

CHAPTER I

INTRODUCTION

1.1 Background

People generally are poor not only because of lack of food, but also poor in the form of lack of ease or material. They do not enjoy the basic facilities like education, health care, and other easiness available in the modern era. Inequality of income, structure of government, inflation, budget deficits and others. Poverty suffered by a class society because the social structure was not eligible to use the actual source of income available to them.

Poverty does not occur naturally due to many factors that can lead to poverty, there are three main shaft that cause poverty is poor health, low income and low education levels. Low levels of health is one of the triggers of poverty due to low levels of public health will lead to low levels of productivity. Low productivity further cause of low income, and low income leads to poverty. Poverty was further cause someone cannot reach the quality education and to pay the cost of maintenance and health care.

Law of the Republic of Indonesia No. 13 of 2011 explained that the poor handling of the effort focused and integrated, and sustained by the government, local governments, and the public in the form of policies, programs and development activities, mentoring, and facilitation to meet the basic needs of citizens , unbelievably basic needs, food, housing, health, education, employment, and or social services. This article explains how the government's obligation to

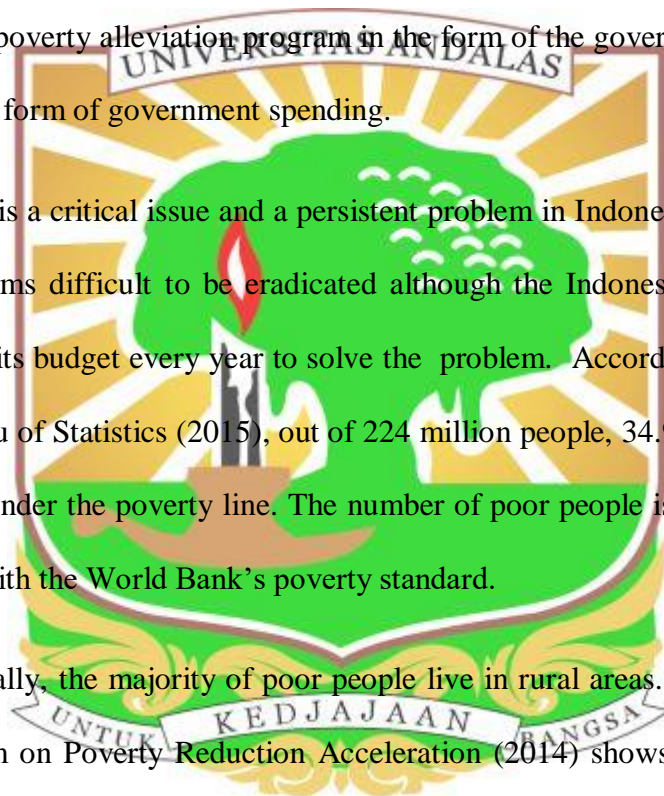
reduce poverty, and the role of government to provide basic facilities such as education and health care.

The seriousness of the central government or local government can be seen in addressing the problem of poverty of the government's performance in poverty alleviation efforts channeled through programs implemented in an effort to alleviate poverty, it is necessary for the costs for the implementation of the government's poverty alleviation program in the form of the government budget is realized in the form of government spending.

Poverty is a critical issue and a persistent problem in Indonesia. Poverty still exists and seems difficult to be eradicated although the Indonesian government has increased its budget every year to solve the problem. According to Indonesia Central Bureau of Statistics (2015), out of 224 million people, 34.9 million people (16.7%) live under the poverty line. The number of poor people is bigger when it is measured with the World Bank's poverty standard.

Statistically, the majority of poor people live in rural areas. The data of the National Team on Poverty Reduction Acceleration (2014) shows that in the last decade, in average, more than 60 percent of poor people lived in rural areas and highly depended upon the agricultural sector. Most of the mare either doing agriculture in a small land size or doing a job as off-farm labor.

As declared in the Middle National Development Plan (2015), one of the development goals is creating welfare for Indonesian people. To achieve the goal, every year the government has allocated expenditures to finance development



activities and programs. Those activities and programs are primarily aimed at increasing people's welfare and to reduce absolute poverty.

The expenditures, afterward, were allocated into sectors or functions which reflected government priorities to achieve its goal. In regard with poverty reduction, the Indonesian government has different experiences in allocating budgets to finance activities and programs to lift up poor people from below poverty line. Before the year 2000, most of the budgets were allocated in the 20 sectors which reflect the development sector, such as agriculture, trading & industry, education, health, local development, etc. A very small number of budgets were allocated to specific poverty alleviation programs. The policy emphasized economic growth as a primary engine to boost economics. It was expected that by giving priority to economic growth, poverty would automatically be reduced due to trickle-down effect of economic development.

Since 2005 government has implemented budget management reforms to encourage efficiency and effectiveness on budget utilization. The reform includes three budget laws that cover the overall financial management aspects, such as budget arrangement, budget implementation, and budget accountability. This reform was expected to contribute to Indonesia's poverty alleviation program in form of functional budget allocation. According to Budget Law (2014) the government budgets are allocated into 11 functions, as the following: general service, defense, public security, economics, environmental, housing & public facility, health, tourism & culture, religion, education, and social security. In addition, the government also provided larger budget allocation for targeted



poverty reduction programs compared with previous periods, such as rice for poor (raskin), cash transfer (BLT), National Program on Self Community Empowerment (PNPM Mandiri), etc.

The Indonesian government has had different development priorities before and after budget reform. Prior to budget reform, in term of amount of budget allocated, the government gave higher priority to trading & national business and finance, local development, irrigation, and education sectors. According to Budget Law, expenditures in trading and business, local development, education, and agriculture sectors enjoyed Rp132 trillion (59%), Rp21 trillion (10%), Rp10 trillion (4.6%), and Rp7 trillion (3%) respectively. In term of budget per capita, those sector-based budget allocations still are robust. In regard with specific poverty alleviation programs, the government only allocated, for instance, less than Rp400 billion for Left Behind Village program in 1996.

The budget reform in 2004 changed the budget allocation system. The new system followed a function-based approach rather than a sector-based approach in allocating the budget. As a consequence, the budget seemed to be allocated in development support functions. According to Law of Budget (2014), the government gave higher priority to general service, education, and economic functions by allocating to those sectors a budget of Rp472 trillion (68%), Rp87 trillion (13%), and Rp64 trillion (9%) respectively. In term of targeted poverty reduction program, the government allocated no less than Rp5 trillion for Community Empowerment program in 2015.



Sensitivity of the budget allocation is still under unclear discussions. Indonesian government gives more attention to support functions, one of which is to allocate as much as 68 percent for Public Service sector than other sectors. As we know 68 percent is quite a lot, with the excess allocation for the public service, is it sensitive to poverty? How about others budget allocations education, health, economy, housing public facilities which are less allocated than public service? are those sectors sensitive to poverty? Although the government, in the same time, provided a bigger budget on targeted poverty program, the decreasing trend of the poverty rate started to slow down. According to Indonesia Central Bureau of Statistics, between 2005 and 2014 the Indonesian government only succeeded to reduce poverty for less than 5% point, from 19.15% to 14.3%.

According to Wilhem and Fiestas (2015), allocation of government budget is a key instrument for government to promote economic development and reduce absolute poverty by analyzing 9 “Operationalizing Pro-Poor Growth” (OPPG) countries during 1980s and 1990s period. Another study by Balisacan in Indonesia (2012) also reveals the importance of allocation of government expenditure as well as geographic attributes and local institutions on poverty reduction by utilizing subnational level data. In addition, by utilizing 43 developing countries panel data, Fan and Rao (2013) investigated the impact of sector level of government expenditure on GDP and poverty reduction. They found the mix impacts of sector level of expenditure on poverty reduction.

The studies on the importance of the allocation role of government expenditure show, no matter what the size of budget is, it is the appropriate

allocation that matters. Regarding the poor achievement of poverty reduction that is associated with sensitive budget allocation, it is interesting to study, therefore the researcher doing research for a thesis with the title “**Budget Allocation Sensitivity on Poverty in Indonesia**”.

1.2 Statement of Problem

Based on the back ground described, then there is a problem formulation that can be taken as a research study that will be conducted. The formulation of the problem is needed as a way to take a decision of this study.

1. What are variables of the budget allocation that sensitive with percentage of poor people in Indonesia?
2. What is the relationship of those variables with percentage of poor people in Indonesia?

1.3 Research Objectives

This research had the objectives to:

1. Find the main variables of the budget allocation which are sensitive with percentage of poor people in Indonesia.
2. Measure and analyze the relationship of these sensitive variables.
3. Provide recommendations to the Indonesian government refers to the findings in this study.



1.4 Research Outcome

1. Examine the sensitivity between budget allocation and percentage of poor people in Indonesia.
2. Determine which budget allocation influence percentage poor people significantly.

1.5 The Scope of the Discussion

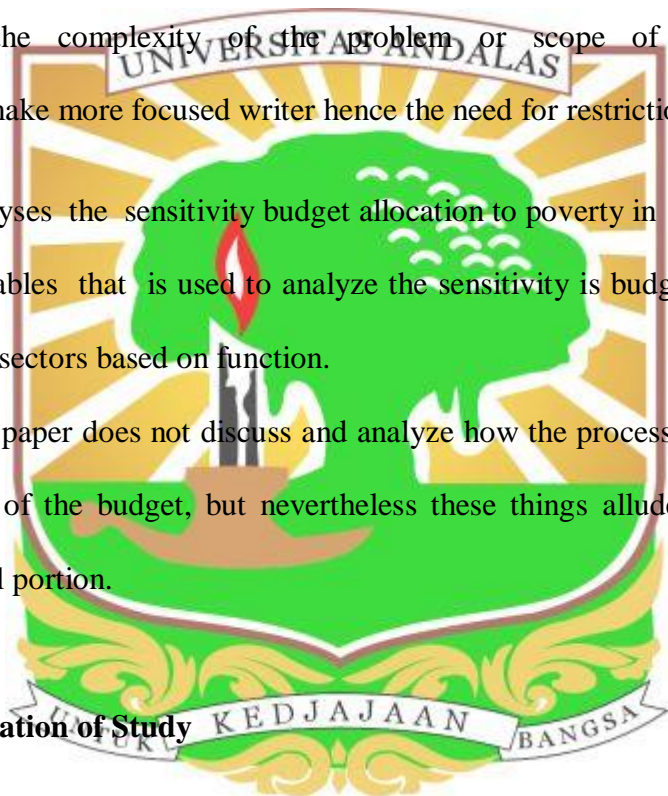
Given the complexity of the problem or scope of discussion to simplify and make more focused writer hence the need for restriction, that are:

1. Analyses the sensitivity budget allocation to poverty in Indonesia.
2. Variables that is used to analyze the sensitivity is budget allocation in nine sectors based on function.
3. This paper does not discuss and analyze how the process of poverty and nine of the budget, but nevertheless these things alluded to in a very small portion.

1.6 Organization of Study

This thesis is conducted as follow:

Chapter I, Introduction: this chapter is part of the introduction which contains the background underlying the selection problem in this research, research problem, research objective, research outcome, the scope of discussion, and writing systematic.



Chapter II, theoretical Framework and Literature Review: this chapter contains theories and previous research underlying this research, theoretical framework and hypotheses.

Chapter III, Research Methodology: this chapter describes the variables used in the study, and operational definitions, types and sources of data, methods of collection and analysis methods used in the study.

Chapter IV, Overview: contains a description of the research object obtained.

Chapter V, Empirical Result and Analysis: discussion section describes this chapter provide empirical result and analysis of the comprehensive study.

Chapter VI, Conclusion and Recommendation: this chapter is the last chapter contains the conclusions derived from the results discussed in chapter V, other than that this chapter also contains recommendation that will be useful for interested parties.

