN) and the Regional Revenue and Expenditure Budget (APBD) that are in favor of the community can be utilized by local governments as one of the policies in increasing the welfare of the population and achieving public service standards for the community so that they can overcome the poverty of the people in their region through how allocate the appropriate APBD using these problems. Therefore, Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments and Law Number 23 of 2014 concerning Regional Government are enacted.

The existence of government intervention or the role of the government in the economy of a country, will increase economic growth and economic development, through fiscal policies such as taxation and government spending. An increase in economic growth will result in a decrease in the poverty level of the community. Government spending through government expenditure is one of the government's budget policies that can affect the country's economy, one of which is the effect (changes in results). The output effect is a decision made by the government in determining income and expenditure for government spending, in providing public goods and providing services to the community with the aim of regulating the wheels of the economy.

One of the factors in reducing the level of poverty in the regions is the management of balancing funds to fulfill the community's economy. Therefore, the balancing fund component becomes a very important budget because the amount is very large and every year it increases and becomes the main driver in every regional government activity. If the budget is used optimally, the problem of poverty can be resolved quickly (Anwar et al., 2016 in (Gumelar, 2021)). In addition, the balancing fund which is an instrument of regional income also has an impact on the effectiveness, efficiency, and capability of regional programs. If the number increases every year, the amount of regional income and expenditure such as regional expenditure for poverty reduction will also increase.

The allocation of balancing funds in accordance with the targets is of course a regional task because local governments are unable to rely on PAD, the amount of which is still far below the balancing fund. Therefore, poverty alleviation must go through an effective program that involves all levels of society. In addition, the reduction of the poverty level must be supported maximally from the capacity of the balancing fund (Subukan, 2012 in (Gumelar, 2021)).

Village fund

Village funds have the aim of increasing economic activity and the quality of life of rural communities. The provision of village funds gives authority to the village government to carry out government activities and operations that are oriented towards these goals. The provision of village funds is required by the village government to prioritize community empowerment and development. By providing village funds to the village government, it is hoped that it will improve the quality of life of the community and be able to alleviate poverty. The village funds can be used for various community empowerment activity programs such as training and fostering small businesses, developing community agriculture and animal husbandry, or forming Village-Owned Enterprises as an improvement in community business units.

The provision of village funds is a manifestation of the fulfillment of the village's right to carry out its autonomy in order to grow and develop. The role of the village government in providing services, community welfare and accelerating the development and growth of strategic areas must be increased, so as to develop areas that are still lagging behind in a development area system. This research is supported by Krisna et al. (2019) which highlight that village funds have a significant effect on community welfare

This findings also in accordance with Setianingsih (2017) that the village fund variable has a negative effect on poverty by 0.398%. This means that with an increase in village funds by 1%, it will reduce the number of poor people by 0.398%. Meanwhile, Azwardi & Sukanto (2014) shows that there is a negative influence between the Village Fund Allocation on poverty. Moreover, Putra (2018), revealed an increase in village funds has a significant effect on reducing poverty levels. Likewise, Krisna et al. (2019) and Wahyuddin et al. (2019) shows the results that village funds have a positive and significant effect on poverty. Nevertheless, the findings also contradict with previous studies by Harmiati et al. (2019); Lalira et al., (2018) and Rimawan & Aryani (2019) discover a different results that village funds had no effect on poverty.

Infrastructure budget

The central government hopes that by using the delegation of authority in decision-making and responsibility, local governments will have greater opportunities in alleviating poverty. Local governments can improve welfare and services to the community because it is closer and more practical to monitor and evaluate what projects are in sync with the existing community potential to reduce poverty in their area. Poverty is a shared responsibility of both the local government and the central government, especially local governments to support the process of improving people's living standards in a government, to immediately find solutions to overcome the high level of poverty.

Availability of infrastructure is one of the primary supporting factorsmodern society. Every line of business requires collateral for the supply of energy, water, communication and transportation to carry out production activities. If not available, the country's productivity will be lower and ultimately economic growth. Infrastructure is widely recognized as one of the key factors influencing economic growth and facilitating the reduction of inequality and poverty, especially in developing countries (Tusk Advisory, 2018).

In the Indonesia Economic Quarterly Work Bank report (2019) revealed that Indonesia's low infrastructure is one of the obstacles to increasing economic growth. Indonesia gets a low rating when compared to other countries in terms of infrastructure quality and inadequate infrastructure provision, so that it becomes an obstacle for some companies to carry out activities and invest. Following up on this, the government is committed to producing infrastructure as one of the national priorities

As stated by Friawan (2008) in Safira et al. (2019) that infrastructure is very crucial in an economic integrity, namely first, the availability of new infrastructure is the primary engine of economic development. secondly, in order to fully benefit from integration, the availability of infrastructure networks is urgently needed to facilitate trade and investment activities. Third, attention to improving infrastructure is also crucial for overcoming the gap in economic development between countries. With the improvement of infrastructure, it is expected to facilitate the mobility of economic activity between regions which in turn will invite investors to invest in the area. This will create new jobs because of the emergence of new activities. In the end, improving infrastructure will improve development conditions.

The main problem of poverty is the ability of the poor to obtain services for primary needs, such as the ability to obtain health and education services. Through spending, it becomes the role of the government, providing easy accessibility for the poor to obtain public services, where the infrastructure budget must be increased as a form of government service as well as being a driving force for the community's economy. Infrastructure development that is directly related to the poor as a primary priority by carrying out activities that are pro-poverty.

Infrastructure improvements will increase investment and economic growth because investment will increase employment. According to Siregar & Sukwika (2007) in Sukwika (2018), investment plays an important role in determining employment. Good infrastructure will also encourage an increase in people's income, due to increased economic activity as a result of higher mobility of production factors and trade activities. So that investment cannot be separated from the availability of infrastructure which is a pillar of sustainable development. Recognizing the need for infrastructure to promote economic growth, infrastructure experts desire that in encouraging infrastructure development, the government plays an important role in the infrastructure sector by maintaining the sustainability of infrastructure development investments so that infrastructure can be improved both in quantity and quality.

Inflation

Inflation is the tendency of prices to rise in general and continuously, or it can also be called a symptom of an imbalance between the amount of money in circulation and the amount of goods and services available, the amount of money in circulation is greater than the amount of goods and services available. According to Keynes' theory, inflation occurs because a society wants to live beyond the limits of its economic capacity. In other words, the process of seizing the share of sustenance among social groups who want a larger share than the community can provide so that this struggle process eventually translates into a situation where public demand for goods always exceeds the amount of goods available (inflationary gap).

Poverty in a country is caused, among other things, by inflation as a consequence of the process of economic development. Inflation describes an imbalance in the money supply with the volume of goods and services available in the economy. Thus, inflation will be marked by an increase in the price of most of the goods that occur.

This event will definitely increase the cost of production which will increase the inflation of a country. If these goods are needed by the whole community, the increase in inflation will increase the prices of the products offered and respond with low purchasing power. Furthermore, it will reduce demand so that it has the potential to increase poverty. Finally, if there is a reduction in international capital entering a country, globally it will reduce the total domestic investment that can be invested. In accordance with macroeconomic rules, limited investment will reduce the production of goods and services so that it has the opportunity to increase the prices of these goods which will lead to an increase in inflation. If inflation rises, it will certainly reduce people's purchasing power which has the opportunity to increase poverty.

The inflation variable has a significant and positive effect on the poverty level in Indonesia. If inflation increases, poverty will increase. Conversely, if inflation decreases, the poverty rate will decrease. This result is also supported by the theory which states that inflation will increase production costs which will lead to an increase in the price of goods and services. This price increase causes people's purchasing power to decrease and leads to an increase in poverty.

RESEARCH METHODS

In this study, there are two methods used to analyze the data based on the research objectives. Specifically, the analysis technique will be described as follows: first, Descriptive Analysis, This analysis is presented in the form of a table which is used to describe or describe the general picture of the research results. Meanwhile, Quantitative Analysis servers as second analysis.

Based on the research framework, this study uses a structural equation approach to the econometric model. The Eviews 12 program is a statistical program used by researchers to complete econometric models. The Econometric Model isa measurement technique in the field of science which is a combination of economics (economic theory), mathematical economics and statistics to analyze economic theory quantitatively based on empirical data. Econometrics uses simultaneous equations, meaning that the equation in which the dependent variable in one or more equations is also the independent variable in the other equation. Thus, a variable has two roles as an independent variable and a dependent variable.

RESEARCH RESULT

Model Identification

The system of equations in this study can be written in the form of a triangular system as follows:

Table 2 Triangular System

Eq	Left sided endogenous	Right-hand side endogenous	Exogenous
1	Y_1		$\alpha_{11}X_1 + \alpha_{12}X_2 + \alpha_{13}X_3 + \alpha_{14}X_4 + \varepsilon_1$
2	Y_2	$\gamma_1 Y_1$	$\alpha_{21}X_1 + \alpha_{22}X_2 + \alpha_{23}X_3 + \alpha_{24}X_4 + \varepsilon_2$
3	Y_3	$\gamma_1 Y_1 + \gamma_2 Y_2$	$\alpha_{31}X_1 + \alpha_{32}X_2 + \alpha_{33}X_3 + \alpha_{34}X_4 + \varepsilon_3$
4	Y_4	$\gamma_1 Y_1 + \gamma_2 Y_2 + \gamma_3 Y_3$	$\alpha_{41}X_1 + \alpha_{42}X_2 + \alpha_{43}X_3 + \alpha_{44}X_4 + \varepsilon_4$

As a matter of fact, Y1 is investment, Y2 is economic growth, Y3 is income inequality, Y4 is poverty, X1 is balancing funds, X2 is village funds, X3 is spending on infrastructure, and X4 is inflation. The reduced form in the triangular system of the first equation is included in the second equation, the second equation is included in the third equation, and so on. In a simultaneous equation system, the equation is called a full recursive model. According to Greene (2003) and Gujarati and Porter (2009), the full recursive model equation does not require identification because it is certain that every equation in the equation system is perfectly identified. Assuming that the error in each equation is not correlated with the endogenous variables on the right-hand side, then the recursive model estimation can be done by OLS method. Because the data is in the form of panel data, the modeling procedure uses a panel data equation consisting of 3 (three) model choices, namely Pooled Least Square (PLS), Fixed Effect Model (FEM) and Random Effect Model (REM).

Panel Model Selection Test

The model selection test is used to determine whetherthe most appropriate model is Pooled Least Square (PLS), Fixed Effect Model (FEM) or Random Effect Model (REM). The results of the model selection test for each equation can be seen in the following table.

Table 3 Model Selection Test Results

Eq	Test	Statistics	pvalue	Conclusion
1	PLS vs FEM	Fstat =2.820345	0.000	The right model REM
	PLS vs REM	LM test =88.046584	0.000	
	FEM vs REM	Chi-square =2.923855	0.5706	
2	PLS vs FEM	Fstat =2.475074	0.0002	The right model FEM
	PLS vs REM	LM test =79.970699	0.000	
	FEM vs REM	Chi-square =46.795295	0.000	
3	PLS vs FEM	Fstat =31.100844	0.000	The right model REM
	PLS vs REM	LM test =360.673007	0.000	
	FEM vs REM	Chi-square =5.546064	0.4759	
4	PLS vs FEM	Fstat =283.792934	0.000	The right model FEM
	PLS vs REM	LM test =709,390704	0.000	
	FEM vs REM	Chi-square =40.845904	0.000	

Based on the table above, in equations 1 and 3 the correct model is REM, while in equations 2 and 4 the correct model is FEM. Furthermore, the estimation of the parameters of equations 1 and 3 uses a cross-section random variable, while equations 2 and 4 use the Least Square Dummy Variable (LSDV).

Simultaneous Equation Analysis

Simultaneous equation analysis consists of model estimation in each equation, then continued with its reduced form. The results of the model estimation in each equation are described as follows.

Estimation Result of Equation 1 (Dependent = Investment)

Equation 1 uses the REM model. The results of the model estimation can be seen in the following table.

Table 4 Estimation Result of Equation 1

Variable	Coefficient	Std. Error	t-Statistics	Prob.
BALANCE FUND	-0.011293	0.022249	-0.507579	0.6124
VILLAGE FUND	0.002253	0.002437	0.924755	0.3565
INFRASTRUCTURE	-0.022707	0.110690	-0.205140	0.8377
INFLATION	0.003139	0.042890	0.073178	0.9418
C	2.607376	0.487786	5.345334	0.0000
R-squared	0.007005	F-statistics	0.282163	0.889212
Adjusted R-squared	-0.017820			

Based on the table above, there are no variables that significantly affect the amount of investment in each province. The contribution of all independent variables to investment is 0.70%.

Estimation Result of Equation 2 (Dependent = Economic Growth)

Equation 2 uses the FEM model. The results of the model estimation can be seen in the following table.

Table 5 Estimation Result of Equation 2

Variable	Coefficient	Std. Error	t-Statistics	Prob.
INVESTATION	-0.047573	0.119484	-0.398151	0.6912
BALANCE FUND	-0.022831	0.031390	-0.727346	0.4684
VILLAGE FUND	-0.006518	0.005232	-1.245830	0.2151
INFRASTRUCTURE	0.557672	0.191284	2.915405	0.0042
INFLATION	0.154722	0.082450	1.876564	0.0629
C	2.946079	0.901755	3.267051	0.0014
R-squared	0.394245	F-statistics	2.233941	0.000514
Adjusted R-squared	0.217766			

Based on the table above, the variables of infrastructure expenditure and inflation significantly affect the magnitude of economic growth in each province. If infrastructure spending increases 1 percent, then economic growth will increase by 0.56 percent. If inflation increases by 1 percent, then economic growth will increase by 0.15 percent. The contribution of all independent variables to economic growth is 39.42 percent.

Estimation Result of Equation 3 (Dependent = Income Inequality)

Equation 3 uses the REM model. The results of the model estimation can be seen in the following table.

Tabel 6 Estimation Result of Equation 3

Variable	Coefficient	Std. Error	t-Statistics	Prob.
INVESTATION	-0.000357	0.000558	-0.639608	0.5234
ECONOMIC GROWTH	-0.000543	0.000412	-1.317937	0.1894
BALANCE FUND	6.60E-05	0.000148	0.446777	0.6556
VILLAGE FUND	2.81E-05	2.33E-05	1.205800	0.2297
INFRASTRUCTURE	3.81E-05	0.000898	0.042471	0.9662
INFLATION	0.000870	0.000375	2.320084	0.0216
C	0.351067	0.007240	48.49253	0.0000
R-squared	0.052302	F-statistics	1.453298	0.197720
Adjusted R-squared	0.016314			

Based on the table above, only inflation significantly affects the magnitude of income inequality in each province. If inflation increases by 1 percent, income inequality will also increase by 0.0008 percent. The contribution of all independent variables to income inequality is 5.23 percent.

Estimation Result of Equation 4

Equation 4 uses the FEM model. The results of the model estimation can be seen in the following table.

Table 7 Estimation Results of Equation 4

Variable	Coefficient	Std. Error	t-Statistics	Prob.
GINIRATIO	20.35482	4.327581	4.703510	0.0000
INVESTATION	0.023092	0.027461	0.840874	0.4020
ECONOMIC GROWTH	0.030127	0.020503	1.469389	0.1442
BALANCE FUND	0.005154	0.007213	0.714578	0.4762
VILLAGE FUND	0.001176	0.001208	0.973835	0.3320
INFRASTRUCTURE	0.11728	0.045291	4.454017	0.0000
INFLATION	0.036717	0.019467	1.886102	0.0616
C	2.763456	1.538131	1.796632	0.0748
R-squared	0.991099	F-statistics	356.8841	0.000000
Adjusted R-squared	0.988322			

Based on the table above, income inequality, infrastructure spending, and inflation significantly affect the magnitude of poverty in each province. If income inequality increases by 1 percent, poverty will also increase by 20.35 percent. If infrastructure spending increases by 1 percent, then poverty also increases by 0.20 percent. And if inflation increases by 1 percent, then poverty will increase by 0.036 percent. The more unequal the income earned by the community; the more poverty will increase. Likewise with inflation, the higher the inflation, the poverty will increase. The results of this study indicate that as infrastructure spending increases, poverty will also increase. The contribution of all independent variables to poverty is 99.10 percent.

Assumption Test

The results of the assumption test can be seen in the following table:

Table 7 Assumption Test Results

Eq	Assumption	Statistical value	Critical value	Conclusion
1	Normal	Jarque-Berra=737.94 p_value = 0.000	p_value>0.05	Abnormal
	multicollinearity	VIF X1 =1.001554 VIF X2 =1.116701 VIF X3 =1.185344 VIF X4 =1.083038	VIF < 10	No Multicol
2	Normal	Jarque-Berra=3570.79 p_value = 0.000	p_value>0.05	Abnormal
	multicollinearity	VIF X1 =1.007005 VIF X2 =1.154168 VIF X3 =1.158368 VIF X4=1.006456 VIF Y1 =1.001699	VIF < 10	No Multicol
3	Normal	Jarque-Berra=0.919 p_value = 0.631	p_value>0.05	Normal
	multicollinearity	VIF X1 =1.009595 VIF X2 =1.153747 VIF X3 =1.212782 VIF X4 =1.029726 VIF Y1 =1.002463 VIF Y2 =1.086691	VIF < 10	No Multicol
4	Normal	Jarque-Berra=4.51 p_value = 0.104	p_value>0.05	Normal
	multicollinearity	VIF X1 =1.012809 VIF X2 =1.172009	VIF < 10	No Multicol

Eq	Assumption	Statistical value	Critical value	Conclusion
		VIF X3 =1.237119 VIF X4 =1.068882 VIF Y1 =1.007999 VIF Y2 =1.124335 VIF Y3 =1.055543		

DISCUSSION

The balancing fund has a negative and significant effect on the poverty level in Indonesia. This condition is due to the fact that every year there is an increasing balance of funds transferred to local governments to increase the liquidity capacity and spending of each region is fully utilized by policy makers for regional spending in accordance with the poverty alleviation strategy (pro-poor growth strategy). The results of this study are in line with Keynes' Theory and Adolf Wagner's Theory. Keynes's theory shows that an increase or decrease in government spending will increase or decrease national income which is government intervention in the economy.

Village funds have a negative and insignificant effect on poverty. This condition is due to the fact that village funds which increase every year in districts/cities in each province in Indonesia for the development of marginal or remote areas can reduce poverty levels, but not optimally. Rural poverty is a major problem in the process of implementing development in rural areas and most of the poor live in rural areas (Sartika et al, 2016 in (Artino et al., 2019)). The results of this study support Keynesian theory (Keynesian Revolution) which focuses on effective aggregate demand in the country. Aggregate demand is able to overcome the stagnation of production factors as a strategic variable.

The infrastructure budget has a negative and significant effect on poverty. This condition is due to the government's policy on allocating the infrastructure budget as mandatory spending. 25% of the general transfer funds as a requirement for determining regional government budgets have been carried out and managed optimally. The results of this study support Keynes's theory which assumes that government intervention in the economy determines economic development to run optimally. The implication of Keynes's view is that to ensure stable growth, the government's role in managing the economy is needed, both through monetary policy (interest rates and money supply) and fiscal policy (taxes and government spending) (Sukirno, 2006 in (Azwar, 2016)).

Inflation has a positive and insignificant effect on poverty. This means that rising inflation will directly affect the poverty rate. If inflation is low, the poverty rate will decrease and if inflation is high, the poverty rate will increase. This research is in line with Keynes's theory which states that inflation occurs because people live beyond the limits of their economic capacity by focusing on how actions between groups of people can cause a demand greater than the number of goods available and supported by Fhutong's theory which states that high inflation can cause poverty. If prices rise drastically in a certain period, then the poverty rate will also rise. Poverty levels rise when people's wages remain constant. because of inflation which causes people to not be able to meet their primary needs. In other words, if inflation occurs, an increase in prices means that it can be assumed that production costs will also increase due to changes in prices and have an impact on decreasing the quantity and quality of production.

CONCLUSION AND SUGGESTIONS

Conclusion

Based on the findings and discussion, it can be concluded that:

1) The balancing fund directly has a significant effect on the poverty level. Hence, the balance fund will directly increase the poverty rate. Although theoretically, the balancing fund is used to equalize financial capacity between the center and the regions which will be used to finance government affairs, one of which is reducing the poverty level. This is because local governments are still very dependent on balancing funds used for investment in infrastructure and the development of public facilities as well as helping finance regional economic development in improving the welfare of its people, but the use of balancing funds that are not used wisely without the principle of prudence in the long term will actually plunge the regions into dependence on subsidies from the central government which will ultimately burden the state and society. If

the budget is used optimally, then the problem of poverty can be resolved quickly.

2) Village funds have a negative relationship but do not affect the poverty level directly and indirectly through investment, economic growth and income inequality have a positive contribution to the poverty level in Indonesia. This shows that village funds have a very strong relationship with the central government which is one of the development policies in suburban areas to meet the needs of rural communities. Village funds that continue to increase will increase investment and economic growth.

3) The infrastructure budget has a negative and significant relationship to poverty. This indicates that directly the infrastructure budget will reduce poverty levels and indirectly through investment and economic growth shows a negative and significant direction, but provides an insignificant positive contribution through income inequality. This indicates that a high infrastructure budget will cause the poverty rate to fall. The infrastructure budget has a role in accelerating investment and encouraging economic growth in overcoming poverty alleviation.

4) Inflation has a significant positive effect on the poverty level directly. This means that stable inflation will result in lower poverty levels. Indirectly, it has a significant positive effect through income inequality, but through investment and economic growth it shows a positive and insignificant direction.

5) Direct investment has a significant negative effect on the poverty level. This means that the higher the investment, the lower the poverty rate. This is due to PMA and PMDN investments that can be used as a tool to accelerate investment and economic growth.

6) Economic growth directly has a significant positive effect on the level of poverty. However, indirectly through income inequality will contribute to reducing income inequality. How the transmission mechanism of economic growth can affect state revenues and expenditures can be seen in two aspects, first; through tax revenues (PPh and VAT), Second: through government spending, but there is a time lag.

7) Income inequality has a significant positive effect. This indicates that the lower income inequality affects poverty down. This is due to there is a close relationship between inequality and poverty, that inequality is part of poverty.

Suggestions

Based on the results of the research analysis, some suggestions are recommended as follows:

1) To reduce the level of poverty, it is necessary to improve the management of balancing funds. In expenditure management related to the management of balancing funds, it should be aimed at seeing the effectiveness of their use through programs and activities that have a long-term useful life and have a direct impact on the community.

2) So that local governments must utilize village funds that can stimulate regional investment in order to achieve sustainable economic growth and reduce income inequality. Because village funds can at least fund government spending in the development of suburban areas so that there is an increase in economic productivity in the region.

3) Local governments must be directed to explore the potential income of each region to increase independence, so that they do not have to depend on subsidies by the government to finance economic development in the region.

4) Subsequent research can examine more deeply the effectiveness of each government regime's fiscal policy in implementing fiscal decentralization and see the allocation of its utilization in economic sectors.

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