

CHAPTER I

INTRODUCTION

A. Background

One of the development problems in this country of this decade is the effort to reduce the poverty rate. For humanitarian reasons, overcoming the problem of poverty is an attempt to avoid more significant development costs in the future. In Indonesia, policy addressing the poverty problem has been carried out by the government. However, the phenomenon shows that the poverty rate does not decrease.

A country's development strategy must be able to increase human resources sustainability. However, in reality overall national development cannot be done only by managing authority from the central government. Therefore, related to equitable distribution of national development, especially in increasing funding sources to meet the general public needs, extend the standard of human development, and decrease the poverty rate, regional government should be involved.

The Indonesian government has issued Law No. 32 Year 2004 concerning regional government and balancing funds between the central and local governments. This law is the starting point of the establishment of territorial independence. With the regional autonomy policy, the government in those areas can create regional income and make allocations for development priorities in the region independently. The policy is expected to increase local

potentials, aspirations and improve public welfare. The public is expected to play a role in being the subject and the object of the development, thus contributing to the progress of an area and national progress.

In regional economic development, a region's rapid growth process is often indicated by increased regional government revenue and spending budget. Regional development with a regional budget is a form of interference regional governments in advancing their regions.

Maryani (2010) in Putra and Yasa (2019) explain that the government uses the Anggaran Pendapatan Belanja Daerah (APBD – Regional Revenue and Expenditure Budget) for financing and expending related to human development. Using this regional revenue, the local government must design the regional expenditure by investing in the support sector to reduce the poverty rate.

On the national budget scale, the amount of the state budget, both state revenues, grants, and state spending have an increasing trend every year. An increase in budget is an indicator of the growth of Indonesia's economy in general. Increasing the government budget does not only occur on the central government through its state budget but also on the regional government through its regional government budget. Sarkoro and Zulfikar (2018) explain an increase in the budget at the district level of APBD in Indonesia is an indicator of regional economic progress and an indicator that shows that policies of regional autonomy and fiscal decentralization improve.

According to Law No. 32 Year 2004 about regional autonomy, decentralization refers to the exchange of certain governance authority from the central government to the regions autonomous to organize and oversee undertakings administration within Indonesia's framework. Based on the decentralization principle, financing in the regional government development is carried out at the regional budget expense. The government allocates funds in the form of expenditure allocation expected to improve the public welfare quality in the future. The main regional financial resources used to fund the regional expenditure are the Pendapatan Asli Daerah (PAD) – Regional Original Revenue in local tax revenue, regional levies, income results from administration of separated areas, and other valid regional original revenue. The difference in PAD exists between one province to another province in Indonesia. Through Law No. 32 Year 2004 about decentralization, other resources that can be used in regional development are the balancing fund or adjusting fund that consists of the Dana Alokasi Umum (DAU – General Allocation Fund), Dana Alokasi Khusus (DAK – Special Allocation Fund) and Dana Bagi Hasil (DBH – Profit-Sharing Fund), and other legal revenue.

Badrudin and Siregar (2015) state regional autonomy aims to encourage a growth economy through development spending and private investment. Spending on contribution development will attract investors to invest in the area. Thus, it will broaden the base of economic activity in various sectors and expand business fields and decrease unemployment and poverty rates. The main characteristic of a capable autonomous regional autonomy lies in the region's

ability to manage his household by relying on their own regions' financial ability. Thus, the regional expenditure allocation strategy plays an important role in increasing regional revenues. The more revenue generated by regions, both from the balancing fund and regional original revenues, the regions will be increasingly able to carry out the development in their respective regions.

The matter of fiscal decentralization is reflected by the Al-Quran Kareem Surah Al-Hashr (59) Verse No. 7 as follows;

مَا أَفَاءَ اللَّهُ عَلَى رَسُولِهِ مِنْ أَهْلِ الْقُرَىٰ فَلِلَّهِ وَلِلرَّسُولِ وَلِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسْكِينِ
وَأَيْنَ السَّبِيلِ كَيْ لَا يَكُونَ دُولَةٌ بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ ۗ وَمَا آتَاكُمُ الرَّسُولُ فَخُذُوهُ وَمَا نَهَاكُمْ
عَنْهُ فَانْتَهُوا ۗ وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ

“And what Allah restored to His Messenger from the people of the towns - it is for Allah and for the Messenger and for [his] near relatives and orphans and the [stranded] traveler - so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty.” (Al-Hashr/59:7)

Fiscal decentralization reflects in the sentence “it will not be a perpetual distribution among the rich from among you” with the same objective as decentralization to build social welfare. Thus, the gap between rich and poor communities will be small, leading to good social welfare and reducing the poverty rate.

Java has become the most populated island in Indonesia with almost 80% of whole Indonesian live in it, and decentralization process has begun more than a decade and receive more attention from the central government. Decentralization should increase the social welfare and affect the decreasing on

poverty rate. However, this area still has two provinces with a high rate of poverty; Central Java and Daerah Istimewa Yogyakarta (DIY). On the first semester of 2020 Badan Pusat Statistik (BPS – Central Statistic Board) stated that poverty rate in Central Java reached to 10.09% and DIY 11.53%. The poverty rate in this two provinces are higher compared by the average of poverty rate in national (9.78%).

Based on these explanations, the research aims to examine the influence of regional original revenue towards poverty and the influence of the balancing fund toward the regional government's poverty rate in Central Java and DIY.

B. Research Scope

The limitation of this research's is focusing on the influence or effect of the regional original revenue and balancing funds toward the poverty rate in the regional government located in Central Java and Daerah Istimewa Yogyakarta (DIY). The Balancing Funds will be General Allocation Funds, Special Allocation Funds, And Profit-Sharing Funds as the independent variables, the regional expenditure will be the intervening variable, and the poverty rate will be the dependent variable.

C. Research Questions

1. Does the Regional Original Revenue have a positive impact on regional expenditure?
2. Does the General Allocation Fund have a positive impact on regional expenditure?

3. Does the Special Allocation Fund have a positive impact on regional expenditure?
4. Does the Profit-Sharing Fund have a positive impact on regional expenditure?
5. Does the Special Allocation Fund have negative impact on the poverty rate?
6. Does the Profit-Sharing Fund have negative impact on the poverty rate?
7. Does Regional Expenditure have negative impact on the poverty rate?
8. Does the Regional Original Revenue have an indirect negative impact on the poverty rate through regional expenditure?
9. Does the General Allocation Fund have an indirect negative impact on the poverty rate through regional expenditure?

D. Research Objectives

The aims of the research are as follows;

1. To examine whether the Regional Original Revenue has a positive impact on regional expenditure
2. To examine whether the General Allocation Fund has a positive impact on regional expenditure
3. To examine whether the Special Allocation Fund has a positive impact on regional expenditure
4. To examine whether the Profit-Sharing Fund has a positive impact on regional expenditure
5. To examine whether the Regional Original Revenue indirectly and negatively impact the poverty rate through regional expenditure

6. To examine whether the general allocation fund indirectly and negatively impact the poverty rate through regional expenditure
7. To examine whether the special allocation fund has a negative impact on the poverty rate
8. To examine whether the profit-sharing fund has a negative impact on the poverty rate
9. To examine whether regional expenditure has a negative impact on the poverty rate

F. Significance of the Study

1. Theoretically
 - a. This research is expected to provide benefits in knowledge development and insight about the influence of the original regional revenue and balancing fund toward poverty rate.
 - b. This research is expected to contribute to science and can be a reference for future research.

2. Practically

This research is expected the regional government to evaluate its performance and provide new insight from the researcher's perspective.

3. Decision Making

This research is expected to be a consideration for the regional government in the decision making in the future.