

# The Effect of Local Revenue to Poverty Rate in Southeast Sulawesi Indonesia

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**Abstract**— Poverty is a fundamental problem and becomes an important international agenda as outlined in the Sustainable Development Goals (SDGs). Various poverty reduction programs have become the main concern of national and regional development in Indonesia. Local government is in the most ideal position to be able to identify people living in poverty more closely, and provide resources and services to help them free from poverty. This study intends to examine, analyze and describe the effect of the use of regional expenditure funds sourced from the Local Revenue to poverty rate in the Regency/City in Southeast Sulawesi. Using the least square panel method, the results show that the Local Revenue has a significant negative effect on poverty rate.

**Keywords**— poverty, local revenue, fiscal decentralization, regional development.

## I. INTRODUCTION

Poverty is a fundamental problem that is being faced by most nations in the world, both developed and developing countries. Conceptually, poverty is positioned as an economic and social issue because failure to overcome the problem of poverty can lead to various social, economic and political problems in society. Bellinger (2007) states that the concept of poverty involves multidimensional, multi-definition and multi-alternative measurements. So that the current issue of poverty is still an important agenda internationally and set forth in the Sustainable Development Goals (SDGs) with no poverty as the first agenda. Even an experimental study conducted by Banerjee and Duflo on the subject of poverty has won them the Nobel Prize in economics in 2019.

Various poverty reduction programs have become the main concern of national and regional development in Indonesia. The program aims to improve community welfare, as stated by Aranson and Lofgren (2007) that a wise government is a government that is able to improve welfare.

The authority of the Regional Government in managing regional government and finance to run in accordance with the aspirations, needs and priorities of the regions has been guaranteed and regulated in the Law as the basis for implementing regional autonomy and fiscal decentralization in Indonesia. Decentralization in

legislation is defined as the transfer of governmental authority by the government to autonomous regions to regulate and manage government affairs in the Unitary State of the Republic of Indonesia (NKRI) system. Local government is in the most ideal position to be able to identify people living in poverty more closely, and provide resources and services to help them free from poverty on target.

Fiscal decentralization as a way to promote economic growth has attracted much attention and produced ambiguous conclusions. Some economists believe that fiscal decentralization has a positive effect on promoting economic growth, improving equity, and improving the quality of public services and public welfare. This opinion is supported by Oates (1993), Bird (1993), Bird, Ebel, and Wallich (1995), Bahl and Linh (1992), Gramlinch (1993), Prud'homme (1995), Peterson (1996), Zhang and Zou (1998), Phillips and Woller (1997), Wibowo (2008), and Simanjuntak (2010). While some other economists argue instead that fiscal decentralization can encourage macroeconomic instability, tends to slow growth, increase inequality, and worsen the quality of public services and public welfare. This view is supported by the results of World Bank research (1997), Phillips and Woller (1997), Martinez and McNab (2001), and Zhang and Zou (2001).

Fiscal policy support with various infrastructure developments and technological advances is the most

important driving factor in changing the economic structure of society (Swiecki, 2017 and Samaniego and Sun, 2016). Investment in the industrial sector will bring increased productivity through technological innovation, even Vu, 2017 found The Effective Structural Change (ESC) Index to measure the effectiveness of structural changes that occur due to technological innovation (Vu, 2017 and Gala, et.al, 2018) . Research Liow, et al (2016) states that the number of industries in an economy will affect the amount of employment. Gabardo et al (2017) in his study found that the process of structural change cannot be separated from economic growth.

In this study, fiscal decentralization is realized in the form of granting authority to the regions to collect taxes and levies as a source of local revenue. Based on the background, this study seeks to measure and see the extent of the role of local revenue to the poverty rate, both directly and indirectly through the Economic Structure, Economic Growth, and Labor Absorption in Southeast Sulawesi.

## II. OBJECTIVES

The question in this study is whether local revenue influences poverty rate either directly or indirectly through the Economic Structure, Economic Growth, and Labor Absorption in Southeast Sulawesi. So this study intends to test, analyze and describe the influence of Local Revenue to Poverty Rate both directly and indirectly through the Economic Structure, Economic Growth, and Labor Absorption in Southeast Sulawesi.

## III. LITERATURE REVIEW

### 3.1. Review of Poverty Theories and Concepts

The first prerequisite in the concept of poverty is to determine the criteria of who should be the focus of general attention/concern and determine the boundaries/norms as part of these prerequisites (Sen, 1981). The first approach proposed by Rowntree is a biological approach that uses the ability of families to meet their minimum needs as a limitation in defining poverty (Rowntree and Lavers, 1951). In addition to the biological approach, it is also known that the basic needs approach is actually an extension of the biological approach. The latter approach is a relative deprivation approach. This concept is found in the sociology literature (Abercrombie et al, 1988), developed by Stouffer et al (1949) and Merton (1957) who say that many people experience feelings of deprivation when they feel the situation is not as good as the individual or other groups. But the pressure on the individual frame of reference cannot determine a definite

point when relative deprivation is objective and absolute (Abercrombie, 1988).

### 3.2. Review of Theories and Concepts OF Economic Structure

The definition of Economic Structure in this study is a process of changing the structure of the economy (economic transformation) from the primary sector to the secondary sector then to the tertiary sector where each economy will experience different transformations. Changes in economic structure are changes from traditional conditions to the modern sector, from backward to advanced (Bayhaqi, 2006). Changes in the structure or transformation of the economy from traditional to modern can generally be defined as a change in the economy related to the composition of demand, trade, production and other factors that are needed continuously to increase income and social welfare through increasing per capita income (Chenery 1960 , 1964; Chenery, Robinson and Syrquin 1986; Chenery and Syrquin 1975; Chenery and Taylor 1968; Chenery and Watanabe 1958).

### 3.3. Review of Theories and Concepts of Economic Growth

Economic growth is an important requirement for alleviating society from poverty, although economic growth cannot stand alone to alleviate poverty, economic growth remains the main factor for alleviating poverty (Yudha, 2013). Perry, et.al., (2006) also believes that economic growth is important for poverty alleviation. Thus, economic growth is the main driver in reducing poverty (Fosu, 2010). However, the research of Mustamin, et al (2015) shows different results, namely that new economic growth has a negative effect on poverty after being linked to unemployment.

### 3.4. Review of Theories and Concepts of Employment

Labor is one of the most important factors in the production process besides natural resources, capital and technology. Sumarsono (2009) states that manpower or Human Resources (HR) is concerned with people who are able to work to provide services or business work. High unemployment rates cause low incomes which in turn triggers poverty (Yacoub, 2012). Kakwani (2000) and Osinubi (2005) find a very strong relationship between poverty rates and unemployment rates. Octaviani's (2001) study on the effect of unemployment on poverty rate in Indonesia with the Forrester Greer & Horbecke analysis approach also concluded that rising unemployment results in an increase in poverty, on the contrary the smaller the unemployment rate will lead to lower poverty rates in Indonesia. But De Fina's (2002) study in the United States

found that poverty does not have a strong correlation with unemployment

### 3.5. Review of Theory and Concept of Local Revenue

In the context of its relationship with government, it will bring up fiscal relations between governments (Fiscal Intergovernmental Relationship). According to Bird and Vaillancourt (1998), there are two models of intergovernmental relations currently in force. First, fiscal federalism and second is federal finance. Theory of Fiscal Federalism (Fiscal Federalism Theory) is a theory that seeks to provide an understanding for the public about the effects of decentralization carried out by the government (Sari and Supadmi, 2016). This theory discusses the financial relationships between different levels of government. Fiscal decentralization will provide optimal benefits if followed by adequate financial capacity by autonomous regions. One source of revenue used for local government funding in the implementation of fiscal decentralization is Local Revenue.

## IV. METHODOLOGY

This research is a verificative research that aims to test the existence of a theory or the results of previous studies so that the results obtained that strengthen or invalidate the theory or the results of previous research. The data in this study are secondary data. The data used are pooled data, which is a combination of times series data (in 2010-2017) and cross sections in twelve (12) districts/cities in Southeast Sulawesi Province. Estimation of the model is done by the Least Square method.

$$Y_4 = f(Y_1, Y_2, Y_3, X_1)$$

$$Y_4 = \delta_0 + \delta_1 Y_1 + \delta_2 Y_2 + \delta_3 Y_3 + \delta_4 \ln X_1 + \mu_4$$

Where:

$Y_1$  = Economic Structure, expressed in units of percent

$Y_2$  = Economic Growth, expressed in percent

$Y_3$  = Labor Absorption, expressed in percent

$Y_4$  = Poverty Rate, expressed in percent units

$X_1$  = Local Revenue, expressed in units of Rupiah

## V. RESULT AND DISCUSSION

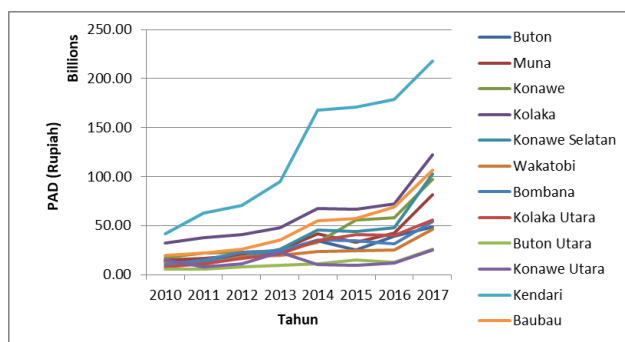
The results of the study showed that the original regional income had a negative and significant direct effect on poverty rate. This means that an increase in regional original income has actually proven to be able to reduce poverty rate in Southeast Sulawesi.

This finding is in line with the results of the research of Ramirez, Diaz, and Bedoya (2017) who found the fact that an increase in municipal tax revenues significantly reduced the level of multidimensional poverty in Colombia. This finding is also in line with the results of

Sanogo's research (2019) which states that an increase in regional original income can increase access to public services and reduce poverty. Likewise Sepulveda and Martinez's research (2011) which analyzed data samples from 34 developing countries during the period 1970 to 2000 and managed to find a significant negative relationship between regional income and poverty reduction. These findings reinforce the research results of Rahayu (2004), Simanjuntak (2006), Santosa (2013), Lisna, et al (2013), Ulfa, et al (2015), Widiyanto, et al (2015), Firmansyah, et al (2015), Putri (2015), Joliannis (2016), Manek and Badrudin (2016), Paulus, et al (2017) and Rori, et al (2016).

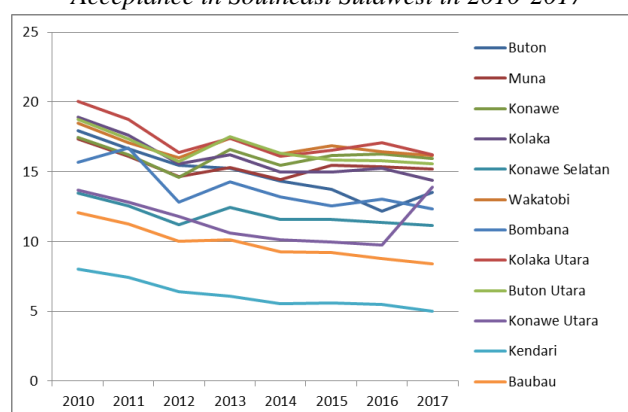
The results of these studies have rejected the findings of previous studies conducted by Von Braun and Grote (2000) who found a positive relationship between income and poverty rate in 50 developing countries. The findings of this study contradict the research of Khakim, et al (2011) who found the fact that local revenue has a positive and significant effect on economic growth and the level of community welfare. The results of this study are also different from the findings in Pratomo and Hendarto's (2015) research which states that local revenue has no significant effect on poverty.

So the high local original income can be maximally utilized by the local government to finance development activities programs that have an impact on increasing the people's income. An increase in community income can partly be used by the community to meet all of its basic needs and some of it is used to meet the needs of productive activities. With the fulfillment of the basic needs of the community, then they have at least been freed from the condition of the severity as a basic measure of poverty according to Rowntree and Lavers (1951). Productive community activities that are successfully managed are sources of genuine regional income through the imposition of tax rates and user fees that must be paid. Therefore, the original Regency / City revenue in Southeast Sulawesi has increased consistently from year to year with an average growth of 3.93 percent as listed in Figure 5.1. reflect the level of community welfare.



Source: Ministry of Finance DJPK Data Attachment Processed

Fig.5.1: Graph of Regency /Cities Local Revenue Acceptance in Southeast Sulawesi in 2010-2017



Source: BPS Data Processed

Fig.5.2: Development of Poverty Rate in Regencies/Cities in Southeast Sulawesi Province in 2010-2017

The indirect effect of regional income on poverty through economic structure, economic growth, and employment in this study is not significant. This insignificant relationship lies in the effect of economic growth on employment. The findings in this study have been contradicted by many opinions and findings from other studies which state that economic growth has a positive and significant effect on employment.

## VI. CONCLUSION

Based on the findings of the effect of regional own-source income on poverty both directly and indirectly through economic structure, economic growth, and employment, the conclusion is that: Directly, regional own-source revenue has a significant negative effect on district / city poverty in Southeast Sulawesi. Indirectly through economic structure, economic growth, and employment, local own-source revenues have no significant effect on poverty in districts / cities in Southeast Sulawesi.

The implication of this conclusion is the need for greater attention to the formation of regional economic

growth rates and the pattern of their relationship to employment. Every development policy taken needs to consider and pay attention to the interrelationship of the relationships between research variables comprehensively.

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