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Democracy and the Expenditure: Unraveling the Drivers of Poverty Reduction in Indonesia

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Abstract

This study aims to identify and analyze the influence of government expenditure and the quality of democracy on poverty in Indonesia from 2013 to 2023. In this study, secondary data sourced from the Directorate General of Financial Balance (DJPK) and the Central Bureau of Statistics (BPS) in 28 provinces in Indonesia from 2013 to 2023 were processed using panel regression with the Fixed Effect Model (FEM). The independent variables used in this study consist of government expenditure in the education sector, government expenditure in the health sector, government expenditure in the social protection sector, civil liberties, political rights, and democratic institutions. The research results show that the variables of government expenditure in the education sector, government expenditure in the health sector, political rights, and democratic institutions have a negative impact, while the variables of government expenditure in the social protection sector and civil liberties do not have a significant impact on poverty in Indonesia from 2013 to 2023.

Keywords: Poverty, government expenditure, and quality of democracy.

INTRODUCTION

Poverty is one of the main issues faced by many countries in the world, including Indonesia (Yani, 2024). This phenomenon not only encompasses a lack of income but also relates to limited access to basic services such as education, health care, decent housing, and adequate employment. The Central Statistics Agency (BPS) generally

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defines poverty as a condition in which an individual or a group of individuals is unable to fulfill their basic rights to maintain and develop a dignified life.

Poverty in Indonesia remains a significant challenge, closely related to the country's efforts to achieve the Sustainable Development Goals (SDGs), particularly Goal 1, which aims to eradicate poverty in all its forms. In (Novrizaldi, 2024), Finance Minister Sri Mulyani highlighted that one of the factors contributing to the persistence of poverty is population growth. Although the percentage of the poor population has decreased in recent decades, the absolute number of poor people remains high due to the increasing population. Additionally, in (Azzahra, 2024), Coordinating Minister for Human Development and Cultural Affairs Muhadjir Effendy highlighted the difficulties in addressing extreme poverty in Indonesia. He likened this effort to scraping burnt rice, which requires extra hard work. In his view, the smaller the poverty rate, the harder it is to reduce the remaining number of poor people because they are usually in the most vulnerable conditions, both economically and socially.

In line with the Sustainable Development Goals (SDGs). SDG No. 1, which is "Ending poverty in all its forms everywhere," aims to ensure that by 2030, no individual lives below the extreme poverty line. Based on the average poverty rate data from 2011 to 2023, it is evident that there are still disparities in poverty levels between provinces in Indonesia. The national average poverty rate during that period was 10.35 percent. The province with the highest poverty rate is East Nusa Tenggara, with an average of 20.99 percent, nearly double the national average. Followed by Maluku (18.77 percent), Gorontalo (16.81 percent), Bengkulu (16.33 percent), and West Nusa Tenggara (16.01 percent). This indicates that these regions still face structural issues in economic and social development, such as limited access to education, healthcare services, basic infrastructure, and decent employment opportunities.

Government spending in key sectors such as education has proven to play an important role in reducing poverty (Misdawita & Sari, 2018). Furthermore, Sen (1982) stated that poverty is also influenced by political aspects reflected in the weak access to democracy. When the democratic process does not function as it should within the community, poverty will also increase. That statement is also in line with the research conducted by Gao & Zang (2022), which states that improving the quality of government, increasing freedom of speech, and enhancing the granting of political rights can reduce the level of poverty.

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LITERATURE REVIEW

Government Expenditure and poverty Level

Government expenditure is a component of fiscal policy, which is one of the macroeconomic instruments that grants the government, generally through the Ministry of Finance, the authority to regulate the direction of the economy. This expenditure reflects the costs incurred each year to implement various programs and policies formulated in the State Budget (APBN). In general, fiscal policy encompasses decisions regarding state revenue and expenditure aimed at influencing economic stability and growth. Based on the World Bank definition, government expenditure includes spending on goods and services, payment of civil servants' salaries, and transfers such as subsidies and social assistance. Meanwhile, according to Suparno (2015), government spending plays a significant role in capital formation, especially through investments in the infrastructure sector, which is a major driver of economic growth.

Research conducted by Fan, Hazell, and Thorat (2000) in India shows that increased public sector spending has a positive impact on reducing poverty in rural areas, through improved community welfare and access to public services. A similar finding was reported in the study by Hong and Ahmed (2009), which concluded that government spending on public goods contributes to reducing poverty levels. Similar findings were also reported by Liu, Li, and Zhao (2020), who studied public spending in rural areas of China. Hidalgo-Hidalgo and Iturbe-Ormaetxe (2018) show that proper allocation of funds in the social sector, especially education, can improve the well-being of individuals and families, thereby impacting poverty reduction.

In the Caribbean region, Craigwell et al. (2012) found that government spending in the health sector significantly impacts poverty reduction. Meanwhile, Fan et al. (2000) also emphasized the importance of health sector spending in India in reducing rural poverty through improved access to services and social welfare. According to Popova (2023), a strong social protection system, including cash assistance and social security programs, is capable of reducing income inequality and providing protection for the poor. This is reinforced by Barrientos (2011), who states that social protection programs can significantly reduce the risk of falling into poverty. Meanwhile, Sánchez Dávila (2023) emphasizes that economic growth supported by social spending plays an important role in poverty alleviation efforts in Latin American countries.

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Quality of Democracy and Poverty Level

According to Irawan (2007), democracy is a system of government that originates from the will of the people, where sovereignty is in the hands of the people. Democracy is the common choice of many countries, born from the demands of society for equal rights and position in the eyes of the law. In Indonesia, the Central Bureau of Statistics (BPS) developed the Indonesian Democracy Index (IDI) as a quantitative measurement tool to assess the development of democracy, not only from the government side, but also involving the community, DPRD, political parties, judicial institutions, and law enforcement. The IDI measures aspects of democracy across provinces based on three main dimensions: civil liberties, political rights, and democratic institutions. The assessment is conducted through media analysis, documents, focus group discussions (FGDs), and interviews with expert informants. IDI scores range from 0-100 and are classified into three categories: <60 (poor), 60-80 (moderate), and >80 (good).

Research conducted by Sano (2020) states that civil liberties as part of a human rights-based approach can help reduce poverty. The results of this study indicate that a human rights-based approach can empower poor communities by actively involving them in the development process. Gao and Zang (2022) emphasize that when citizens have greater political rights and broader freedom of speech, they can more actively voice their needs and interests, including urging the government to implement policies that favor vulnerable groups. The results of the Millennium Challenge Corporation survey in (2024) also reinforce this argument, showing that each one-point increase in the political rights score correlates with a reduction of approximately 37,180 people living in extreme poverty. Furthermore, Kar (2022) research findings indicate that improvements in institutional quality, including democratic institutions, correlate with a decrease in poverty levels. Specifically, the improvement of voice and accountability, government effectiveness, and the rule of law contribute to long-term poverty alleviation. Research by Aguilar (2016) also shows similar results where democratic institutions can reduce poverty levels by allowing citizen participation, which influences the government to implement better public policies.

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METHOD

Variable	Symbol	Measurement Unit	Data Source
Government expenditure on education	EDU	Percent (% to PDRB)	DJPK (Processed)
Government expenditure on health	HLT	Percent (% to PDRB)	DJPK (Processed)
Government expenditure on social protection	SP	Percent (% to PDRB)	DJPK (Processed)
Civil liberties	CL	Index	BPS
Political rights	PR	Index	BPS
Democratic institutions	DI	Index	BPS
Poverty	POV	Percent	BPS

This study uses data collection techniques in the form of purposive sampling, which is a method of deliberately selecting samples by researchers based on certain criteria. In its analysis, this study involved 28 provinces in Indonesia as the object of research. Meanwhile, five other provinces namely DKI Jakarta, DI Yogyakarta, Aceh, Papua, and West Papua are not included because they have special and privileged regional status that makes their administrative characteristics, fiscal, and socio-political conditions different from other provinces.

This research uses a panel data regression analysis model. Panel data itself is a combination of data between time series data and cross section data. The data used in this study were obtained from publications published by the Directorate General of Fiscal Balance and the Central Bureau of Statistics in each province in 2013-2023. The data used are data on the Percentage of Poor Population (POV) as the dependent variable, government spending on education (EDU), government spending on health (HLT), government spending on social protection (SP), civil liberties (CL), political rights (PR), and democratic institutions (DI) as independent variables.

$$POVit = \beta 0 - \beta 1LNEDUit - \beta 2HLTit - \beta 3SPit - \beta 4CLit - \beta 5PRit - \beta 6DIit + \varepsilon it$$

Widarjono (2018) states that there are several tests in choosing the best model (CEM, FEM, REM) in panel data. Determination between the Common Effect Model

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(CEM) and the Fixed Effect Model (FEM) using the chow test, by comparing the probability of F in the FEM output with level a (5%). The hypotheses obtained are Ho: CEM; H_1: FEM, if the probability value of F < α (5%), then Ho is rejected, and the use of the FEM model is considered more appropriate. Furthermore, if chow test chooses the FEM model, it will be continued by using the Hausman test. The Hausman test is used to determine the best model between FEM and REM. This test is conducted by comparing the chi-square probability value in the Hausman output with level a (5%). If the chi-square probability value < α (5%), then Ho is rejected and the appropriate FEM model is used. If the Hausman test selects the REM model, then proceed with the Lagrange test. This test is conducted to determine the best model between the Random Effect Model (REM) and the Common Effect Model (CEM). The Lagrange Multiplier test is seen based on the chibar distribution with degrees of freedom equal to the number of independent variables. If the probability value of chibar < α (5%), then Ho is rejected and the use of the REM method is more appropriate.

The classic assumption test is carried out to ensure that the data used in the study meets the basic requirements of regression analysis, so that the results obtained can be considered valid. The normality test aims to determine whether the residual data is normally distributed, one of which can be tested through the Skewness and Kurtosis methods. The heteroscedasticity test is used to identify any differences in residual variances between observations in the regression model. Meanwhile, the multicollinearity test aims to see the relationship between independent variables, where if the Variance Inflation Factor (VIF) value is below 10, it can be concluded that there is no multicollinearity. The autocorrelation test is used to determine whether there is a relationship between the residual values of one observation and another. One way to detect it is to use the Durbin-Watson (DW) test.

RESULT AND DISCUSSION

Selection of Analysis Model

To prove the hypothesis and answer the research objectives, the first step in testing this time is to use the chow test. The chow test aims to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The following are the results of the chow test calculation.

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Table 1. Chow test

No. of Observation		364
Prob > F		0.0000
A		5%
	H0: CEM	
	Ha: FEM	

Source: Chow test Results with STATA 14

Based on the results of the stata output above, it shows that the probability value of F is 0.0000 < α (0.05) so that H0 is rejected, the Fixed Effect model is more appropriate than the Common Effect model. Furthermore, because the chow test chooses the FEM model, it will be continued using the Hausman test. The Hausman test is used to determine which of the two random effect models and fixed effect models should be used in panel data modeling.

Table 2. Hausman test

No. of Observation		364
Prob > Chi Square		0.0314
A		5%
	H0: REM	
	Ha: FEM	

Source: Hausman test results with STATA 14

Based on the results of the stata output above, it shows that the calculated Chi square probability value is 0.0314 smaller than 0.05 so that the Fixed Effect model is more appropriate than the Random Effect model.

Classical Assumption Test

Normality test

Table 3. Normality test

Variabel	Skewness	Kurtosis
POV	0.68207	-0.44642
EDU	1.74125	4.14867

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HLT	0.92826	0.20241
SP	1.11820	0.50264
CL	-0.80463	0.47235
PR	-0.47440	-0.39230
DI	-0.11972	-0.34346

Source: Normality test results with MS.Excel

The results of the normality test conducted using the Skewness-Kurtosis method show that to accept or reject the normality hypothesis, the Skewness value benchmark is used which ranges from -2 to +2 and the Kurtosis value between -3 to +3. Based on these tolerance values, it can be seen in Table.3 that the EDU variable is not normally distributed, while the POV, HLT, SP, CL, PR, and DI variables are normally distributed. Therefore, the EDU variable must be transformed into natural logarithm (LN) form.

Multicollinearity test

Table 4. Multicollinearity test

Variabel	VIF	1/VIF
EDU	1.59	0.6280
HLT	2.81	0.3559
SP	2.55	0.3915
CL	1.04	0.9592
PR	1.18	1.8496
DI	1.03	0.9665
Mean VIF	1.70	

Source: Multicollinearity test Results with STATA 14

Based on the multicollinearity test results, it shows that the independent variables produce a Mean VIF number of 1.70 greater than α = 0.05. These results indicate that there is no indication of multicollinearity among the independent variables, because the VIF value is still within acceptable limits and there is no strong correlation between the independent variables.

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Heteroscedasticity Test and Autocorrelation Test

Although the regression model experiences heteroskedasticity and autocorrelation, the parameter estimates obtained through the Ordinary Least Squares (OLS) method remain unbiased and consistent. However, according to Wooldridge (2016), its efficiency decreases because the standard error produced can be biased, thereby affecting the accuracy of statistical tests such as the t-test, and risking incorrect conclusions. To address these issues, robust standard errors are used as a substitute for conventional standard errors according to White. As explained by Ananta et al.,(2023), robust standard errors effectively handle problems of heteroskedasticity and autocorrelation, resulting in more reliable estimates. In panel data analysis, robust standard error can be practically applied, for example, by adding the "robust" option to the command in Stata.

Estimation Results of Panel Data Regression with FEM

By choosing the fixed effect model as the regression model, the panel data regression estimation results are as follows:

Table 5. Panel data regression estimation results with fixed effect model

Variabel	Coefisien	T-stat	Prob
LNEDU	-0,2670	3,54	0,001
HLT	-1,5470	2,16	0,040
SP	5,9223	1,15	0,259
CL	0,0031	0,34	0,738
PR	-0,0352	7,56	0,000
DI	-0,0133	2,45	0,017

Source: Regression Results with STATA 14

Effect Government Expenditure on Education on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the regression coefficient value of the LNEDU variable is -0.2670, which means that if there is an increase in government spending on education by 1%, poverty (POV) will decrease by 0.0026%, assuming other variables are fixed (ceteris paribus). And based on the t-test value shows that the t-stat value is 3.54 which is greater than the t-table value of 1.64913 with a probability of 0.001 <0.05, so it can be said that

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government spending on education has a negative and significant effect on the poverty rate in Indonesia.

This study is basically in line with the results of other studies where education is one of the main keys in the formation of human capital which in turn affects poverty alleviation. Rambeli et al. (2021) found that increased government spending on education can accelerate economic growth and reduce poverty. Other research conducted by Hidalgo-Hidalgo & Iturbe-Ormaetxe (2018) and Bandiyono (2018) shows a negative and significant effect, where allocating funds in the social sector such as education can improve the quality of life of individuals and their families, thereby reducing poverty. This is in line with the view that education acts as one of the most effective instruments in breaking the chain of poverty between generations. Through improved access and quality of education, the poor can acquire better skills and knowledge, which in turn increases their chances of getting decent jobs and higher incomes.

Effect Government Expenditure on Health on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the regression coefficient value of the HLT variable is -1.5470, which means that if there is an increase in government spending on health by 1%, poverty (POV) will decrease by 1.54% with the assumption that other variables are fixed (ceteris paribus). And based on the t-test value, it shows that the t-stat value is 2.16 which is greater than the t-table value of 1.64913 with a probability of 0.040 <0.05, so it can be said that government spending on health has a negative and significant effect on the poverty rate in Indonesia.

This study is basically in line with the results of other studies where increased government spending in the health sector has been shown to contribute to a reduction in poverty. Research conducted by Damai and Aprianti (2024) states that government spending in the health sector has a negative impact on poverty, which means that increased spending in these sectors reduces the number of poor people. Mellyndawati and Yuhertiana (2023) state that an increase in government spending in the health sector can reduce poverty, because by realizing large health sector expenditures, local governments have adequate fiscal policies in carrying out programs to improve health status, such as free medical treatment, improving the quality of nutrition, and implementing maternal and child programs. Research conducted by Nurias et al. (2023) also shows the same results as the results of this study where government spending on the health sector has a significant negative effect on poverty reduction. Komarudin and

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Oak (2020) also stated a similar thing where public health spending has a significant effect on reducing poverty rates, and that countries with better governance tend to reduce poverty than countries with poor governance.

Effect Government Expenditure on Social Protection on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the regression coefficient value of the SP variable is 5.9223 and based on the t-test value, it shows that the t-stat value is 1.15 which is smaller than the t-table value of 1.64913 with a probability of 0.259> 0.05, These findings indicate that government spending on social protection does not have a significant effect on reducing the poverty rate in Indonesia.

These results are in line with the research of Melati et al. (2024), he stated that this was because the benefits and impacts received were very small and unable to help the poor get out of the poverty line, another cause was the difficulty of the government in identifying the poor and the accuracy of social assistance recipients. Other research conducted by Sirait et al. (2022) which shows that government spending on social protection has a positive effect on poverty, as well as research by Susanti and Sartiyah (2019) the results of the study show that government spending on social protection has no effect on reducing poverty.

Another study conducted by Anggraeni and Uzaimah (2024) shows that social protection spending has no impact on poverty reduction also due to corruption, he stated that the distribution of social assistance which should aim to help those in need is often misused by irresponsible parties. Puspita (2024) also said a similar thing where corrupt practices in the management of social assistance not only harm the state, but can result in people who should get help becoming worse off, the data shows that irregularities in the distribution of social assistance lead to an increase in poverty levels and force people to use their personal savings to meet their daily needs.

Effect Civil Liberties on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the value of the CL variable regression coefficient is 0.0031 and based on the t-test value shows that the t-stat value is 0.34 which is smaller than the t-table value of 1.64913 with a probability of 0.738> 0.05, these findings indicate that civil liberties cannot significantly affect the decline in poverty levels in Indonesia.

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Research by Purmiyati et al. (2023) shows that the Indonesian Democracy Index has no significant effect on the poverty rate. This means that an increase in political rights and civil liberties does not automatically lead to a decrease in poverty. Similar findings were also reported by Novanto (2024) and Purba & Hariyadi (2023), who concluded that civil liberties have no significant effect on economic growth in Indonesia. In fact, economic growth is the main pathway in reducing poverty, through job creation, income generation, and expanding access to basic services (Huang, 2024). When the economy grows, production activity increases, people's incomes rise, and purchasing power improves, resulting in increased welfare. Conversely, an economic slowdown can exacerbate poverty due to declining employment opportunities and income stagnation. Thus, without a tangible contribution to economic growth, civil liberties are likely to have a limited impact on poverty reduction.

Effect Political Rights on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the regression coefficient value of the PR variable is -0.0352, which means that if there is an increase in political rights by 1 index, poverty (POV) will decrease by 0.03% assuming other variables are fixed (ceteris paribus). And based on the t-test value shows that the t-stat value is 7.56 which is greater than the t-table value of 1.64913 with a probability of 0.000 <0.05, so it can be said that political rights have a negative and significant effect on the poverty rate in Indonesia.

This finding is in line with several previous studies. For example, a study by Gao and Zang (2022) emphasizes that when citizens have greater political rights and greater freedom of speech, they can more actively voice their needs and interests, including urging the government to implement policies that favor vulnerable groups. The Millennium Challenge Corporation's (2024) survey results also show that every one-point increase in political rights scores correlates with a reduction of approximately 37,180 people living in extreme poverty. Furthermore, Aguilar (2016), who examined advanced democracies, found that public political participation such as inclusive elections and engagement in policymaking can increase government accountability and promote a fairer redistribution of resources. In other words, substantive democracy can create space for social policies that are more inclusive and effective in reducing poverty.

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Effect Democratic Institutions on the Poverty Level

Based on the regression results with the Fixed Effect Model (FEM) in table 5, it is known that the regression coefficient value of the DI variable is -0.0133, which means that if there is an increase in the quality of democratic institutions by 1 index, poverty (POV) will decrease by 0.01%, assuming other variables are fixed (ceteris paribus). And based on the t-test value shows that the t-stat value is 2.45 which is greater than the t-table value of 1.64913 with a probability of 0.017 <0.05, so it can be said that democratic institutions have a negative and significant effect on the poverty rate in Indonesia.

This finding is in line with various previous studies, where research conducted by Gao and Zang (2022) showed that democratic institutions do reduce poverty, supporting Amartya Sen's hypothesis, which shows a significant relationship between democracy and poverty reduction. Furthermore, Kar (2022)'s results show that improvements in institutional quality, including democratic institutions, are correlated with reduced poverty levels. In particular, improvements in voice and accountability, government effectiveness, and the rule of law contribute to long-term poverty alleviation. Research by Aguilar (2016) also shows similar results where democratic institutions can reduce poverty rates by enabling citizen participation, which influences the government to implement better public policies.

CONCLUSION AND POLICY RECOMMENDATION

Based on the research findings, it was found that government spending in the education sector has a negative and significant impact on poverty in Indonesia. This means that an increase in the allocation of the education budget contributes to reducing poverty because it can improve access to and the quality of education, which encourages the enhancement of skills and competitiveness of individuals in the job market. Government spending in the health sector also shows a negative and significant impact on poverty. This means that an increase in regional spending in the health sector helps reduce poverty rates, for example, through better access to healthcare services and protection against health risks that burden the economies of poor households.

On the contrary, government spending in the field of social protection does not have a significant impact on poverty. This indicates that the budget allocation in this sector has not been effective in reducing the number of poor people in Indonesia. Civil liberties do not have a significant impact on the poverty rate. This indicates that guarantees of civil liberties, such as freedom of assembly or expression, are not yet sufficient to encourage improvements in the economic conditions of the poor. Political rights show a negative and

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significant impact on poverty. In other words, greater political participation such as the right to vote, be elected, and involvement in the policy-making process correlates with more effective poverty reduction efforts. The quality of democratic institutions also has a negative and significant impact on poverty. The oversight function of the Regional People's Representative Council (DPRD) and political parties that runs well can ensure budget allocations favoring strategic sectors and channel the aspirations of the poor, thereby contributing to poverty alleviation.

Based on these findings, the government is advised to continue increasing budget allocations for the education and health sectors, as they have proven effective in reducing poverty levels. In addition, it is important to evaluate and improve social protection programs to make them more targeted and capable of providing real impacts for the poor. The government also needs to strengthen the political rights of the community and improve the quality of democratic institutions, such as local parliaments and political parties, to be more responsive to the needs of vulnerable groups. Thus, the synergy between fiscal policy and democratic governance can become an effective strategy in the effort to sustainably eradicate poverty.

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