CHAPTER VI

CONCLUSION AND RECOMMENDATION

6.1. Conclusion

After discussion related to the above regression results we can conclude a few things related to this study, namely:

1. Based on *Error Correction Model (ECM)* table testing can be concluded that the real growth of poverty reduction in Indonesia over period 1990-2015 is influenced by the real of Gross Domestic Product (GDP), the real growth of Government Expenditure and Foreign Direct Investment (FDI) about 61.4 percent. Other, 38.6 percent poverty variation is explained by other variables which aren't in the model.

2. The growth of Gross Domestic Product (GDP) in Indonesia has a significant and negative relationship with poverty rate in Indonesia. This result is shown by the coefficient in *Error Correction Model (ECM)* test, growth of GDP with coefficient -0.004 and probability 0.0022. It means that if the increase in growth of GDP will lead to reduction of poverty in Indonesia.

3. The growth of Government Expenditure in Indonesia has a significant and a negative relationship with poverty reduction in Indonesia. This result shown the coefficient in ECM test of Government Expenditure (GE) growth with coefficient -0.0336 and probability 0.0084. It means that the increase in

growth of Government Expenditure will lead to reduction of poverty in Indonesia.

4. The growth of Foreign Direct Investment in Indonesia has significant and a negative relationship with poverty reduction in Indonesia. This result is shown by the coefficient in ECM test of Foreign Direct Investment (FDI) growth with coefficient -0.090 and probability 0.0053, It means that the increase in growth of Foreign Direct Investment will lead to the reduction of poverty in Indonesia.

6.2.   Recommendation

Based on the study, it can be given recommendation as follows:

1. From the result, it can be seen that Gross Domestic Product able to reduce the number of poor people in Indonesia. It is recommended to the government not only pursue the higher economic growth but how economic growth can be prosper society.

2. From the above results, Government Expenditure able to reduce poverty in Indonesia. The allocation of budget is a key instrument for the government to promote economic development and to reduce absolute poverty. Appropriate budget allocation will increase productivity and purchasing power, which in turn will reduce the level of poverty.

3. From the above result it is known that foreign direct investment able to reduce the number of poor people in Indonesia. The most direct way for policy to

contribute to reducing poverty is to focus on development of agriculture to improve productivity and hence real income per capita of farmers and agricultural workers and competitiveness of products.

4. Suggested subsequent studies determine other variables that influence the decrease in the number of poor people in addition to Gross Domestic Product, Government Expenditure and Foreign Direct Investment can be marginally useful to determine what the appropriate policies to overcome poverty reduction in Indonesia.