

The Effect of Investment and Development Expenditure on Poverty Levels Mediated By The Level of Income Inequality in Balikpapan City

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Abstract, *This study aims to analyze the influence of investment and development expenditure on poverty levels in Balikpapan City, considering the mediating role of income inequality. The research employs a quantitative approach using path analysis to examine both direct and indirect relationships among variables. The data used are secondary data from 2013 to 2023, including investment, development spending, the Gini index, and poverty rates. The results show that investment and development expenditure have a direct impact on both income inequality and poverty. Moreover, income inequality mediates the influence of investment and development expenditure on poverty. This study provides important implications for local government in formulating more effective and equitable development policies to reduce inequality and alleviate poverty in urban areas.*

Keywords: Balikpapan City, Development Expenditure, Income Inequality, Investment, Poverty.

1. INTRODUCTION

The existence of the Regional Autonomy Law, since 2001, regional autonomy has been implemented in all provinces and districts/cities in Indonesia. Rasyid (1998), stated that what is expected from regional autonomy is the provision of more satisfactory public services, accommodating community participation, reducing the burden on the central government, fostering regional independence and maturity, and preparing programs that are more in line with regional needs. So the needs and conditions of the community are the first and main inspiration in every activity of the regional government.

The implementation of Regional Autonomy will encourage an increase in the welfare of the regional people, especially the poor. With Regional Autonomy, the poor will find it easier to access resources and develop their potential to be able to improve the progress of their respective regions, so that the gap between the regions and the center can be reduced. Because, rebellions and separatist actions in the regions, basically according to some experts, stem from the assessment of regions that do not fairly receive most of the country's wealth that comes from the region. So the root of the political demands is the demand for economic justice, an unfair division of the cake between the center and the regions.

Poverty is a multidimensional problem because it is related to economic, social, cultural, political and participation in society. Poverty also has a broader meaning than just a person's income or consumption level being lower than welfare standards such as minimum calorie needs or the poverty line. However, poverty has a deeper meaning because it is also

related to the inability to achieve aspects beyond income such as access to minimum needs such as health, education, clean water and sanitation and others.

Poverty has become a very big problem because it involves various aspects of life, because the substance of poverty is a condition of complete lack of sources of basic needs in the form of food, clothing, shelter, education and health. Poverty is caused by the scarcity of obtaining basic needs fulfillment tools or the difficulty of obtaining education or work.

In response to this problem, the development strategy currently being carried out by the government to overcome this problem is to implement national development that is oriented and pays great attention to village development. Village development is a very important and strategic part in realizing national development and regional development based on the vision and mission of the central government and regional governments because it contains elements of equitable development and its results and directly touches the interests of the community in efforts to eradicate poverty in rural communities. In realizing village development, the village government is a subsystem of the Indonesian government administration system, so that Indonesia has the authority, duties and obligations to regulate and manage the interests of the village community concerned.

The implementation of national development activities in Indonesia is one of the efforts to realize the nation's ideals, namely the creation of just and prosperous community welfare based on Pancasila and the 1945 Constitution of the Republic of Indonesia which must be realized through national economic development based on economic democracy. The achievement of these ideals is carried out in an integrated and systematic manner in the form of operational government administration, in line with the phenomena and dynamics that occur in people's lives. Seeing the condition of Indonesian society who are trapped in poverty and helplessness in life, it is necessary to realize the welfare of the community through efforts to overcome poverty. Poverty is a problem that still occurs evenly throughout Indonesia. A number of regions are able to reduce poverty rates, but many are still struggling. One of the regions that has been quite successful in reducing poverty in East Kalimantan is Balikpapan City. Referring to data collected from the Central Statistics Agency (BPS) of Balikpapan City, the number of poor people in Balikpapan City decreased by 0.44 percent compared to 2021. From the data that has been presented, Balikpapan City has the lowest poverty rate in East Kalimantan in 2022. Meanwhile, the level of income inequality of Balikpapan City residents in 2022 as measured using the Gini Ratio is 0.334. This figure increased by 0.009 points when compared to the Gini Ratio in 2021. This makes Balikpapan City the Regency/City with the 3rd highest inequality in East Kalimantan after Berau Regency (0.352) and Samarinda City

(0.346). From this phenomenon, there is a problem that states that the poverty rate in Balikpapan City has decreased but the income inequality of the population has increased.

2. LITERATURE REVIEW

Poverty Theory

Poverty is a condition of economic inability to meet the average standard of living of a community in an area. This condition of inability is characterized by low income capacity to meet basic needs such as food, clothing, and shelter. This low income capacity will also have an impact on reducing the ability to meet average living standards such as public health standards and education standards.

Population Growth

Population is an individual who has settled in an area for at least six months or less than six months but intends to settle. Hartono, in his book explains that population is every person who lives in an area with a certain agreement (conditions that have been met). Dwi Puspa, in his research states that population growth is the process of changing the number of people and their composition which is influenced by three demographic components, namely: fertility, mortality, and migration. So, population growth is the change in the number of people from one period to the next in an area.

Level of Income Inequality

Inequality is a common thing that occurs in the economy of a region. Inequality can occur due to differences in natural resources and differences in demographic conditions in each region. Therefore, there are developed and underdeveloped regions in each region. Inequality refers to the standard of living relative to society, because inequality between regions is the difference in initial endowment factors. These differences make the level of development different in each region. Thus creating a GAP or welfare gap in the region (Kuncoro, 2006).

Investment Theory

Investment is the linking of long-term resources to generate future profits (Mulyadi, 2001:284). Investment can also be defined as the investment of capital or ownership of long-term resources that will be useful in several future accounting periods (Supriyono, 1987:424). Investment can also be defined as the placement of a certain amount of funds at this time with the hope of obtaining profits in the future (Halim, 2003:2).

Development Expenditure

The Regional Revenue and Expenditure Budget as explained in Law Number 33 of 2004 is the annual financial plan of the Regional Government which is discussed and jointly approved

by the Regional Government and the Regional People's Representative Council, and stipulated by Regional Regulation. The APBD contains a budget regarding Regional Revenue and details of Regional Expenditure. Regional Revenue comes from Regional Original Revenue, Regional Taxes, Regional Levies, Results of management of separated Regional assets, Other Legitimate Regional Original Revenue, General Allocation Fund, Special Allocation Fund, Tax and Non-Tax Revenue Sharing Fund, Other Legitimate Regional Revenue, Grants, Emergency Funds, Tax Revenue Sharing Funds from the Province and other Regional Governments, Adjustment Funds and Special Autonomy, and Financial Assistance from the Province or other Regional Governments.

3. RESEARCH METHODS

Research Design

The research design chosen is a quantitative research design based on regression analysis or path analysis, namely research that intends to describe and test the hypothesis of the relationship between two or more variables. The method used in the study is the quantitative data analysis method and the data analysis method using a path diagram with 4 dimensions of measurement, namely, Investment, Development Costs, Income Inequality Level of Population and Poverty in Balikpapan City in 2013-2023.

Research Scope

The research took place in Balikpapan City. The research time is estimated for 4 months starting from the preparation of the Proposal, Data Collection to Data Analysis by examining the Influence of investment, and development spending on poverty levels mediated by the level of income inequality in Balikpapan City in 2013 - 2022.

Path Analysis

The data analysis tool used for hypothesis testing in this study is regression analysis using the path analysis method. Path analysis is the use of regression analysis to estimate the causal relationship between variables that have been previously determined based on theory, which is used to determine the indirect influence between independent variables on dependent variables through mediating variables (Ghozali, 2013).

4. RESEARCH RESULTS AND DISCUSSION

Structural Model Test

The test conducted is to see the significance of the influence between independent constructs on the dependent and answer what has been hypothesized. Testing with a significance

level of 5% if the t-statistic value > 1.96 then the null hypothesis (H_0) is rejected. The t-statistic value of the influence coefficient of the variable is obtained from PLS Bootstrapping. The results of the PLS Bootstrapping Model are presented in the figure below.

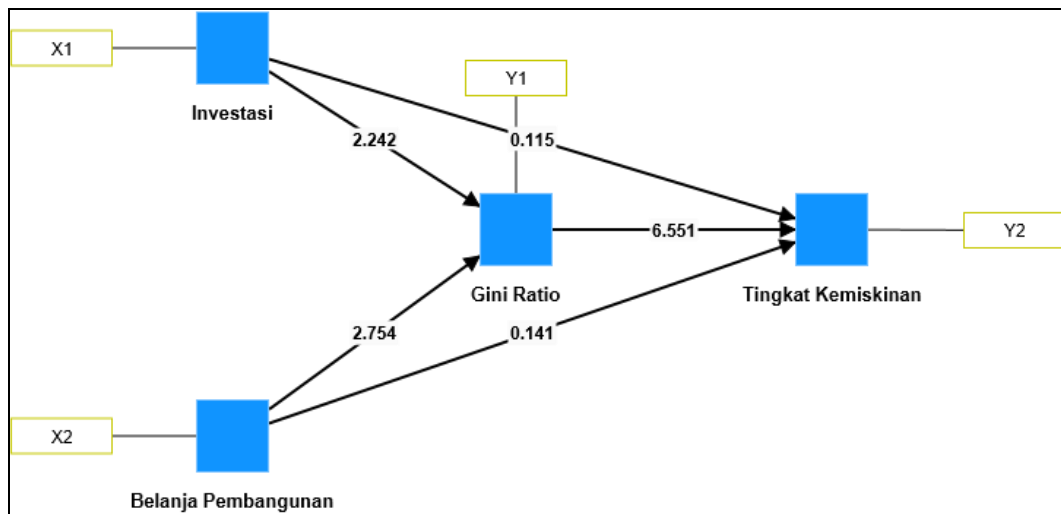


Figure 1. Bootstrapping Model

The parameter coefficient values can be seen in the values (original sample), standard error (standard deviation) and t-statistic values and p-values can be seen in the table below.

Table 1. Coefficient Values (Original Sample), Standard Error and T-Statistics

Path of Influence	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Conclusion
Development Expenditure -> Gini Ratio	-0,429	-0,483	0,156	2,754	0,006	Significant
Development Expenditure -> Poverty Rate	-0,023	-0,029	0,167	0,141	0,888	Not Significant
Gini Ratio -> Poverty Rate	0,857	0,855	0,131	6,551	0,000	Significant
Investment -> Gini Ratio	-0,482	-0,443	0,215	2,242	0,025	Significant

Investment -> Poverty Level	0,015	0,032	0,130	0,115	0,908	Not Significant
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Data source: processed data. 2024

1. Hypothesis 1

The coefficient value of the influence of the Investment variable on the Gini Ratio variable is -0.482, the standard error value is 0.215, the t-statistic value is 2.242 and the p-value is 0.025. Because the t-statistic value is $2.242 > 1.96$ and the p-value is $0.025 < 0.05$, then accept H1. This result proves that Investment has a significant negative effect on the Gini Ratio.

2. Hypothesis 2

The coefficient value of the influence of the Development Expenditure variable on the Gini Ratio variable is -0.429, the standard error value is 0.156, the t-statistic value is 2.754 and the p-value is 0.006. Because the t-statistic value is $2.754 > 1.96$ and the p-value is $0.006 < 0.05$, then accept H2. This result proves that Development Expenditure has a significant negative effect on the Gini Ratio.

3. Hypothesis 3

The coefficient value of the influence of the Investment variable on the Poverty Level variable is 0.015, the standard error value is 0.130, the t-statistic value is 0.115 and the p-value is 0.908. Because the t-statistic value is $0.115 < 1.96$ and the p-value is $0.908 > 0.05$, then reject H3. This result proves that Investment does not have a significant direct effect on the Poverty Level.

4. Hypothesis 4

The coefficient value of the influence of the Development Expenditure variable on the Poverty Level variable is -0.023, the standard error value is 0.167, the t-statistic value is 0.141 and the p-value is 0.888. Because the t-statistic value is $0.167 < 1.96$ and the p-value is $0.888 > 0.05$, then reject H4. These results prove that Development Spending does not have a significant direct effect on the Poverty Level.

5. Hypothesis 5

The coefficient value of the influence of the Gini Ratio variable on the Poverty Level variable is 0.857, the standard error value is 0.131, the t-statistic value is 6.551 and the p-value is 0.000. Because the t-statistic value is $6.551 > 1.96$ and the p-value is $0.000 < 0.05$, then accept H5. These results prove that the Gini Ratio has a significant positive effect on the Poverty Level.

Table 2. Indirect Influence

Indirect Influence	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Information
Development Expenditure -> Gini Ratio -> Poverty Rate	-0,368	-0,411	0,151	2,439	0,015	Signifikan
Investment -> Gini Ratio -> Poverty Rate	-0,413	-0,382	0,205	2,018	0,044	Signifikan

Data source: processed data. 2024

6. Hypothesis 6

The coefficient value of the influence of the Development Expenditure variable on the Poverty Level variable through the Gini Ratio is -0.368, the standard error value is 0.151, the t-statistic value is 2.439 and the p-value is 0.015. Because the t-statistic value is $2.439 > 1.96$ and the p-value is $0.015 < 0.05$, then accept H6. These results prove that Development Expenditure has a significant effect on the Poverty Level through the Gini Ratio as a mediator.

7. Hypothesis 7

The coefficient value of the influence of the Investment Level variable on the Poverty Level variable through the Gini ratio is -0.413, the standard error value is 0.205, the t-statistic value is 2.018 and the p-value is 0.044. Since the t-statistic value of $2.018 > 1.96$ and p-value $0.044 < 0.05$ then accept H7. This result proves that Investment significantly affects the Poverty Level through the Gini Ratio as a mediator.

5. CONCLUSION

The effect of investment on the Gini Ratio is proven to be significant, with investment showing a positive impact in reducing income inequality. This shows that increased investment can improve income distribution and reduce economic inequality, as long as the investment is allocated well and targets sectors that can provide broad benefits to society; Development spending also has a significant effect on the Gini Ratio, indicating that increased development spending has succeeded in reducing income inequality. Development projects aimed at improving infrastructure and public services can help equalize income distribution, thereby reducing economic disparities in society; The effect of investment on poverty rates is not

directly significant. This shows that although investment can reduce inequality, its direct effect on reducing poverty rates is not immediately visible. Other factors may need to be considered to see the impact of investment on poverty reduction; Development spending also does not show a direct significant effect on poverty rates. Although development spending contributes to reducing inequality, its impact on poverty is not immediately visible. This may be due to the time it takes to feel the benefits of development spending or the uneven distribution of benefits; The Gini Ratio has a significant effect on poverty rates, indicating that income inequality contributes to increasing poverty. When inequality increases, poor people's access to resources and economic opportunities becomes more difficult, which causes poverty rates to increase; Development spending has a significant effect on poverty rates through the Gini Ratio as a mediator. This means that development spending can reduce poverty indirectly by reducing income inequality first. In other words, development spending that successfully reduces inequality can have a positive impact on poverty reduction; Investment shows a significant effect on poverty rates through the Gini Ratio as a mediator. This indicates that investment that reduces income inequality can have a positive impact on poverty reduction. The effect of investment on poverty becomes clearer when income inequality is addressed first.

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