

# CHAPTER I

## INTRODUCTION

### 1.1. Background

Local Government Budget or called APBD (Anggaran Pendapatan dan Belanja Daerah) in Indonesia is regional budget document for province, district and cities. It is essentially one of the policy instruments used as a tool to improve public services and the welfare of people in an area city and regency. It also reflected the needs of the community by paying attention to the potential and sources of regional wealth.

Local government budget is the results of regional autonomy. Indonesia established the regional autonomy regulation in 1999 which contained the rights, authorities and obligations of the autonomous regions to regulate their own government affairs and local community interests in accordance with the law. The implementation of regional autonomy is an important focus point in order to improve people's welfare. The development of city and regency can be adjusted by the local government with the potential and needs of the region itself. Thus, local government budget in each province must be different according to the needs and potential of each region.

The local government budget is the main policy instrument for local governments. As a policy instrument, it become to central position in the development of capability and effectiveness. Local government budget are used as a tool to determine the amount of income and expenditure, help decision-making and development planning, authorize expenditures in the future, sources of

development of standard measures for performance evaluation and coordination tools for all activities of various work units.

The fourth paragraph of the Preamble to the 1945 Constitution “To form an Indonesian State Government that protects the entire Indonesian nation and all of Indonesia's bloodshed and to promote public welfare, educate the nation's life, and participate in carrying out world order based on freedom, eternal peace and social justice” be based on preparation of the local government budget (APBD), it must be follows with national development which is a reflection of the will to continuously improve the welfare and prosperity of the Indonesian people in a just and equitable manner and to develop community life and the implementation of an advanced and democratic state based on Pancasila and one indicator of national development.

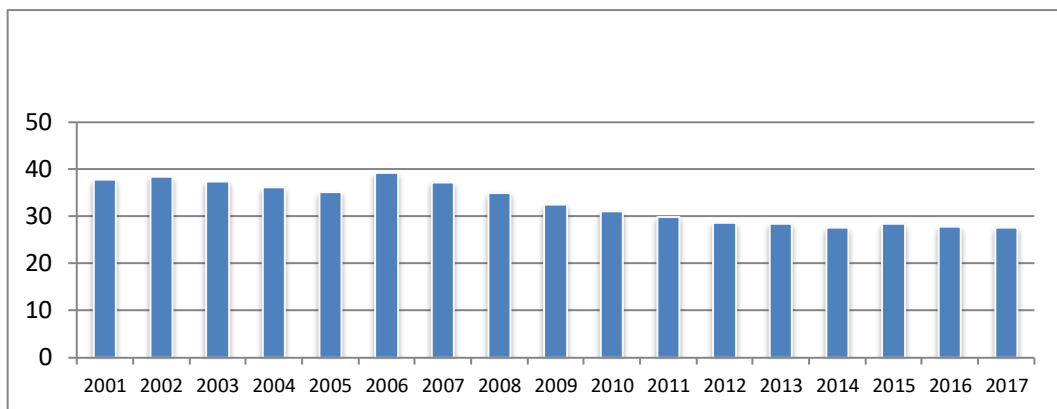
According to the Central Bureau of Statistics general welfare is a condition of the fulfillment of the material, spiritual and social needs of the citizens of the state to live a decent and capable of self-development, to carry out its social and economic, functions. The welfare of a country can also be described through the poverty level. As welfare increases, the lower level of poverty in a country, meaning there is a negative relationship between these two things.

Nurske (1953) poverty occurs because of the community's powerlessness to escape the poverty chain. Health, education and basic needs that are not fulfilled for the poor make them not free from poverty.

Figure 1.1 shows the number of poor people from 2001 to 2017 in Indonesia. From the graph it can also be seen, in 2001 the total trend of the

poverty tends to decline, although in 2002, 2006 and 2015 it increased. In 17 years poverty has decreased by around 10.29 million people. The reduction of Indonesia's poverty cannot be separated from the role of the regional and central government which has the main task of achieving welfare..

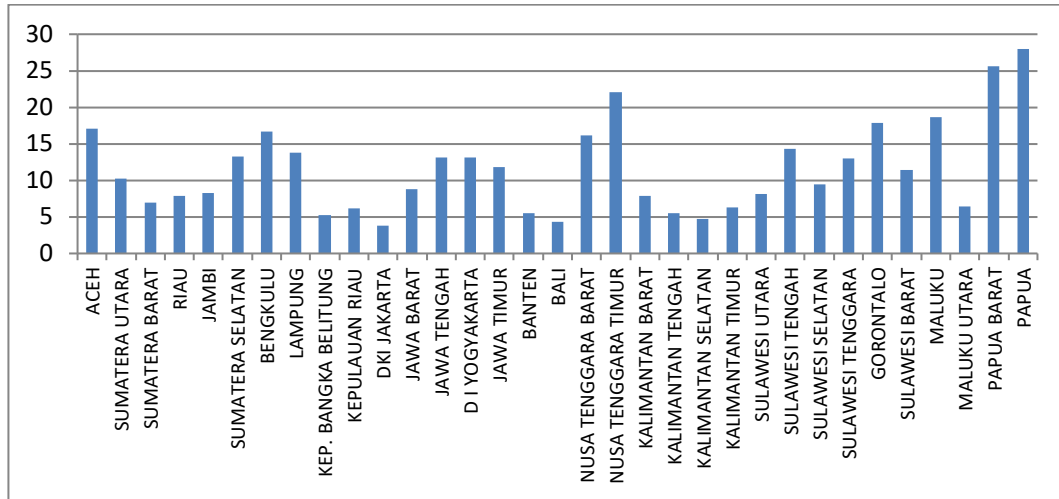
Figure 1.1  
The Number of People in Poverty 2001 – 2017  
(in Thousand)



Source : Central Bureau of Statistics (2018)

Look at poverty occurs based on the province on Figure 1.2, Papua, West Papua and East Nusa Tenggara are in the top 3 provinces that have the highest poverty in 2017. Papua Province with a poverty of 897690 people becomes the province of the highest poverty among 34 provinces in Indonesia. The regional government as the designer of the APBD should look at the picture of poverty as a basis for implementing programs which can reduce poverty. The goal of the government itself is to give the welfare to people. The welfare itself can be seen from the low level of poverty in an country. Therefore the income budget obtained by the government is expected to be used as much as possible for the welfare of the citizen, especially for poverty alleviation.

Figure 1.2  
The Percentage of Poverty in Each Indonesia's Provinces 2017  
(in Percent)



Source : Central Bureau of Statistics (2018)

In the development model developed by Rostow and Musgrave in Guritno (1993), there is a relationship between government budget and the stages of development. In the early stages of economic development, the percentage of government investment to total investment is enormous. Because, at this stage the government must provide infrastructure such as education, health, transportation infrastructure and others.

Government have responsible for achieving the welfare of the citizen. Indonesia's government must allocated the income earned for the greatest benefit of the citizen. Government budget is the use of money to carry out government functions. Government expenditure can also be interpreted as the use of money and resources of a country to finance a state or government activities in order to realize its function in doing welfare. The amount of money spent on government's programs can be seen in the central and regional government expenditure budget. The use of state budget includes 11 functions in ministries and institutions,

namely: Public Service, Defense, Orderliness and Security, Economics, Living Environment, Housing & Public Facilities, Health, Tourism and Culture, Religion, Education, Social protection.

Among the eleven functions of the state budget, economic, educational, health, housing and public facilities functions as a function of budgetary usage which will give effect directly on poverty levels. However, in this discussion only limited to government expenditure function of education, health and housing and public facilities.

Education, health, housing and public facilities are long-term investments for a country's future human resources. According to the government's expenditure function on education and health is a future savings expenditure, with the aim of producing quality human resources. While government spending in housing and public utilities aims to meet the basic needs of communities in terms of housing and public facilities. Government budget on housing and public facilities also include drink water programs, and development programs of city and regency in Indonesia.

In many countries, the allocation of government budget on education is even greater for the poverty alleviation. The priority of government spending in the framework of improving the people will have an effect on the improvement of social welfare. The success of improving public education is reflected in the rising level of education which is being rescued. If the level of education has increased, it can be expected the level of social welfare will also increase. If the level of people's welfare increases, the poverty will becomes decrease.

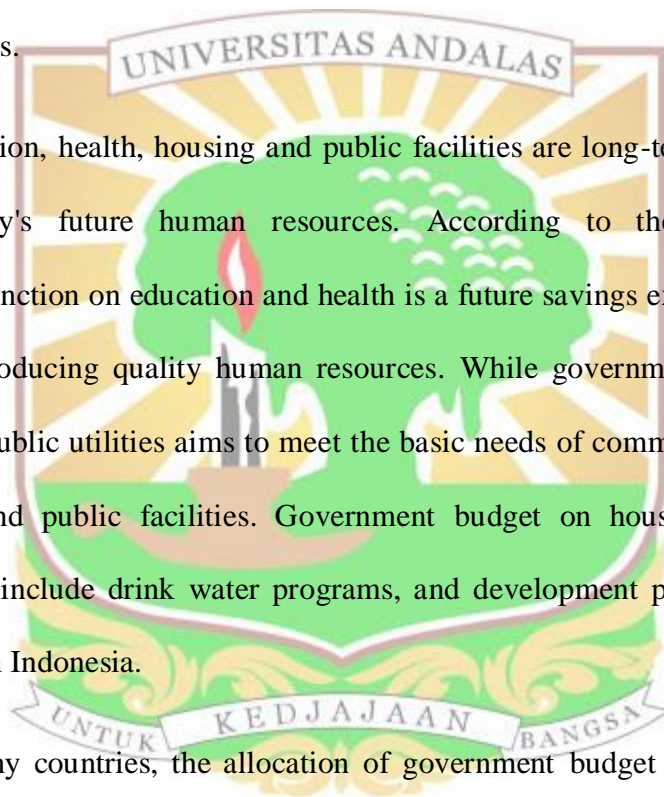




Table 1.1  
The Average Realization of Local Government Budget in Education, Health,  
Housing and Public Facilities are Compared with Other Expenditures in 6 years  
2011-2016  
(in percent)

Province	Education	Health	Housing and Public Facilities
Aceh	25.34	11.58	16.6
North Sumatra	29.18	10.32	15.87
West Sumatra	29.92	10.48	13.95
Riau	20.59	7.47	21.15
Jambi	22.81	9.53	21.41
Bengkulu	30.01	12.1	16.42
Bangka Belitung Island	23.77	10.6	16.53
Lampung	30.48	7.59	19.49
West Java	35.66	11.27	12.77
Central Java	36.62	12.19	11.52
East Java	31.73	13.35	12.06
S.R of Yogyakarta	33.98	12.73	9.64
Bali	29.88	12.49	12.79
West Kalimantan	22.93	9.77	17.89
South Kalimantan	21.03	11.98	17.43
Central Kalimantan	26.39	9.2	20.64
Gorontalo	29.14	12.37	12.02
South Sulawesi	34.09	12.26	14.4
Southeast Sulawesi	27.74	9.42	14.51
Central Sulawesi	27.92	11.25	12.7
North Sulawesi	27.96	8.86	15.11
Maluku	19.46	8.39	15.84
Papua	11.89	8.35	15.89

*Source : Central Bureau of Statistics (2018)*

The Law Number 20 of 2003, concerning the national education system in particular Article 49 Paragraph 1 expressly stipulates the education funds in addition minimum officialy education costs must be allocated 20 percent of the national government budget (APBN) and local government budget (APBD) in aim of improving the quality of the Indonesian's education. In Table 1.1 it can be seen the last six years the average realization of local government budgets in every 23

provinces in Indonesia has 20 percent compared to other function expenditures and some even reached 30 percent except for the provinces of Maluku and Papua, which have not realized the budget for education under 20 percent. According to Mankiw (2003) the development of human resources can be done by improving the quality of human capital. Education and health are goal development fundamentals in a country. Health is at the core of people's welfare.

Unlike education, health is the right of every human being. Every human being is entitled to a fair health in this country. In accordance with the law number 36 of 2009 on health, the government must commit to meet the health budget allocation of 5 percent of the state government budget (APBN) and paragraph 2 which states the health budget at least 10% of the local government budget (APBD). In Table 1.1 it can be seen 14 provinces from 23 provinces have realized local government budgets for health functions with an average of 6 years (2011-2017) above 10%. While the other 9 provinces have an average realization of under 10%.

Housing is one of the basic needs of humans, because the availability of housing and public facilities will improve the welfare of the community. The sub-functions of the function of housing and public facilities include the construction of houses, the empowerment of residential communities and healthy environments, the provision of drinking water, the management of drinking water and wastewater, the development of border areas, the development of strategic areas and rapid growth, the development of areas regency, cities and metropolitan areas, improvements in rural facilities and infrastructure, the development of inter-city development bonds, the empowerment of rural communities and the

development of small and medium-sized cities. The allocation of funds to the function of housing and public facilities is believed to be linked to poverty. In Table 1.1 it can be seen the average realization of local government budget expenditures for the function of housing and public facilities in the 6 years (2011-2016) of Jambi Province is the highest, reaching 21.41% while the lowest is S.R of Yogyakarta Province as much as 9.64%.

Rostow and Musgrave (1959) have explained how the government must pay attention to spending in the early stages of a country's development. The government plays a role in meeting basic needs of the community such as education, health, housing and public facilities at the stage. The role of the budget policy described by Richard A. Musgrave is the allocation, distribution and stability function which refers to the aim of reducing poverty and improving the welfare of the community. The Rostow and Musgrave research shows that government spending on education, health, housing and public facilities has a negative relationship with poverty. The importance of this research is to see how much the role of local government budgets in providing education, health, housing and public facilities in reducing poverty.

Previous research conducted in Indonesia by Azwardi (2014) and Mahadi Bahtera (2016) was only limited to the influence of local government budgets on poverty in the province. In this study the authors analyzed more deeply the data of local government city and regency budgets to see the effect of local government budget on three measures of poverty, there are Percentage of Poverty (P0) Poverty Gap Index (P1) and Poverty Saverity Index (P2) and also looked at variations in



the influence of local government budget in reducing poverty in provinces in Indonesia.

Government spending is a kind of policy which can be done by the government as one of the steps to make citizen in welfare and to free from poverty. Local government budget is planned by the local government in each province where is have different authority among of the city and district based on regional autonomy. Therefore, the realization portion of each province will vary according to their needs. Limited paper of study which is concern to find out the effect of local government budget in education, health, housing and public facilities on poverty among of the province in Indonesia be caused the writer choose a thesis entitled:

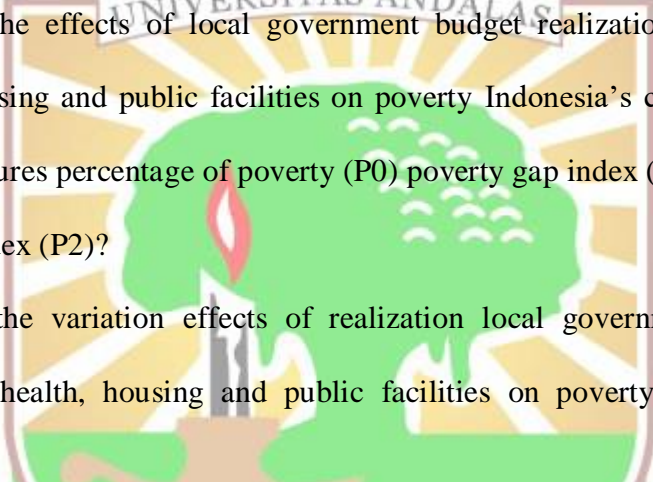
**"THE VARIATION EFFECT OF LOCAL GOVERNMENT BUDGET IN  
EDUCATION, HEALTH, HOUSING AND PUBLIC FACILITIES ON  
POVERTY IN INODONESIA 2011-2016"**

**1.2 Research Problem**

Government has a responsibility to achieve its goal of providing welfare for whole of citizen without exception. Welfare has a negative relationship with poverty which is a problem in every developing country, including Indonesia. This negative relationship means that the high level of the poor is low in welfare in a country.

Policies that are formed in the design of regional and state budget are expected to refer to the principles of pro-poor social expenditure or budget that meet the basic needs of the community such as education, health, housing and

public facilities. In accordance with the regional autonomy regulation which states that each region has the authority to design its own budget, therefore each province in Indonesia has a different budget. The budget will increase every year according to the ability of the region. The budget as a government policy will definitely affect the welfare of the community, especially education, health, housing and public facilities which are the basic needs of the community. According to this phenomenon the writer will simply the question, there are:

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- a. What are the effects of local government budget realization in education, health, housing and public facilities on poverty Indonesia's city and regency using measures percentage of poverty (P0) poverty gap index (P1) and poverty sverity index (P2)?
  - b. What are the variation effects of realization local government budget in education, health, housing and public facilities on poverty in Indonesia's provinces?

### **1.3 Research Objective**

Based on the research problem, this thesis will analysis the effect of public expenditure in education, health, housing and public facilities in Indonesia, such as:

- a. To analysis the effects of local government budget realization in education, health, housing and public facilities on poverty Indonesia's city and regency using measures percentage of poverty (P0) poverty gap index (P1) and poverty sverity index (P2)

- b. To analysis the variation effects of realization local government budget in education, health, housing and public facilities on poverty in Indonesia's provinces.

#### **1.4 Research Advantages**

This study hopefully expected to be useful for writers and the others interest parties. The benefits of this research include:

- a. Government

As input and recommendation for policy makers, for central government and local government as a consideration in taking policy in pushing economy, development and poverty alleviation.

- b. Reader

For the reader is expected to increase understanding of government spending on education, health and infrastructure can against the poverty in Indonesia and as a reference for subsequent research in conducting similar research and thinking contributions on economic development and poverty alleviation.

- c. Other

As a study material and additional science for student Faculty of Economics in general and students majoring in Science Economic Development Studies in particular. Can be used as input for other researchers with similar type of research.



## **1.5 Systematic Writing**

This thesis is prepared using the following systematic:

### **CHAPTER I : INTRODUCTION**

Contains background and formulation of the problem, the objectives to be achieved, the benefits of the research, and writing the systematic thesis is used.

### **CHAPTER II : THEORITICAL AND LITERATURE REVIEW**

Contains theories including previous research, an understanding of local government budget, type, shape, indicator, cause of poverty and modification, classification, theory, related Issues presented, review of previous research and research hypotheses.

### **CHAPTER III : THEORITICAL FREAMWORK AND RESEARCH METHODOLOGY**

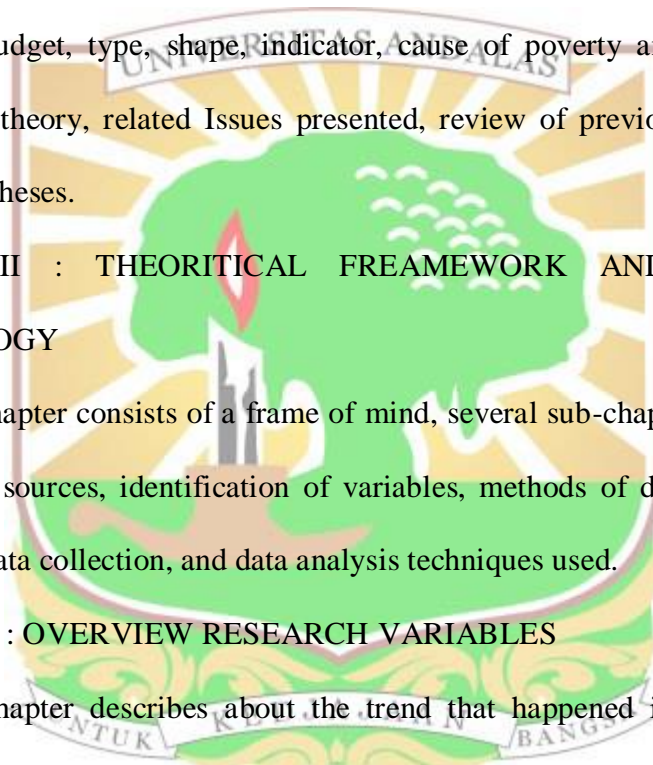
This chapter consists of a frame of mind, several sub-chapters that include data and data sources, identification of variables, methods of data analysis and technique of data collection, and data analysis techniques used.

### **CHAPTER IV : OVERVIEW RESEARCH VARIABLES**

This chapter describes about the trend that happened in each variable include, local government budget for education, health, housing and public facilities.

### **CHAPTER V : RESULT OF TESTING MODEL AND DISCUSSION**

This chapter consists of the outline result, discussion of description in object research, data analysis and description.



## CHAPTER VI : CONCLUSION AND RECOMMENDATION

The last chapter is a cover consisting of conclusions and recommendations based on research and analysis of the results obtained from the data processing.

