

## ANALYSIS OF FISCAL DECENTRALIZATION, INCOME INEQUALITY AND POVERTY RATE IN INDONESIA

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### Abstract

This study aims to determine and analyze the effect of fiscal decentralization (balancing funds, local revenue, and infrastructure budget) on poverty levels through investment, 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 34 provinces in Indonesia from 2015 to 2019. The analytical model used in this study is the Structural Equation Model (SEM) which is operated through the Analysis of Moment Structure (AMOS) program.

**Keywords:** Poverty rate, income inequality, economic growth, investment, balancing funds, local revenue, and infrastructure budget.

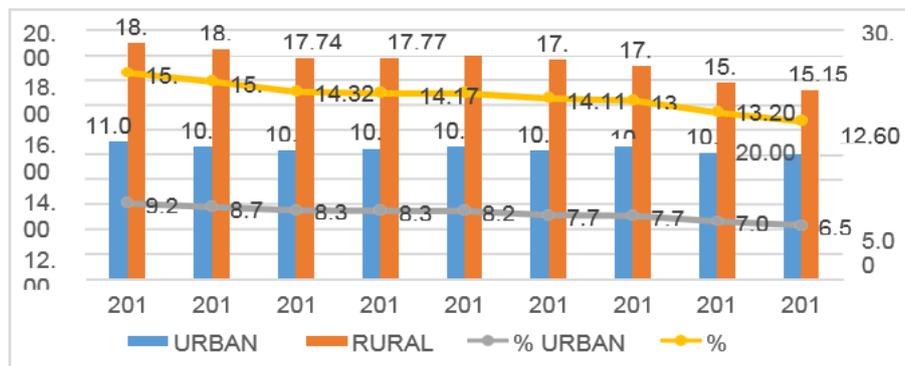
### INTRODUCTION

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 sources of capital, as well as infrastructure that 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 (KKN), and less competitive human resources. And so on (Boediono, 1992).<sup>1</sup>

The phenomenon of poverty has been going on for a long time, although various efforts have been made to overcome it. The World Bank (2017) states that at least 767 million people live below the international poverty line.

**Figure 1. 1: Number and percentage of poor people in Indonesia, 2011-2019**



Source: Central Bureau of Statistics 2021

Figure 1.1 shows that 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, which is 28.59 million. The number of poor people in 2015 fell 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. The year 2019 shows the total percentage of the poor is 9.22 percent, of which 6.56 percent live in urban areas or 9.99 million people, the rest in rural areas are 12.60 percent or 15.15 million people.

According to the Central Statistics Agency (2021), Indonesia's population reaches 270.6 million people, although it can reduce the number of poor people every year, there are still around 24.79 million people living below the poverty line in 2019.<sup>2</sup>The government has not been able to face or solve these problems by having an average poverty rate of 9.22 percent, while economic growth averages 6 percent during the 2011-2019 period. The following describes the number of poor people in each province in Indonesia.

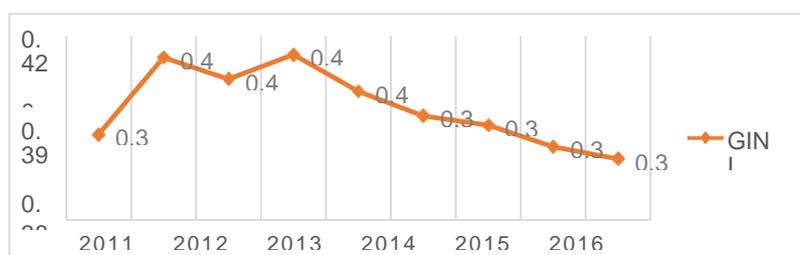
According to Kotze (2004), the poor have a relatively good ability to obtain resources through existing opportunities.<sup>3</sup>Meanwhile, Adam Smith (1729-1790) argued that no citizen will develop and be happy if most of the population is in poverty and misery.<sup>4</sup>

The problem of poverty and income inequality will also hamper the pace of economic growth itself. In addition, poverty and income inequality will also have an impact on social instability, uncertainty, and humanitarian events such as hunger, poor health, and malnutrition. If this situation continues, it will eventually undermine macroeconomic stability and the viability of the current government.

Indonesia recorded an average growth rate of around 6% per year which made Indonesia one of the countries in the world that was able to achieve a relatively high growth rate. However, it turns out that this growth does not have a significant impact on improving income distribution in all regions, so income inequality is considered an urgent matter. If the Gini ratio is used as an indicator of income inequality, inequality in Indonesia increased by more than 30% from 2001 to 2011, when the Gini ratio moved from 0.331 to 0.413 which is the highest Gini ratio

on record in Indonesia and this figure did not change until 2014. The Gini ratio value ranges from 0 to 1, the closer to 1, means the Gini ratio shows a higher inequality. In 2015, the Gini ratio recorded a figure of 0.402,

**Figure 1. 2: Gini Ratio in Indonesia in 2011-2019**



Source: Central Bureau of Statistics 2021

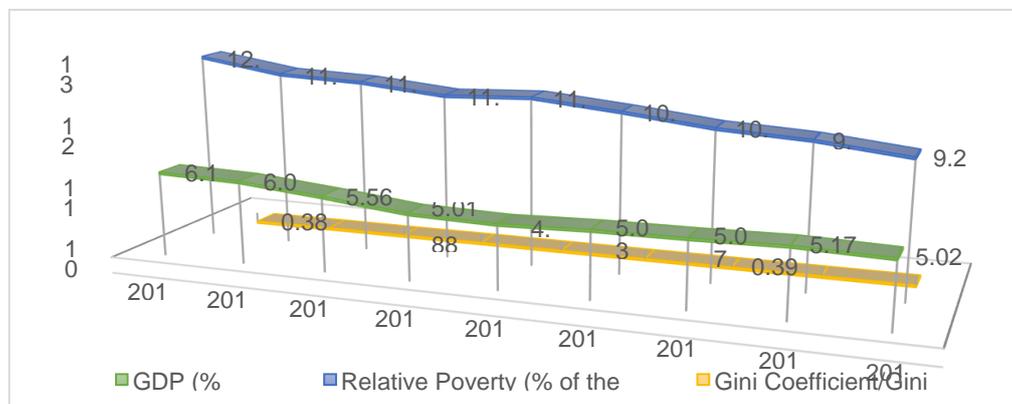
Figure 1.2 shows that the Gini ratio in Indonesia in 2015 was recorded at 0.402 and in 2019 it was 0.380. This shows that the income distribution inequality in Indonesia has decreased every year, but not significantly. Inequality has both positive and negative impacts. The positive impact of inequality is that it can encourage other less developed regions to be able to compete and increase their growth to improve their welfare. Meanwhile, the negative impacts of inequality include economic inefficiency, which can weaken social stability and solidarity, and high inequality is generally seen as unfair (Todaro, 2011).<sup>5</sup>The unequal distribution of income triggers income inequality which is the beginning of the emergence of the problem of poverty. Allowing these two problems to drag on will further exacerbate the situation, and often lead to negative consequences for economic, social, and political conditions.

According to Gunnar Myrdal, the process of economic development that occurs in every country forms a circular relationship that results in the rich getting richer and the poor getting poorer. The backwash effect tends to be greater than the spread effect (Jhingan, 2004).<sup>6</sup>The free role of market forces and free trade slows down the export potential of underdeveloped countries, thereby exacerbating the export gap. International inequality results in regional disparities that can disrupt economic growth in developing countries, which results in a decrease in per capita income.

According to the trickle-down effect theory which was first developed by Arthur Lewis (1954).<sup>7</sup>The theory became one of the important topics in the literature on economic development in developing countries (Least Developed Countries/LDCs) in the 1950s and 1960s. The trickle-down effect theory explains that the progress achieved by a group of people will automatically trickle down to create jobs and various economic opportunities which in turn will create various conditions for the creation of an even distribution of the results of economic growth.

The following is the trend of economic growth associated with income inequality and poverty in Indonesia.

**Figure 1. 3: Trends in Economic Growth, Associated with Income Equity and Poverty in Indonesia in 2015-2019**



Source: Central Bureau of Statistics 2021

Figure 1.3 shows that economic growth has increased in the period from 2015 to 2019 and is considered quite stable at the level of 5.02 percent in 2019 compared to 2015 at the level of 4.88 percent, but the poverty rate and income inequality do not show a significant decline.

One of the focuses of President Jokowi's current administration is infrastructure development in addition to the development of Human Resources (HR). One of the government's policies, in order to encourage infrastructure development in the regions, is through the allocation of the infrastructure budget as much as 25 percent of the General Transfer Fund which includes the General Allocation Fund (DAU) and Revenue Sharing Fund (DBH). This policy aims to ensure that local government spending is not only for personnel expenditure but rather for expenditure intended for public services. Infrastructure development in remote areas of Indonesia continues to be carried out in encouraging regional economic growth and pursuing the level of economic inequality between regions that occurs between provinces on the island of Java and in areas outside Java. According to the Central Statistics Agency (2021), the budget allocation for infrastructure in 2009 amounted to around Rp. 76.3 trillion, slightly increased to Rp. 86.1 trillion in 2010, then in 2011 to Rp. 114.2 trillion, in 2012 to Rp. 145.5 trillion and in 2013. Reached Rp. 184.3 trillion. When compared with the amount of Gross Domestic Product (GDP) produced, in 2009 the allocation reached 1.4 percent, in 2010 it fell to 1.3 percent, in 2011 it rose again to 1.5 percent, in 2012 it increased significantly to 2.6 percent, and in 2013 to 2 percent.

This fact certainly brings a bit of fresh air considering that in the future the need for infrastructure will face many challenges, especially related to efforts to avoid the middle-income trap in 2030, the issue of high, inclusive, and sustainable economic growth, the transformation of the economic structure supported by natural resource management. Better natural resources), issues of energy security, eradicating corruption, accelerating the consolidation of democracy, and increasing the potential impact of climate change and extreme weather.

Efforts made by the government to continue to absorb labor and reduce poverty require a large budget. To calculate the impact of government budget allocations on poverty levels, the infrastructure budget is used. Infrastructure development will encourage investment, with investment the economy will develop and create new jobs so that it can absorb labor, then have an impact on reducing poverty levels and income inequality in Indonesia.

Researchers are interested in seeing fiscal decentralization in terms of balancing funds that are part of State Expenditures to fund the implementation of fiscal decentralization create a balance between the finances of the Central and Regional Governments to achieve the goal of improving public services and welfare due to geographical differences and resources owned by all regions in Indonesia. And regional original income is one of the pillars of the independence of a region to finance regional development. As well as the infrastructure budget which is mandatory spending or expenditure allocation obligations that have been regulated by law to reduce poverty and income inequality.

## RESEARCH METHODS

Based on the research problems stated earlier, this research is included in explanatory research, namely research to determine and explain the influence between existing variables and continued with a testing hypothesis. Where in this study, indicators of balancing funds, regional original income, and infrastructure budgets will be developed with relevant research methods to analyze the relationship between the three and the poverty level in Indonesia, either directly or indirectly through investment, economic growth, and income inequality. In addition, this research is also a descriptive study because it provides a descriptive explanation of the variables to be studied (Kuncoro, 2003).<sup>8</sup>

Meanwhile, the nature of this research is verification, namely examining the relationship, relationship, and influence between exogenous variables and endogenous variables. The variables studied, in this connection, will be analyzed the pattern of relationships between variables using SEM (Structural Equation Modeling) to obtain research conclusions.

This study uses secondary data, which is a combination of time series (time series) and cross-section data (between regions). Time series data will describe data on balancing funds, including balancing funds, regional original income, infrastructure budgets, investment, economic growth, income inequality, and poverty levels. During the period from 2015 to 2019, the cross-section data is in the form of regional data, namely 34 provinces in Indonesia.

This study was conducted to determine the effect of balancing funds, local revenue, and infrastructure budget on poverty levels through investment, economic growth, and income inequality in Indonesia. The unit of analysis is all provinces in Indonesia with panel data for the period 2015 to 2019. The data used in this study is secondary data, namely data that is not collected directly but is obtained from a second party (Riduwan, 2004). The secondary data is sourced from the Ministry of Finance of the Republic of Indonesia, the Central Statistics Agency (BPS), Bank Indonesia, and other relevant government agencies and institutions. In addition, data sources are also obtained from access via the internet with sites including,

www.bps.go.id, www.djpk.kemenkeu.go.id, www.bi.go.id and www.bpk.go.id.

The data collected includes Fiscal Decentralization covering the Balanced Fund, Regional Original Income (PAD), Infrastructure Budget, Investment, Economic Growth, Income Inequality, and Poverty Levels. The data was collected from 2015 to 2019. These data are expected to explain the impact of fiscal decentralization on poverty levels in Indonesia, both directly and indirectly through investment, economic growth, and income inequality.

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:

1. 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.

2. Quantitative Analysis

3. Based on the research framework, this research uses the Simultaneous Equation Model approach.

**RESULTS AND DISCUSSION**

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

**Table 1.1. Triangular System**

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

Where  $Y_1$  is an investment,  $Y_2$  is economic growth,  $Y_3$  is income inequality,  $Y_4$  is poverty,  $X_1$  is PAD,  $X_2$  is balancing funds, and  $X_3$  is spending on infrastructure. 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 using the OLS method.

**Endogeneity Test**

The endogeneity test was carried out through the Granger causality test (Granger-causality). In the Granger causality test, it can be seen which variables are more influenced by other variables (endogeneity). The results of the endogeneity test can be seen in the following table.

**Table 1.2 Endogenous Test Results**

Null Hypothesis:	Obs	F-Statistics	Prob.
GINIRATIO does not Granger Cause POVERTY	102	2.53343	0.0846
POVERTY does not Granger Cause GINIRATIO		0.17616	0.8388
INVESTMENT does not Granger Cause POVERTY	102	2.312	0.1045
POVERTY does not Granger Cause INVESTMENT		2.55896	0.0826
PE does not Granger Cause POVERTY	102	0.15785	0.8542
POVERTY does not Granger Cause PE		2.71146	0.0715
PAD does not Granger Cause POVERTY	102	3.66958	0.0291
POVERTY does not Granger Cause PAD		0.45321	0.6369
BALANCE does not Granger Cause POVERTY	102	2.63534	0.0768
POVERTY does not Granger Cause BALANCE		0.89033	0.4138
INFRASTRUCTURE does not Granger Cause POVERTY	102	1.97082	0.1449
POVERTY does not Granger Cause INFRASTRUCTURE		0.0103	0.9898
INVESTMENT does not Granger Cause GINIRATIO	102	0.66932	0.5144
GINIRATIO does not Granger Cause INVESTMENT		1.20953	0.3028
PE does not Granger Cause GINIRATIO	102	0.49125	0.6134
GINIRATIO does not Granger Cause PE		0.12579	0.8819
PAD does not Granger Cause GINIRATIO	102	0.43114	0.651
GINIRATIO does not Granger Cause PAD		1.18077	0.3114
BALANCE does not Granger Cause GINIRATIO	102	1.06142	0.3499
GINIRATIO does not Granger Cause BALANCE		0.26031	0.7713
INFRASTRUCTURE does not Granger Cause GINIRATIO	102	1.54257	0.219
GINIRATIO does not Granger Cause INFRASTRUCTURE		0.12965	0.8786
PE does not Granger Cause INVESTMENT	102	1.28965	0.28
INVESTMENT does not Granger Cause PE		0.51242	0.6007
PAD does not Granger Cause INVESTMENT	102	6.72226	0.0018
INVESTMENT does not Granger Cause PAD		0.34985	0.7057
BALANCE does not Granger Cause INVESTMENT	102	0.29714	0.7436
INVESTMENT does not Granger Cause BALANCE		1.51021	0.226
INFRASTRUCTURE does not Granger Cause INVESTMENT	102	0.15569	0.856
INVESTMENT does not Granger Cause INFRASTRUCTURE		1.86568	0.1603
PAD does not Granger Cause PE	102	0.52409	0.5938
PE does not Granger Cause PAD		2.60767	0.0789
BALANCED does not Granger Cause PE	102	0.50532	0.6049
PE does not Granger Cause BALANCED		0.25188	0.7778
INFRASTRUCTURE does not Granger Cause PE	102	0.48391	0.6179
PE does not Granger Cause INFRASTRUCTURE		0.96559	0.3844
BALANCED does not Granger Cause PAD	102	0.62857	0.5355
PAD does not Granger Cause BALANCED		0.80906	0.4483
INFRASTRUCTURE does not Granger Cause PAD	102	44.1529	2.00E-14
PAD does not Granger Cause INFRASTRUCTURE		3.35125	0.0391
INFRASTRUCTURE does not Granger Cause BALANCE	102	8.59008	0.0004
BALANCED does not Granger Cause INFRASTRUCTURE		6.18821	0.003

Source: Output E views

Based on the table above, it can be concluded that the variables of investment, economic growth, income inequality, and poverty are endogenous from PAD, balance, and infrastructure spending. Poverty is more endogenous than income inequality (shown by the first-row group of tests in Table 5.2). Yet poverty is no more endogenous than investment and economic growth (shown by the second and third-row groups of the test in Table 1.2).

### Panel Model Selection Test

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

**Table 1.3 Model Selection Test Results**

Eq	Test	Statistics	p-value	Conclusion
1	PLS vs FEM	Fstat = 9.33	0.000	The right model REM
	PLS vs REM	LM test = 203.69	0.000	
	FEM vs REM	Chi-square = 1.484	0.689	
2	PLS vs FEM	Fstat = 1.97	0.004	The right model REM
	PLS vs REM	LM test = 68,228	0.000	
	FEM vs REM	Chi-square = 1.597	0.0809	
3	PLS vs FEM	Fstat = 35.28	0.000	The right model FEM
	PLS vs REM	LM test = 389.54	0.000	
	FEM vs REM	Chi-square = 20.26	0.001	
4	PLS vs FEM	Fstat = 248.60	0.000	The right model FEM
	PLS vs REM	LM test = 707.29	0.000	
	FEM vs REM	Chi-square = 57.98	0.000	

Source: e Views Output

Based on the table above, in equations 1 and 2, the correct model is REM, while in equations 3 and 4 the correct model is FEM. Furthermore, the estimation of the parameters of equations 1 and 2 uses a cross-section of random variables, while equations 3 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.

#### a. 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 1.4. Estimation Result of Equation 1**

Variable	Coefficient	Std. Error	t-Statistics	Prob.
PAD	0.828076	0.145336	5.697668	0
BALANCE	-0.009442	0.199619	-0.047298	0.9623
INFRASTRUCTURE	0.147509	0.108331	1.361658	0.1752
C	-6.326286	3.56048	-1.776807	0.0774
R-squared	0.348519	F-statistics	29.60136	0
Adjusted R-squared	0.336745			

Source: e Views Output

Based on the table above, only the PAD variable significantly affects the amount of investment in each province. If PAD increases 1 percent, then investment will increase by 0.828 percent. The contribution of the PAD variable, balancing funds and infrastructure expenditure to investment is 33.67 percent.

**b. Estimation Result of Equation 2 (Dependent = Economic Growth)**

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

**Table 1.5. Estimation Result of Equation 2**

Variable	Coefficient	Std. Error	t-Statistics	Prob.
INVESTMENT	0.541063	0.335063	1.614812	0.1083
PAD	-0.20579	0.50928	-0.40408	0.6867
BALANCE	0.664366	0.794702	0.835993	0.4044
INFRASTRUCTURE	-1.423618	0.569569	-2.499467	0.0134
C	27.76409	12.65613	2.193726	0.0297
R-squared	0.053406	F-statistics	2.327293	0.0584
Adjusted R-squared	0.030458			

Source: e Views Output

Based on the table above, only infrastructure expenditure variables significantly affect the magnitude of economic growth in each province. If infrastructure spending increases 1 percent, then economic growth will decrease by 1.42 percent. The contribution of investment variables, PAD, balancing funds, and infrastructure expenditures to economic growth is 3.04 percent.

**c. Estimation Result of Equation 3 (Dependen = Income Inequality)**

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

**Table 1.6. Estimation Results of Equation 3**

Variable	Coefficient	Std. Error	t-Statistics	Prob.
PE	-0.000691	0.000397	-1.73869	0.0844
INVESTMENT	0.002347	0.002211	1.061443	0.2904
PAD	-0.030995	0.01058	-2.929507	0.004
BALANCE	-0.001964	0.006402	-0.306756	0.7595
INFRASTRUCTURE	0.002644	0.003244	0.815075	0.4165
C	0.974306	0.172247	5.65645	0
R-squared	0.910041	F-statistics	34,87,428	0
Adjusted R-squared	0.883946			

Source: e Views Output

Based on the table above, PAD and economic growth significantly affect the magnitude of income inequality in each province. If PAD increases 1 percent, then income inequality decreases by 0.03 percent. If economic growth increases by 1 percent, then income inequality decreases by 0.0007 percent. The variable contribution of economic growth, investment, PAD, balancing funds, and infrastructure spending to income inequality is 88.39 percent.

#### d. 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 1.7. Estimation Result of Equation 4**

Variable	Coefficient	Std. Error	t-Statistics	Prob.
GINIRATIO	13.58683	3.603967	3.769966	0.0002
PE	0.019832	0.016571	1.196846	0.2335
INVESTMENT	-0.033189	0.091586	-0.362384	0.7177
PAD	-1.972683	0.450498	-4.378898	0
BALANCE	-0.238019	0.264159	-0.901046	0.3692
INFRASTRUCTURE	-0.436721	0.134134	-3.25587	0.0014
C	68.60211	7.925376	8.656007	0
R-squared	0.99404	F-statistics	555.9718	0
Adjusted R-squared	0.992252			

Source: e Views Output

Based on the table above, infrastructure spending, PAD, and income inequality significantly affect the magnitude of poverty in each province. If infrastructure spending increases by 1 percent, poverty will decrease by 0.44 percent. If PAD increases by 1 percent, poverty will decrease by 1.97 percent. And if income inequality increases by 1 percent, poverty will also increase by 13.59 percent. The more unequal the income earned by the community, the more poverty will increase. On the other hand, the higher the level of PAD and infrastructure spending, the lower the poverty rate. The contribution of income inequality variables, economic

growth, investment, PAD, balanced funds, and infrastructure spending to poverty is 99.22 percent.

## CONCLUSION

Directly fiscal decentralization through the variables of balancing funds, local revenue, and infrastructure budgets has a significant and negative effect on poverty levels in Indonesia, this is because fiscal decentralization will increase local government revenues which will increase the liquidity capacity of a region so that it can be used for expenditures. Regions that are following the poverty alleviation strategy (pro-poor growth strategy), so that the increase in regional expenditures due to increased fiscal capacity has an impact on increasing real GRDP. This condition will reduce the level of poverty. However, the implementation of fiscal decentralization creates dependence of local governments on the central government. Furthermore, indirectly through investment, economic growth, and income inequality, fiscal decentralization has a significant and negative/positive effect on poverty levels in Indonesia.

According to the United Nations Development Program (2005) that there are at least four pillars in fiscal decentralization, namely: 1) the expenditure side is related to the duties and responsibilities of spending at different levels of government. 2) Revenue side regarding tax and revenue sources at different levels of government. 3) Intergovernmental fiscal transfers. 4) Sub-national loans, which local governments can borrow to finance income shortfalls<sup>9</sup>. Based on this thought, the researchers tried to adopt the four pillars of fiscal decentralization in terms of fiscal transfers, namely balancing funds (general allocation funds, profit-sharing funds, special allocation funds, regional incentive funds, and village funds) and regional original income, while from the expenditure side namely the infrastructure budget. Balancing Fund also has a significant effect on investment.

Initially, the implementation of the balancing fund will encourage the utilization of the potential resources that are relied on by each region, both human resources and natural resources, thereby stimulating increased investment. The entry of investment in the region will increase the ability to produce goods and services needed in the economy as an "engine of growth". Investment has a positive relationship with GDP or national income, if investment increases, GDP will increase, and vice versa, when investment decreases, GDP will also fall. This shows that investment indirectly through economic growth has a significant effect on poverty because economic growth increases the investment climate improves to reduce poverty.

Furthermore, local original income has a direct and significant negative effect on the poverty level, while the indirect effect through investment, economic growth, and income inequality has a significant negative effect on the poverty level in Indonesia. The existence of a negative and significant influence between local original income and the poverty level means that the poverty level is influenced by regional original income. In other words, if the regional original income increases, it will encourage regional independence and stimulate poverty reduction through economic growth.

The infrastructure budget variable has a negative and significant effect on the poverty level. Directly, the increase in the infrastructure budget is due to government policies in the preparation of the APBN and APBD which mandates the infrastructure budget as mandatory spending of 25 percent of the general transfer funds as a requirement of the APBD, so that the government inevitably has to fulfill the allocation of the infrastructure budget.

Indirectly, the infrastructure budget is expected to facilitate the mobility of economic work between regions which in turn will attract investors to invest in the area, meaning that it will create new job opportunities due to the emergence of new activity units. The infrastructure budget will lead to more developed investment and increased economic growth. The higher the infrastructure budget, the greater the macroeconomic impact. This shows that improving the quality of infrastructure will have the effect of increasing people's welfare and reducing poverty levels.

Thus, it can be concluded that efficient and inclusive fiscal decentralization will empower every individual (citizen), increase the speed of exchange of goods and services (velocity of circulation), and reduce inequality and the rigidity of the low-income trap, so that community welfare is realized, the poverty rate down, and economic stability is maintained in the event of a shock.

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