THE INFLUENCE OF ORIGINAL LOCAL GOVERNMENT REVENUE, REGIONAL EXPENDITURES, GRDP, AND OPEN UNEMPLOYMENT RATE ON POVERTY LEVELS IN CENTRAL JAVA, 2017-2022

Dewi Ariani[1*], Agus Arifin[1], Ratna Setyawati Gunawan[1], Amin Subiyakto[2], Werdha Candratrilaksita[2]

[1*]Jenderal Soedirman University, ariyanidewi128@gmail.com, Indonesia

ABSTRACT

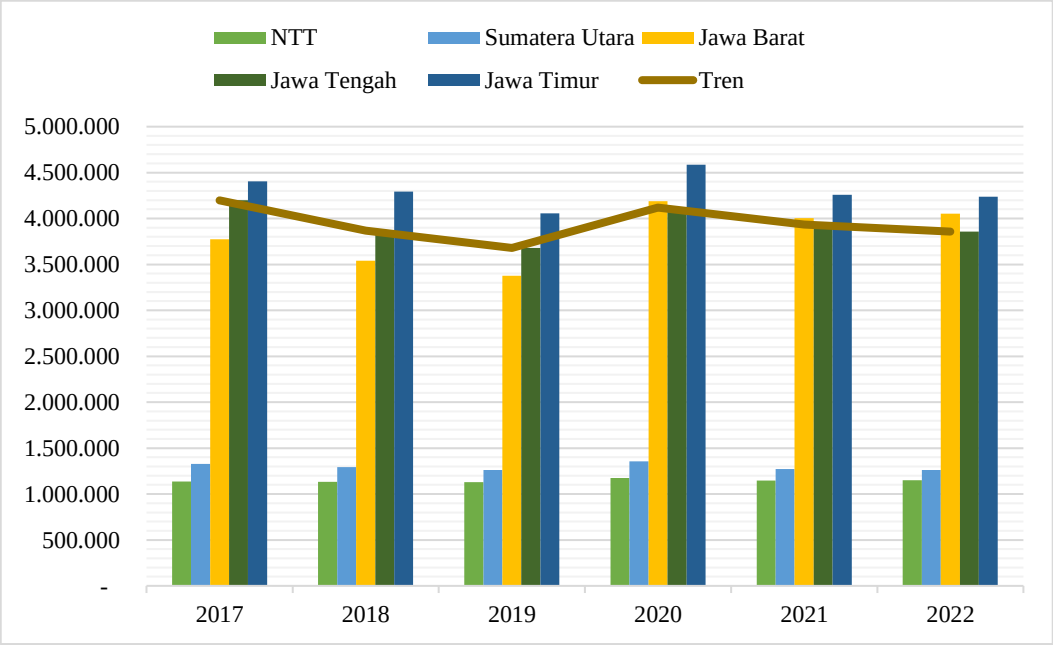
The purpose of this study was to determine the effect of original local government revenue, regional expenditure, GRDP, and the open unemployment rate on the poverty level. This study uses secondary data where the data is obtained from the official BPS and DJPK websites. Based on the results of research and data analysis using panel data regression shows that: (1) Original Local Government Revenue has a positive effect on poverty, (2) Regional Expenditure has a negative effect on poverty, (3) GRDP has a negative effect on poverty, (4) Open Unemployment Rate has not shown an effect on poverty. The implication of the above conclusions is that the district/city local governments in Central Java Province pay more attention to revenue sources originating from PAD. The source of the revenue should be fully explored and pay attention to the collection procedure. In addition, the allocation from PAD should be used fully for the prosperity of the community, especially in efforts to eradicate poverty. Efforts are being made that district/city regional governments in Central Java Province should pay more attention to the allocation of spending and make maximum efforts for the benefit of the community, especially in the functions of spending on education, health, and social protection. In addition, local governments should pay attention to labor-intensive sectors that are able to provide decent employment opportunities, so that they can help reduce unemployment which can reduce poverty.

Keywords: Poverty, PAD, Regional Expenditure, GRDP, Regional Fiscal Policy.

1. Introduction

Poverty appears in almost every country, especially developing countries and developed countries are no exception. In 2000, a global development agenda known as the *Millennium Development Goals* (MDGs) was inaugurated at the UN Millennium Summit, New York City(Wahyuningsih, 2018). However, the MDGs are still considered inaccurate in the target of realizing equitable development, especially for countries that have limited facilities. In addition, some parties consider the MDGs to be unrealistic in determining the target time for achievement, so they are considered unable to reach all levels of the country, including developed and developing countries. The concept of SDGs emerged as a refinement of the MDGs, which only focused on short-term results(Dinata, 2019). Poverty is the first goal among 16 other goals of the SDGs, which is to end poverty in all forms everywhere. Central Bureau of Statistics (2023) recorded the number of poor people in Indonesia in September 2022 at 26.36 million people. With the center of mobility and economic activity inIndonesia located on the island of Java, the distribution of the poor population on this island ishigh. Central Java Province is one of the

provinces with the largest distribution of poor peopleby province in Indonesia as of September 2022, with 3.86 million people.



Sumber: Central Bureau of Statistics (2023)

Figure 1. Number of Poor People (Thousand) by Province and Region

In 2017-2019 Central Java ranked second with the highest number of poor people in Indonesia, after East Java. In general, poverty in Central Java has a downward trend, but stillwith a very large number compared to other provinces in Indonesia. It is proven that in 2020-2022 Central Java Province is ranked 3rd after East Java and West Java.

Fiscal decentralization is a state financial policy that is realized as one of the mechanismsfor transferring funds from the state budget to achieve *fiscal sustainability* and provide a stimulus to community economic activity. The fiscal decentralization policy is expected to create an equitable distribution of financial capacity between regions commensurate with theamount of authority of government affairs submitted to autonomous regions (Christia & Ispriyarso, 2019). The form of fiscal decentralization is the provision of sources of revenue for regions that can be explored and used by themselves according to their respective potential.In general, it consists of local revenue, balancing funds (revenue sharing funds, general allocation funds, and special allocation funds) and local loans, deconcentration and assistancetasks.

Regional Original Revenue (PAD) is revenue obtained by regions that are levied based on Regional Regulations in accordance with statutory regulations. In article 285 paragraph 1 of Law Number 23 of 2014 concerning Local Government, local own-source revenue consists of local taxes; local levies; the results of the management of separated local assets; and otherlegitimate local own-source revenues. The less than optimal contribution of PAD to regionalincome sources indicates a lack of management of local taxes, local levies, the results of the management of separated regional assets and other legitimate PAD. PAD optimization is carried out by placing

more emphasis on exploring the potential of regional resources (Andriani & Purnawan, 2017). The higher the percentage of total PAD to total revenue, it canbe said that the higher the level of independence of a region.

The proper allocation of regional expenditure funds is a measure of the successful implementation of authority for a region, one of which is to alleviate poverty. Regional expenditure is one form of regional fiscal policy tool which is basically divided into many functions. Expenditure allocations that are not optimal can interfere with the running of ongoing government programs. The expenditure function is closely related to poverty alleviation in Central Java. The greater and more maximized the regional expenditure issued, the more it will have an impact on reducing the poverty rate in Central Java.

Gross Regional Domestic Product (GRDP) is the total value of goods and services produced in a particular region or region and within a certain period of time, usually one year.The high value of GRDP indicates a higher level of economic growth in a region and progressin the economy. GRDP is also linked to poverty through the distribution of income in a region.

Poverty is also related to unemployment, supported by Nurkse's vicious circle of poverty theory which describes low productivity as one of the causes of poverty. Unemployment can be interpreted as low productivity because there is no source of income for individuals to fulfilltheir basic daily needs. The greater the number of unemployed people, the higher the poverty rate in a region. A person who does not work is caused by an educational background that is not in accordance with the needs of the company or dropping out of school (Darmawan & Wenagama, 2017); Limited job opportunities that are not balanced with the existing labor force (Prawoto & Sisnita, 2017)); and the minimum wage given (Firdhania & Muslihatinningsih, 2017).

This research is important in relation to economic development, poverty is a problem thathas never been exhausted to be discussed from the past until now because it has a major influence on the obstruction of the development process of a country, either in developed countries or in developing countries. Likewise, poverty that occurs in Central Java Province has a major impact on the Indonesian economy because Central Java is the place where the economy rotates on the island of Java but still has the highest poverty rate.

2. Literature Review

2.1 Definition of Poverty

According to the National Development Planning Agency (Bappenas), poverty is a situation of deprivation due to circumstances that cannot be avoided by a person withthe strength they have. Poverty has indicators that generally use poverty *line* criteria as a means of measuring absolute poverty. There are several poverty line criteria, including:

- BPS Poverty Line

  The Central Bureau of Statistics uses a poverty line with the amount of rupiah spent per capita per month for food and non-food needs. The benchmark used for minimum food needs is 2,100 calories per day. And for non-food needs including, clothing, shelter, and other service goods.

  In this case, BPS uses two approaches, namely (1) the basic needs approach, which conceptualizes poverty as the inability to meet basic needs; (2) the head count index approach, which is a measure of absolute poverty. Where thenumber of poor people is defined as the population below the poverty line (Kuncoro, 2004).

- Sajogyo Poverty Line

  Sajogyo's poverty line is based on the price of rice. According to Sajogyo, the poverty line is the level of consumption per capita per year that is equated withrice. The rupiah value is equivalent to 20 kg of rice for rural areas and 30 kg for urban areas. However, this approach has a fundamental weakness, which is that itdoes not consider the development of real costs. This makes the rice poverty linelower than the BPS poverty line, so that the percentage of poor people is lower every year (Kuncoro, 2004).

- Esmara Poverty Line

  Professor Hendra Esmara established rural and urban poverty lines that lookat actual expenditure on a group of goods and services. This poverty line measureis able to capture both the impact of inflation and the impact of rising real incomeson the quantity of goods consumed. Esmara's poverty measure increases faster than the Sajogyo and BPS measures, and the rate of poverty reduction is also lowerthan the two previous versions of the poverty line (Kuncoro, 2004).

2.2 Poverty theory

There are several theories related to poverty, the biggest of which is the *Vicious Cycleof Poverty* theory proposed by Regnar Nurkse, a renowned development economist, in1953 with his phrase "a poor country is poor because it is poor".

2.3 Local Revenue

2.3.1 Definition of PAD

According to Law No. 23 of 2014, the definition of Regional Original Revenue (PAD) is revenue obtained by the region that is levied based on Regional Regulations in accordance with statutory regulations.

2.3.2 Sources of own-source revenue

According to article 285 of Law No. 23/2014 on Local Government, sources of PAD include:

- Local tax

  According to Law Number 34 of 2000, local taxes are defined as mandatory contributions made by individuals or entities to the region without direct balanced rewards that can finance the implementation of local government and regional development. Law No. 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments regulates taxation in the regions, especially regarding the types of regional taxes and who has the right to collect these regional taxes.

- Regional levies

  Local retribution is defined as a levy on persons or entities to the local government with the consequence that the local government provides certain services or permits that can be directly felt by the levy payer. According to Law No.28/2009 on Local Taxes and Levies, local retribution is a local levy as payment forservices or the granting of certain permits specifically provided or granted by the local government for the benefit of individuals or groups.

- Results of management of separated regional assets
- Other legitimate local revenue

2.4 Regional Expenditure

According to Law No. 23/2014, regional expenditure is defined as all regional obligations thatare recognized as a deduction from the net worth during the relevant fiscal year.

2.5 PDRB

According to the Central Bureau of Statistics, domestic products are all goods and services as a result of economic activities that operate in the domestic area, regardless of whether the production factors come from or are owned by residents of the area, or are domestic products of the area concerned. Gross Regional Domestic Product (GRDP) at market prices is the sum of *gross* value added arising from all sectors of the economy in a region.

2.6 Open Unemployment Rate (TPT)

Unemployment is defined as someone who belongs to the labor force and is actively seeking work at a certain wage level, but does not obtain the desired job. The amount of unemploymentin a region is a problem that does not only cover the economic sector (Muslim, 2014).

3. Research Methodology

The type of research used is research with quantitative methods. The purpose of quantitative research is to develop and use mathematical models, theories and/or hypotheses related to the phenomena that occur. This research will be conducted in Central Java Province with 35 regencies/cities. This research uses secondary data. Secondary data is obtained from literature and the results of previous studies that are still related to this research. This study uses a type of panel data which is a combination of cross section data with time series data or whatis commonly referred to as Pooled Data. The data obtained were obtained from the Director General of Treasury (DJPb) Central Java, Director General of Fiscal Balance (DJPK), and the Central Statistics Agency (BPS). Techniques in data collection are done through literature studies.

3.1 Operational Definition of Variables

3.1.1 Poverty

The poverty referred to in this study is the number of poor people in Central Java by district/city. Where the population categorized as poor is the population with expenditures below the poverty line expressed in units of thousands of people (people). In 2022 the poverty line in Central Java is IDR 438,833/capita/month, where the poverty line will have a different amount each year and tends to increase with inflation. Data on the number of poorpeople is obtained from the official website of the Central Bureau of Statistics. There are 35districts/cities in Central Java that will be studied.

3.1.2 Regional Original Revenue (PAD)

In this study, the value of PAD used is the total of PAD realization derived from various PAD sources such as taxes, levies, results of management of separated regional assets, and other legitimate regional revenues in each district / city in Central Java. PAD data comes from the official website of the Directorate General of Fiscal Balance and the data is expressed in billion rupiah units.

3.1.3 Regional Expenditure

The regional expenditure used in this study is regional expenditure based on education and health functions by district/city in Central Java. This regional expenditure data comes from the official website of the Directorate General of Fiscal Balance. Regionalexpenditure data is expressed in billion rupiah units, just like PAD. Given that

there are 11main functions of local government, the ones most related to poverty are expenditures on education and health functions (Direktorat Jenderal Perimbangan Keuangan, 2023).

3.1.4 PDRB

The GRDP value used is GRDP at constant prices (ADHK) of 35 regencies/cities in CentralJava with units of million rupiah. This GRDP data comes from the official website of the Central Java Statistics Agency.

3.1.5 Open Unemployment Rate (TPT)

The type of unemployment used in this study is the number of open unemployment in 35 regencies/cities in Central Java. This open unemployment data comes from the official website of the Central Java Statistics Agency and is expressed in units of thousands (people).

3.2 Data Analysis Technique

The data analysis technique used is panel data regression analysis. Where the calculation usesEviews Version 10 software.

The regression model in this study is:

$$POV_{it} = \alpha + \beta_1 PAD_{1it} + \beta_2 PND_{2it} + \beta_3 KSH_{3it} + \beta_4 PDRB_{4it} + \beta_5 TPT_{5it} + \varepsilon_{it}$$

Description:

Yit	: the value of the dependent variable of the i-th cross section unit forthe t-th time period.
POV	: Poverty Level
α	: constant
β , β , β123 , β4, β5	: Regression coefficient
PAD	: Regional Original Revenue
PDRB	: Gross Regional Domestic Product
TPT	: Open Unemployment Rate
i	: 35 regencies/cities in Central Java
t	: 2017-2022
ε	: error term

4. Results

In panel data analysis techniques using several models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). To determine the best model between the three models using the Chow Test and Hausman Test. The following are theresults of the Chow Test and Hausman Test.

Table 4. 1 Chow Test and Hausman Test Results

Test Summary	Prob.
Chow Test	0.0000
Hausman Test	0.0000

From these two tests (Chow Test and Hausman Test), the same results were obtained in testing the best model, namely the *Fixed Effect Model* (FEM). The panel data regression results are presented in two models. The use of these two models is only for comparison because in model 1 the variable in the form of PAD has not shown an influence in accordance with the research hypothesis, while in model 2 the variable is changed to Total Revenue and the results show an influence in accordance with the research hypothesis. Total revenue is the accumulationof all sources of revenue in the APBD including PAD, TKDD, and other revenues.

Table 4. 2 Panel Data Regression Test Results

Variabel	Model 1			Model 2		
	Coefficient	t-Statistic	Probabilitas	Coefficient	t-Statistic	Probabilitas
C	205.8551	19.5075	0.0000	182.1100	15.5615	0.0000
PAD/REV	0.071330	8.0969	0.0000	-0.012253	-2.4060	0.0172
EXPEND	-0.025093	-5.3038	0.0000	-0.011577	-1.9955	0.0476
PDRB	-2.31E-06	-7.3598	0.0000	-7.02E-07	-2.0419	0.0427
TPT	-7.51E-05	-0.9517	0.3426	0.000148	1.5300	0.1279
Adjusted R-squared			0.987488	Adjusted R-squared		0.983183
F-statistic			435.0896	F-statistic		321.0096
Prob(F-statistic)			0.000000	Prob(F-statistic)		0.000000
Akaike info criterion			6.976418	Akaike info criterion		7.273829
Schwarz criterion			7.598024	Schwarz criterion		7.897518

Based on the results of the regression above, a regression equation is obtained as follows:

Model equation 1:

$$POV_{it} = 205.8551 + 0.071330PAD_{it} - 0.025093EXPEND_{it} - 0.0000023PDRB_{it} - 0.0000751TPT_{it}$$

Model equation 2:

$$POV_{it} = 182.1100 - 0.012253REV_{it} - 0.11577EXPEND_{it} - 0.000000702PDRB_{it} + 0.000148TPT_{it}$$

The classic assumption test in this model only uses the multicollinearity test. According to Gujarati & Porter (2009) classical assumption tests are not always required in panel data analysis because panel data can minimize biases that are likely to appear in the analysis results,provide more information, variety, and degree of freedom.

Normality test is only used if the number of observations is less than 30, to determine whether the error term is close to the normal distribution. Heteroscedasticity test can be ignoredbecause panel data deals with individuals, firms, states, countries, etc., over time and there willbe heterogeneity within these units. Panel data estimation techniques can consider suchheterogeneity explicitly. Thus, the mandatory test is the Multicollinearity Test.

Table 4. 3 Multicollinearity Test Results

	PAD	EXPEND	PDRB	TPT
PAD	1	0.71019	0.84034	0.54078
EXPEND	0.71019	1	0.71647	0.75034
PDRB	0.84034	0.71647	1	0.59676
TPT	0.54078	0.75034	0.59676	1

The results of the Multicollinearity Test show that all independent variables have a low correlation. It can be seen that the relationship between independent variables is lower than 0.85so there is no multicollinearity problem in this study.

5. Discussion

5.1 Analysis of the Effect of PAD on Poverty Levels

The results of this study indicate that PAD has a significant effect on the Poverty Level. However, the results of the analysis show that the first hypothesis is rejected because PAD does not show a negative effect, meaning that PAD has a positive effect on the Poverty Level. Thus, if PAD increases or gets higher, the number of poor people will also increase. It is different if using the Total Revenue variable which shows a negative effect on poverty. This can happen because PAD is one of the small components in a region's revenue. Where the funds contained in PAD have a smaller percentage compared to other sources of revenue, and PAD funds are still in the form of revenue that cannot be ascertained whether the funds are fully used for spending that leads to efforts to reduce poverty.

5.2 Analysis of the Effect of Regional Expenditure on the Poverty Level

The results of this study indicate that regional expenditure has a negative and significant effect on the poverty rate. The second hypothesis of the study is accepted, meaning that regional expenditure has a negative effect on the poverty rate. Thus, if regional expenditure increases orgets higher, it will reduce the number of poor people. This is because regional expenditure hasa very important role in reducing the number of poor people. The allocation of regional expenditure is considered to be quite on target which is implemented in various local government efforts. The results of this study are in line with research conducted by (Wulandari et al., 2022)

5.3 Analysis of the Effect of GRDP on the Poverty Level

The results of this study indicate that GRDP has a negative and significant effect on the Poverty Level. The third hypothesis of the study is accepted, meaning that GRDP has a negativeeffect on the Poverty Level. Thus, if GRDP increases or increases, it will further reduce the number of poor people. The growth rate of the production of goods and services in each district/ city is able to assist in reducing poverty by increasing the amount of production of goods andservices in each sector in each district / city. The purchasing power of the community that is still maintained is able to provide good performance on GRDP. This is inseparable from the effectiveness of fiscal policies that reduce the price level so that people's purchasing power canbe maintained. The results of this study are in line with research conducted by (Saputri & Anwar, 2019) and (Dama, 2016).

5.4 Analysis of the Influence of Poverty Rate on the Poverty Rate

The results of this study indicate that the Open Unemployment Rate (TPT) has not had a significant effect on the Poverty Level. The analysis shows that the fourth hypothesis is

rejected because the TPT does not show a significant effect. This indicates that unemployment in each district/city in Central Java has not been able to affect the amount of poverty.

6. Conclusion

Based on the results of data analysis and discussion in the previous chapter, the followingconclusions can be drawn from this study.

a. There is a positive and significant influence between Local Revenue and Poverty Level inCentral Java.
b. There is a negative and significant influence between Regional Expenditure on Poverty Levelin Central Java.
c. There is a negative and significant influence between GRDP on the Poverty Level in CentralJava.
d. The Open Unemployment Rate has no significant effect on the Central Java Poverty Rate.
e. Independent variables in the form of Regional Original Revenue (PAD), Regional Expenditure, GRDP, and Open Unemployment Rate (TPT) together have a significant effecton the dependent variable of poverty rate in Central Java.

References

Andriani, N., & Purnawan, A. (2017). Eksistensi Pengaturan Pajak Daerah Dalam Meningkatkan Pendapatan Asli Daerah Di Pemerintah Provinsi Jawa Tengah. *Jurnal Hukum Khaira Ummah*, *12*(23), 59–66.

Badan Pusat Statistik. (2023). *Jumlah Penduduk Miskin (Ribu Jiwa) Menurut Provinsi dan Daerah*. https://www.bps.go.id/indicator/23/185/4/jumlah-penduduk-miskin-ribu-jiwa-menurut-provinsi-dan-daerah.html

Christia, A. M., & Ispriyarso, B. (2019). Desentralisasi Fiskal Dan Otonomi Daerah Di Indonesia. *Law Reform*, *15*(1), 149–163. https://doi.org/10.14710/lr.v15i1.23360

Dama, H. Y. (2016). Pengaruh Produk Domestik Regional Bruto (PDRB) Terhadap Tingkat Kemiskinan di Kota Manado (Tahun 2005-2014). *Jurnal Berkala Ilmiah Efisiensi*, *16*, 549–561. https://ejournal.unsrat.ac.id/v3/index.php/jbie/article/view/13519

Darmawan, A. P., & Wenagama, I. W. (2017). Pengaruh Pendapatan Asli Daerah Pendidikan dan Pengangguran Terhadap Kemiskinan di Provinsi Bali. *E-Jurnal EP Unud*, *6*(10), 1868–1895.

Dinata, M. S. J. (2019, October 10). *Sebelum SDGs, Ada MDGs: Sebuah Refleksi*. Medium.Com. https://medium.com/@margianta/sebelum-sdgs-ada-mdgs-sebuah-refleksi-5efe9c1c63eb

Direktorat Jenderal Perimbangan Keuangan. (2023). *Apakah yang disebut dengan mandatory spending?* DJPK. https://djpk.kemenkeu.go.id/?ufaq=apakah-yang-disebut-dengan-mandatory-spending

Firdhania, R., & Muslihatinningsih, F. (2017). Faktor-Faktor yang Mempengaruhi Tingkat Pengangguran di Kabupaten Jember. *E-Journal Ekonomi Bisnis Dan Akuntansi*, *IV*(1), 117–121. file:///C:/Users/Niken/Downloads/4746-169-9014-1-10-20170613 (1).pdf

Gujarati, D. N., & Porter, D. C. (2009). *Basic Econometrics* (N. Fox (ed.); Fifth Edit). Douglas Reiner.

Kuncoro, M. (2004). *Otonomi dan Pembangunan Daerah : Reformasi, Perencanaan, Strategi, dan Peluang* (W. Chandra Kristiaji (ed.)). Erlangga.

Linda Wulandari, Mawardi, M. C., & Junaidi. (2022). Pengaruh Belanja Pemerintah Daerah terhadap Kemiskinan dan Pengangguran di Kota Batu Tahun 2017-2020. *E-Jra*, *11*(09), 84–92.

Muslim, M. R. (2014). Pengangguran Terbuka Dan Determinannya. *Jurnal Ekonomi Dan Studi Pembangunan*, *15*(2), 171–181. http://journal.umy.ac.id/index.php/esp/article/download/1234/1292

Prawoto, N., & Sisnita, A. (2017). Analisis faktor-faktor yang mempengaruhi tingkat pengangguran terbuka di Provinsi Lampung (Periode 2009-2015). *Journal of Economics Research and Social Sciences* , *1*(1), 1–7.

Saputri, S. F., & Anwar, P. H. (2019). Interelasi Pertumbuhan Ekonomi, Belanja Pendidikan dan Pengangguran Terhadap Tingkat Kemiskinan. *EcceS (Economics, Social, and Development Studies)*, *6*(1), 91. https://doi.org/10.24252/ecc.v6i1.9545

Wahyuningsih, W. (2018). Millenium Develompent Goals (MDGS) Dan Sustainable Development Goals (SDGS) Dalam Kesejahteraan Sosial. *Bisma*, *11*(3), 390–399. https://doi.org/10.19184/bisma.v11i3.6479