

THE EFFECT OF GOVERNMENT EXPENDITURE AND INVESTMENT ON GROSS REGIONAL DOMESTIC PRODUCT AND POVERTY IN EAST KALIMANTAN PROVINCE

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Abstract: This study aims to determine the direct and indirect effects of direct expenditure, indirect expenditure, Domestic Direct Investment (PMDN), and Foreign Direct Investment (PMA) on Gross Regional Domestic Product (PDRB) and poverty in East Kalimantan. Path Analysis was used to analyze the data. The data used in this study were secondary data in the form of time series data from 2007 to 2020. The results of the study indicate that the direct effects of direct expenditure, indirect expenditure, PMDN, and PMA on PDRB are positive and not significant. Indirect expenditure and PDRB have a negative and significant impact on poverty. On the other hand, direct expenditure has a positive but not significant effect on poverty. PMDN has a positive and significant effect on poverty. Furthermore, the indirect effects of indirect expenditure and PMA on poverty through PDRB are negative and significant, while the indirect effects of direct expenditure and PMDN on poverty through PDRB are negative and not significant. Simultaneously, direct expenditure, indirect expenditure, PMDN, and PMA variables have a significant impact on PDRB and poverty in East Kalimantan..

Keywords: *direct expenditure, indirect expenditure, domestic investment, foreign investment, gross regional domestic product, poverty*

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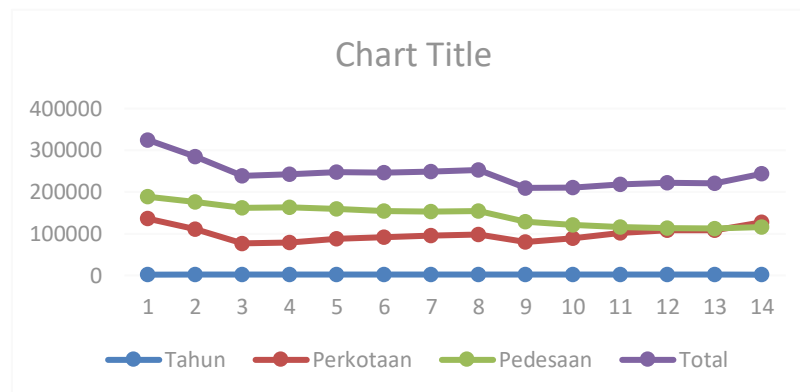
1. Introduction

Poverty is one of the fundamental problems that concerns governments in all countries. This issue is multidimensional because addressing poverty involves not only matters related to the causal relationship of its emergence but also encompasses preferences, values, politics, social factors, and culture (Purnama, 2016). Poverty is a problem experienced by many developing countries as well as developed countries that possess abundant natural resources (NR) and adequate human resources (HR) (Astrini & Purbadharmaja, 2013).

Poverty is caused by various factors, including slow economic growth, below-standard investment levels, and ineffective government expenditure that lacks efficiency in productive programs aimed at poverty alleviation (Patenda et al., 2017). Poverty and regional gross domestic product (GDP) are important indicators in achieving national development success. Every country strives to optimize GDP while reducing poverty. Regional gross domestic product is the process of increasing production in an economy, manifested in the form of increased national income in that region.

East Kalimantan is a province that is rich in natural resources such as forests, plantations, fisheries, agriculture, oil and gas, and mining. Despite having abundant natural resources, East

Kalimantan is not immune to the issue of poverty. In 2019, the mining sector contributed 45.49% to the economy but did not have a significant impact on poverty in East Kalimantan. In 2020, the number of poor people reached 243,990 individuals, accounting for 6.64% of the total population of East Kalimantan. The trend of the number of poor people in East Kalimantan over the past 14 years can be seen in Figure 1.1 of the graph.



Source: Data Processed, 2021.

Figure 1.1. Graph of the Number of Poor Population in Urban and Rural Areas of East Kalimantan Province, 2007-2020.

Efforts to alleviate poverty have been undertaken by the government of East Kalimantan Province through various means. However, until now, the desired results have not been fully achieved, and there is still a significant number of poor people both in urban and rural areas.

2. Research Method

This research was conducted in East Kalimantan using secondary data in the form of time series data obtained from the publications of the Central Statistics Agency, covering a period of 14 years from 2007 to 2020. The variables examined are limited to direct expenditure, indirect expenditure, domestic investment, foreign investment, regional gross domestic product (PDRB), and poverty. Path analysis is used as the analytical method to determine the direct and indirect relationships between variables. This study employs a descriptive method, where the data obtained is organized and analyzed based on relevant theories related to the research problem in order to draw conclusions and recommendations.

3. Result and Discussion

Path analysis is an extension of multiple linear regression analysis or regression analysis used to measure the causal relationships between variables. Standardized beta coefficients are used in regression equations to determine the influence and effective contribution provided by independent variables to the dependent variable, but this is only applicable to the specific sample at that particular time. Path diagrams are used to illustrate the direct and indirect effects of direct expenditure (x1), indirect expenditure (x2), domestic investment (x3), and foreign investment (x4) on regional gross domestic product (PDRB) (y) and poverty. The results of the data analysis using SPSS are as follows:

Table 3.1. Values of Direct Effects, Indirect Effects, and Total Effects

Exogenous variables	Endogenous variables	Direct effects		Indirect effects		Total Effects
		Symbol	Values	Symbol	Values	
BL (x_1)	PDRB (y)	$x_1 \rightarrow y$	0,170 ^{TS}	—	—	—
BTL (x_2)	PDRB (y)	$x_2 \rightarrow y$	0,321 ^{TS}	—	—	—
PMDN (x_3)	PDRB (y)	$x_3 \rightarrow y$	0,540 ^{TS}	—	—	—
PMA (x_4)	PDRB (y)	$x_4 \rightarrow y$	0,002 ^{TS}	—	—	—
PDRB (y)	JPM (z)	$y \rightarrow z$	(-0,718) ^S	—	—	—
BL (x_1)	JPM (z)	$x_1 \rightarrow z$	0,184 ^{TS}	$x_1 \rightarrow y \rightarrow z$	(-0,122) ^{TS}	0,062
BTL (x_2)	JPM (z)	$x_2 \rightarrow z$	(-1,087) ^S	$x_2 \rightarrow y \rightarrow z$	(-0,230) ^S	(-1,317)
PMDN (x_3)	JPM (z)	$x_3 \rightarrow z$	0,984 ^S	$x_3 \rightarrow y \rightarrow z$	(-0,388) ^{TS}	(0,596)
PMA (x_4)	JPM (z)	$x_4 \rightarrow z$	(-0,028) ^{TS}	$x_4 \rightarrow y \rightarrow z$	(-0,014) ^S	(-0,042)

a. The Relationship Between Direct Expenditure and Regional Gross Domestic Product (PDRB)

Based on the calculation results, it is found that the direct expenditure variable has a positive direction but does not have a significant effect on regional gross domestic product (PDRB). This means that an increase in direct expenditure will be followed by an increase in the value of PDRB, but the increase is not significant. This situation is not in line with the expectations of the government of East Kalimantan Province, where the allocation of direct expenditure by the government aims to increase PDRB in the province. This becomes a task for the government as the actual allocation of direct expenditure for development does not have a significant influence on PDRB. However, through the allocation of direct expenditure, the government plays a significant role in improving the economy by allocating funds for development or infrastructure projects to boost the regional economy of East Kalimantan. Direct expenditure that is targeted, effective, and efficient should have an impact on the increase in PDRB. Conversely, if the opposite occurs, it indicates that the allocation of direct expenditure is not targeted and efficient in terms of programs and activities that have not directly benefited the people of East Kalimantan Province. The results of this study are consistent with the research conducted by Maga et al. (2016), which states that direct expenditure does not have an effect on economic growth in South Sorong Regency.

b. The Relationship Between Direct Expenditure and Poverty.

Based on the analysis results, it is found that direct expenditure has a positive direction but does not have a significant effect on the number of poor people. This means that an increase in direct expenditure is followed by an increase in poverty rates. Generally, poverty eradication is a priority for regional governments, but the allocation of expenditure for poverty reduction is constrained by the region's capacity. Factors that contribute to government expenditure not having an impact on poverty include human resource factors and the weak commitment of the government in addressing poverty. The limited capacity of human resources in the region to identify potential local income leads to suboptimal budget planning for expenditure. Considering that ideal planning and budgeting should be integrated, the capacity of human resources becomes crucial. The commitment of the regional government to prioritize public interests, especially in poverty alleviation, also determines government expenditure. Direct expenditure is implemented through programs and activities that directly benefit the public in terms of the quality of public services and the regional government's support for public interests.

Government expenditure policies, whether direct or indirect, should not only achieve ultimate goals but also consider the targets that will benefit from or be affected by those policies.

Another issue that causes direct expenditure to have a unidirectional effect and no impact on poverty is that one of the functions of direct expenditure is for development. When it is related to infrastructure development issues in East Kalimantan, such as the incomplete Trans Kalimantan road, poor quality of inter-district and inter-city roads, and the presence of remote villages with minimal facilities due to population distribution in border areas, income inequality between rural and urban populations in East Kalimantan is evident. This contributes to higher poverty rates in rural areas compared to urban areas.

c. The Relationship Between Direct Expenditure Through Regional Gross Domestic Product (PDRB) and Poverty.

The research findings show that the relationship between direct expenditure through regional gross domestic product (PDRB) is negative and has no significant impact on poverty. This is due to the main issue of poverty, which is the ability of poor communities to access the necessary services for their livelihoods. This is where the role of the government, through direct expenditure, comes into play by providing easier accessibility to public services for the poor. Additionally, direct expenditure is intended to improve the quality of public infrastructure and stimulate greater productivity for the community and local businesses. Local government expenditure is also allocated for basic services that the community should receive, such as education and healthcare. The lack of significance in the results may be due to the fact that the benefits of direct expenditure are not immediately felt in the short term. The development of schools, hospitals, and infrastructure such as roads, irrigation, and communication networks aims to improve the economic growth of the community and ultimately reduce poverty rates. These findings are consistent with the research conducted by Kaat et al. (2015), where the allocated direct expenditure by the government to promote economic growth and alleviate poverty in the districts and cities of North Sulawesi did not have a significant impact.

d. The Relationship Between Indirect Expenditure and Regional Gross Domestic Product (PDRB).

The research findings indicate that there is a positive but insignificant relationship between indirect expenditure and regional gross domestic product (PDRB). This means that an increase in indirect expenditure may lead to an increase in PDRB, but the impact is not significant. This could be attributed to the allocation of budget through indirect expenditure, which has been expanding and consistently opening up economic resources, but has not significantly influenced the economic growth of East Kalimantan Province. The government's expectation of appropriate allocation of indirect expenditure is expected to support the performance of each working unit in providing services to the public. In principle, the allocation of indirect expenditure aims to support and sustain the government's activities in fulfilling its functions and obligations. These research findings are consistent with the study by Chamdani (2018), which found no significant influence of indirect expenditure on PDRB in Tangerang Regency.

e. The Relationship Between Indirect Expenditure and Poverty

The research findings reveal that indirect expenditure has a negative impact on the poverty rate, meaning that an increase in indirect expenditure will result in a decrease in poverty in East Kalimantan. In the formulation of regional budgets, there is a value of equity that favors the weak or poor segments of society and follows fair procedures. Indirect expenditure is used for

social assistance, such as providing basic necessities to the poor, assisting those affected by disasters, and providing grants for the construction of mosques, churches, and other places of worship. During the current COVID-19 pandemic, the government provides assistance to affected communities through various social assistance programs. The objective of social assistance and grants is to alleviate the burden on the population and reduce the poverty rate in both urban and rural areas.

The calculations indicate that government expenditure in the form of indirect expenditure has directly contributed to the reduction of poverty in East Kalimantan. This research is supported by Ishak (2017), who stated that indirect expenditure has a significant partial effect on poverty in districts and cities within West Java Province.

f. The Relationship Between Indirect Expenditure with Poverty Reduction Through Gross Regional Domestic Product (GRDP)

The analysis results indicate a negative and significant relationship between indirect expenditure and poverty reduction through GRDP. This aligns with the government's expectations, as government expenditure on indirect items has an impact on the consumption sector of goods and services by the population. Through government spending on subsidies, social assistance, and unexpected expenses, not only the less privileged members of society can access goods and services, but also those who are already capable are encouraged to consume more products and services.

Indirect expenditure is directed towards basic services such as education, healthcare, and the availability of public services to improve the welfare of the population. The aim is to ensure that the population receives better services. The primary goal of allocating indirect expenditure is to stimulate economic growth, which in turn reduces poverty in the East Kalimantan Province. The 1945 Constitution stipulates that 20 percent of state funds must be allocated for education financing, aiming to ensure that all citizens in Indonesia have access to adequate education as mandated by the government through the compulsory nine-year education program. The East Kalimantan Provincial Government allocates BOSDA (Operational Assistance for Schools) to provide additional subsidies to schools in the region. Additionally, the Kaltim Cemerlang scholarship program is designed for students from elementary school to doctoral programs. The East Kalimantan Government is committed to allocating 20% of the total budget to education.

g. The Relationship Between PMDN (Domestic Direct Investment) and PDRB (Regional Gross Domestic Product)

Based on the test results, PMDN (Domestic Direct Investment) has a positive and insignificant influence on the PDRB (Regional Gross Domestic Product) of East Kalimantan Province. This means that as PMDN increases, the PDRB also increases, although the increase is not significant. This is due to decreased competitiveness and lack of competitiveness of domestic products, resulting in decreased output and PMDN's lack of impact on PDRB. The main problems faced by entrepreneurs in East Kalimantan include poor infrastructure, inefficient government bureaucracy, and limited financial access. The poor infrastructure increases production costs, ultimately reducing price competitiveness and resulting in decreased exports. The road infrastructure in East Kalimantan is in a very poor condition, with many damaged roads that have not been paved or constructed, hampering the flow of goods and causing entrepreneurs to reconsider investing in East Kalimantan.

The lack of direct significance between PMDN and PDRB can be attributed to less productive PMDN investments that involve minimal employment, thus not creating sufficient

job opportunities for the local population of East Kalimantan. The influx of workers from outside East Kalimantan with better knowledge and skills has marginalized the indigenous population, resulting in income inequality and impacting the poverty rate among the local population of East Kalimantan. Agustini and Kurniasih (2017) stated that domestic investments significantly influence economic growth in the districts/cities of West Kalimantan Province.

h. The Relationship Between PMDN (Domestic Direct Investment) and Poverty

Based on the research findings, it is known that there is a positive and significant relationship between Domestic Direct Investment (PMDN) and poverty, meaning that an increase in PMDN is followed by an increase in poverty. This contradicts the expectations of the government and the people of East Kalimantan Province. Generally, PMDN investments are still concentrated in urban areas or industrial centers. Cities and districts with industrial economies typically have high urbanization rates. The migration of people to these areas, on one hand, can be beneficial as it ensures an adequate supply of labor. However, on the other hand, the unemployment rate will increase for the workforce that remains unabsorbed, leading to higher poverty rates.

Theoretically, a high level of PMDN investment will increase production capacity, which ultimately leads to increased income and decreased poverty rates. However, the reality in East Kalimantan Province shows that despite the increase in PMDN investment, it has not been able to reduce poverty. This indicates that the benefits of PMDN investments are not evenly enjoyed by all members of society but are limited to wealthier groups.

i. The Relationship Between PMDN (Domestic Direct Investment) and Poverty Through Gross Regional Domestic Product (GRDP)

In theory, the level of Domestic Direct Investment (PMDN) is said to have a positive correlation with economic growth and a negative correlation with poverty reduction. A high level of PMDN investment is expected to increase production capacity, which ultimately leads to increased income for the population. However, the reality in East Kalimantan Province shows that despite the high growth in investment, it has not been able to significantly reduce poverty rates.

The presence of Domestic Direct Investment (PMDN) allows for the creation of new capital goods, which in turn absorbs new factors of production and creates new employment opportunities. This leads to increased output and income for the new factors of production, contributing to national economic growth. The reduction in unemployment (due to the creation of new jobs) and positive economic growth are expected to have an impact on poverty rates by reducing the number of people below the poverty line. PMDN investment will stimulate job creation in the community. The increasing demand for infrastructure will open up employment opportunities and contribute to the reduction of poverty. A study by Datrini (2009) on the impact of investment and labor on economic growth and its influence on poverty rates in Bali Province during the period 1990-2007 found that there was no significant impact of economic growth on poverty rates, despite a negative relationship.

j. The Direct Relationship between Foreign Direct Investment (PMA) and Gross Regional Domestic Product (PDRB).

The research findings indicate that Foreign Direct Investment (PMA) has a positive but insignificant relationship with Gross Regional Domestic Product (PDRB). This means that an increase in Foreign Direct Investment will be followed by an increase in PDRB, but the increase

is not significant. This can be attributed to the fact that the main objectives of attracting foreign investment to East Kalimantan, such as efficient utilization of the region's potential, environmental sustainability, and welfare of local labor, have not been fully achieved, thus not significantly impacting the PDRB. The untapped potential in East Kalimantan may remain unrealized without investors willing to exploit it for economic value. The influx of PMA into East Kalimantan will create job opportunities for the local population in the productive age group who are currently unemployed. Additionally, the technology transfer from experienced and reputable investors in their respective industries can enable the people of East Kalimantan to acquire technological expertise in processing raw materials and efficient management practices for business operations.

k. The Relationship between Foreign Direct Investment (PMA) and Poverty

The research findings reveal that there is an inverse relationship between Foreign Direct Investment (PMA) and poverty. This means that as the value of PMA increases, it is followed by a decrease in the poverty rate in the province of East Kalimantan, although the decrease is not significant in relation to the increase in PMA. This is due to the fact that the PMA investment activities carried out in East Kalimantan are primarily focused on physical infrastructure and have not directly reached the poor communities. In the future, it is hoped that PMA investments will also be directed towards non-physical aspects, such as investing in human resources through education. Investments in education can enhance the quality of human resources, leading to improved skills. Increased knowledge and skills will enhance productivity, prompting companies to provide higher wages to productive workers. This will improve the welfare of the population and help them break free from the cycle of poverty. Foreign direct investment is an important variable in accelerating the process of improving the welfare of the people in East Kalimantan.

l. The Relationship between Foreign Direct Investment (PMA) and Poverty Through Gross Regional Domestic Product (GRDP)

The indirect relationship between Foreign Direct Investment (PMA) and poverty through Gross Regional Domestic Product (PDRB) is found to be negative and significant. This is in line with the hypothesis that accepts the null hypothesis (H_0) and rejects the alternative hypothesis (H_1). The presence of PMA investment allows for the creation of new capital goods, which in turn absorb new factors of production and create new job opportunities. These employment opportunities will absorb the workforce, leading to increased income and reduced poverty. Consequently, there will be an increase in output and new income in the factors of production, resulting in an increase in PDRB. The decrease in unemployment rates (due to the creation of new jobs) and the increased PDRB will have an impact on the poverty rate, with the expectation of reducing the number of people below the poverty line.

There are numerous benefits that can be obtained from the entry of Foreign Direct Investment (PMA) into Indonesia. One of them is the influx of new capital to help finance various sectors that lack funding. PMA also creates many new job opportunities, leading to a reduction in unemployment rates. Additionally, the entry of PMA is usually accompanied by technology transfers. They bring new technological knowledge to East Kalimantan, which can be gradually developed. There is also the possibility of foreign investment collaborating with Micro, Small, and Medium Enterprises (MSMEs). The involvement of MSMEs will undoubtedly drive economic growth within the community. Furthermore, MSMEs or domestic companies also have the opportunity to market their products internationally.

m. The Relationship between Gross Regional Domestic Product (PDRB) and Poverty

PDRB has a negative impact on the number of people living in poverty in East Kalimantan. This means that an increase in PDRB will reduce poverty. The PDRB of East Kalimantan reflects the economic capacity or potential and the performance of the region in managing human resources as well as natural resources. The value of PDRB in East Kalimantan is heavily influenced by the contributions of mining and extraction activities, particularly related to coal and oil and gas industries. The high dominance of non-renewable natural resources in the formation of East Kalimantan's economy can lead to economic instability in the future if there is no sustainable economic management and development

The growth of Regional Gross Domestic Product (PDRB) is an indicator used to determine the success of development and is a necessary condition for reducing poverty levels in East Kalimantan. The condition is that the growth of Regional Gross Domestic Product (PDRB) is effective in reducing poverty rates. This means that the growth of PDRB increases every year and is distributed among all segments of society, including the upper, middle, and lower classes, including the impoverished population in the province of East Kalimantan, thereby reducing poverty rates in all segments. Therefore, the growth of PDRB in each sector of the economy is crucial in reducing and addressing poverty levels in East Kalimantan.

4. Conclusion

- a) The direct expenditure through GDP on poverty has a negative and insignificant impact because the direct expenditure is used for public infrastructure development, the benefits of which are not immediately felt by the community in the short term.
- b) The indirect expenditure through GDP on poverty has a negative and significant impact because government assistance in basic education and healthcare services has led to a reduction in poverty in East Kalimantan province.
- c) The effect of domestic investment (PMDN) through GDP on poverty is negative and insignificant. This is because the influx of PMDN allows for the creation of new capital goods, leading to the absorption of new factors of production, such as the creation of new jobs, which in turn reduces unemployment and poverty.
- d) The effect of foreign direct investment (PMA) on the number of poor people through GDP is negative and significant. This is because PMA enables the creation of new capital goods, leading to the absorption of new factors of production, such as the creation of new jobs, which in turn has an impact on increasing GDP and reducing poverty. This research is supported by a study conducted by Dama et al. (2016), which states that Gross Regional Domestic Product (GDP) has a negative and significant impact on the Poverty Rate in the city of Manado

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