

Nexus Between Fiscal Policy and Poverty in Regencies/Cities in Bali of Indonesia

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Abstract: Fiscal policy has an essential role in changing the direction of development to reduce poverty between regions. This research paper aims to empirically investigate the effect of government spending, balancing funds, and economic growth on poverty levels in regencies/cities in Bali Province, Indonesia. The panel data were engaged for all variables in this region from 2015 to 2019, with 45 observation points. The sample was taken from the entire population, making it a census study. The collected data further analyzed using path analysis to capture the role of intervening variable. The results show that government spending has a positive but insignificant effect, whilst balancing funds negatively affect economic growth in this region. Government spending and economic growth have a negative and robust impact, while balancing funds have a non-negative and insignificant impact on poverty levels in regencies/cities in Bali Province. Later, the economic growth of regencies/cities cannot explain the link fiscal policy variables and poverty.

Keywords: Balancing funds, Economic growth, Government spending, Poverty rate.

JEL Classification: E62, O40, H50, I32.

INTRODUCTION

Development is a process with multiple dimensions that encompasses significant transformations in areas such as economic advancement, social organization, inequality, unemployment, and the alleviation of poverty (Todaro & Smith, 2009). The objective of economic development is to achieve better growth and create more job opportunities (Feldman et al., 2016). Some studies also remarked that economic development should ensure equal income distribution for all members of society (Alam & Paramati, 2016; Oishi & Kosebri, 2016). Economic development is closely related to economic growth, as it can drive economic growth, which is influenced by macroeconomic conditions and market power (Mankiw, 2020). Improvement in the standard of living and welfare of society requires economic growth (Malizia et al., 2020).

Poverty is the main problem that hinders national development and is a determining factor in a country's progress (Mankiw, 2020). Poverty is either related to low income and expenditure levels or the insufficient levels of education, health, and development participation, as well as various problems associated with human development (Chaudary & Wimer, 2016; Iemmi et al., 2016). The poverty level in each

region indicates which region experiences better or worse development (Mankiw, 2020). Conventionally, poverty refers to people who are unable to fulfill their basic needs. In doing so, the government plays an important role in implementing policies to overcome poverty, including regulatory, service, empowerment, and development functions (Todaro & Smith, 2009).

Concerning Indonesia, poverty is a complex and worrying global phenomenon, including in Bali province, a region known for its art and culture heritage that creates opportunities for tourism development (Tajeddini et al., 2017). Despite Bali's heavy reliance on the rapidly expanding tourism industry, it has been unable to considerably decrease the rates of poverty. Table 1 exhibits information about the poverty rates in Bali during 2015 and 2019. Poverty rates varied by region, with Karangasem Regency having the highest poverty rate at the level of upper than six percent in 2019, followed by Klungkung, and Buleleng regency, with the percentage of 5.40 and 5.19 percent, respectively. In contrast, Badung Regency and Denpasar city had lower poverty rates than the poverty rate in Bali Province.

From the region in Bali, two have poverty rates lower than the provincial poverty rate, while seven other regencies have poverty rates higher than the provincial poverty rate. This indicates a significant disparity in poverty rates between regions in Bali Province. Thus, To enhance the prosperity and well-being of people in their respective regions, a collaboration between the central and regional governments is neces-

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Table 1. Poverty Rate in Bali Province during 2015-2019 (%).

No.	Regency/City	Year					Average
		2015	2016	2017	2018	2019	
1.	Jembrana	5.84	5.33	5.38	5.20	4.88	5.33
2.	Tabanan	5.52	5.00	4.92	4.46	4.21	4.82
3.	Badung	2.33	2.06	2.06	1.98	1.78	2.04
4.	Gianyar	4.61	4.44	4.46	4.19	3.88	4.32
5.	Klungkung	6.91	6.35	6.29	5.86	5.40	6.16
6.	Bangli	5.73	5.22	5.23	4.89	4.44	5.10
7.	Karangasem	7.44	6.61	6.55	6.28	6.25	6.63
8.	Buleleng	6.74	5.79	5.74	5.36	5.19	5.76
9.	Denpasar	2.39	2.15	2.27	2.24	2.10	2.23
	Bali Provinces	4.74	4.25	4.25	4.01	3.79	4.21

Source: Statistics Indonesia (2020).

sary. The government's financing plays a significant role in this matter.

Government spending takes a pivotal role in economic growth and poverty alleviation. It is a necessary obligation that must be paid by the governments in Bali, both by the central government through the state budget and the regional government through the regional budget to finance government activities in a one-year fiscal period (Susila et al., 2019). A prior research by Yuliarmi et al. (2014) found a positive connectivity between government spending and economic growth, meaning that an enhance in government spending will increase economic growth. A prior study also noted that government spending is the most effective tool for government intervention in the economy (Anderson et al., 2018). The level of effectiveness of government expenditure can be measured by the extent to which it achieves economic growth (Feng et al., 2022). This is because government spending is closely related to local revenue and expenditure budgets, which directly affect regional income and financing, thus affecting economic growth directly.

Government budget policies are essential to change development and diminish disparities in a region. An increase in routine spending will only lead to even greater inequality, as only certain groups will benefit from it. The fundamental changes in the system of regional government implementation, by giving very broad authority in regional autonomy, led to fiscal decentralization was introduced in early 2001 as a follow-up act of the political will of the government to succeed the enactment of Regional Government Law No. 32 of 2004, Law No. 33 of 2004, and government regulations as supporters of its implementation. This is both an opportunity for regional governments and a threat that needs to be carefully considered. Based on the background outlined, the following research questions are addressed:

RQ1: What is the influence of government spending and balance funds on the economic growth of districts/cities in Bali?

RQ2: What is the effect of government spending, balance funds, and economic growth on the poverty rates of districts/cities in Bali?

RQ3: How does government spending and balance funds affect poverty rates undergoing economic growth in districts/cities in Bali?

METHOD

Research Design

This research design used a quantitative method in the form of associative study with a causal relationship form. In this research, associative research is used to examine the nexus effect of government spending, balance funds on poverty rates in districts/cities in Bali during the period of 2015–2019, using economic growth as an intervening. In this research paper, there are three hypotheses formulated (see Figure 1). This research involved data gathered from the Statistics Indonesia (BPS) Bali Provincial. This study utilized panel data, which is an incorporation of cross-sectional and time series data, to examine government spending, balance funds, economic growth, and poverty rates in nine regencies/cities in Bali Province between 2015 and 2019. The study includes 45 observation points. The data obtained in this research will be processed and analyzed, supported by theoretical and empirical studies, to answer the formulated research questions.

Operational Definition

Government spending (X_1) refers to the amount of money spent to finance government activities listed in the regional budgeting plan for regencies/cities in Bali Province for one year from 2015-2019, measured in thousands of Indonesian rupiah. Balancing funds (X_2) is the realization of funds sourced from state revenue and funds proposed to the region, including tax revenue sharing or non-tax revenue sharing, general allocation fund, and special allocation fund for dis-

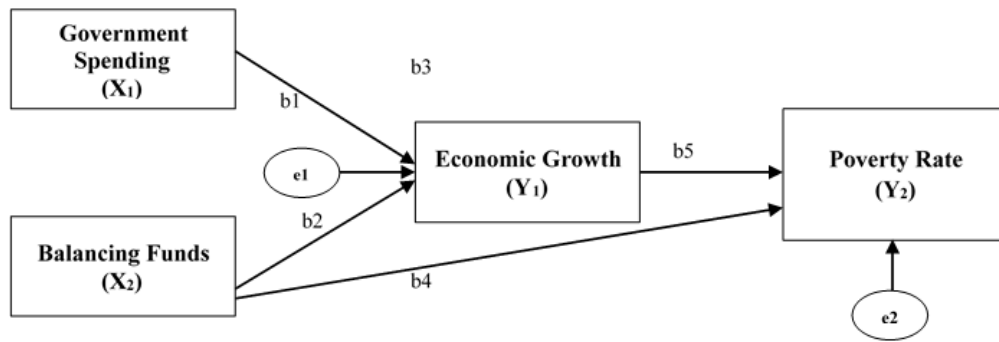


Fig. (1). Research Design.

districts/cities in Bali. In addition Economic growth (Y₁) refers to the increase in economic activity that leads to a rise in actual income over time in regencies or cities within the Bali Province, expressed as a percentage for the period between 2015 and 2019. Lastly, poverty rate (Y₂) is the population in regencies/cities who are below the poverty line or have an inability from an economic perspective to meet basic food and non-food needs from the expenditure side in Bali Province.

Data Analysis Technique

In this paper research, path analysis was utilized as the data analysis technique to address the research questions. Path analysis is an advanced version of regression analysis, and it can be considered a specific type of it (Doanh & Bernat, 2019). Path analysis is employed to establish and test the relationship model between variables that are in a causal relationship. Furthermore, this type of analysis is used to ascertain the direct connection between the independent variables and dependent variables, as well as the indirect link between them through the intervening variables. The research framework in this study is illustrated in Fig. (1).

The e₁ arrow of the economic growth variable (Y₁) shows the amount of variation in the economic growth variable (Y₁) that is not performed by government spending (X₁) and balancing funds (X₂). Arrow e₂ of the poverty level (Y₂) indicates the amount of variation in the poverty level (Y₂) that is not explained by government spending (X₁), balancing funds (X₂), and economic growth (Y₁). Later, standard error of estimate is provided in equation 1.

$$e_1 = \sqrt{(1 - r^2)} \dots (1)$$

Path coefficients are calculated by constructing two regression equations that show the hypothesized relationship (see equation 2 and 3).

$$Y_1 = b_1X_1 + b_2X_2 + e_1 \dots (2)$$

$$Y_2 = b_3X_1 + b_4X_2 + b_5Y_1 + e_2 \quad (3)$$

The direct influence of X₁ on Y₁ is indicated by the path coefficient b₁, the direct effect of X₂ on Y₁ is indicated by the path coefficient b₂. In addition, the direct effect of X₁ on Y₂ is provided by the path coefficient b₃, the direct effect of X₂ on Y₂ is indicated by the path coefficient b₄, the direct effect of Y₁ on Y₂ is indicated by the path coefficient b₅, the indirect effect of X₁ on Y₂ through Y₁ is obtained by multiplying

the path coefficient b₁ with the path coefficient b₅. Later, the indirect effect of X₂ on Y₂ undergoing Y₁ is acquired by multiplying the path coefficient b₂ by the path coefficient b₅. The total indirect effect of X₁ on Y₂ and X₂ on Y₂ is acquired by increasing up the direct and indirect effects. Standardized coefficients in equation (1) will give b₁ and b₂ values standardized coefficients in equation (2) will give b₃, b₄ and b₅ values. The total diversity of data that can be performed by the model is calculated by equation 4.

$$R_m^2 = 1 - e_1^2 e_2^2 \cdot e_p^2 \dots (4)$$

In this case the interpretation of R_m² is the same as the explanation of the coefficient of determination (R²) in the regression estimations. Pei which is the standard error of estimate from the regression model is exhibited in equation 5.

$$e_2 = \sqrt{(1 - r^2)} \quad (5)$$

Test the validity of the path coefficient on each path for the direct effect is the same as the regression analysis, using p. The value of the t-test, namely the partial standardized variable regression coefficient test. Based on the trimming theory, non-significant paths are discarded, in order to obtain a model that is supported by empirical data.

RESULTS AND DISCUSSION

Direct Effect Estimation

Table 2 presents the outputs of hypothesis estimation for the direct effects of government spending and balance funds on economic growth, using a confidence level of 95% (α = 0.05). If the probability value is upper than the significance p-value (0.05 > sig.), then H₀ is rejected, and vice versa. Regarding the direct effect testing of government spending on economic growth, the beta value (SC) is -0.091, with a p-value of 0.544. Since a p-value of 0.544 > 0.05, it means that H₀ is rejected, indicating that government spending (X₁) has a positive and insignificant effect on economic growth (Y₁). In addition, the direct effect testing of balance funds on economic growth, the beta score (SC) is -0.312, with a p-value of 0.042, indicating that balance funds (X₂) have a negative and significant influence on economic growth (Y₁).

Table 3 shows that government expenditure negatively influences the poverty rate, with a sig = 0.098 (> 0.05). Balancing funds have a positive and insignificant influence on the pov-

Table 2. Regression Test Results of Government Expenditures and Balanced Funds on Economic Growth.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.313	0.239		26.428	0.000
	X ₁	8.205E-7	0.000	-0.091	0.612	0.544
	X ₂	-5.650E-7	0.000	-0.312	-2.092	0.042

Note. Dependent Variable: Y₁

Table 3. Regression Test Results of Government Spending, Balancing Funds and Economic Growth on Poverty Levels.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.849	3.587		3.583	0.001
	X ₁	-8.16E-6	0.000	-0.237	-1.695	0.098
	X ₂	4.767E-7	0.000	-0.069	470	0.641
	Y ₁	-1.424	0.552	-0.371	-2.581	0.014

Note. Dependent Variable: Y₂.

erty rate, with a sig = 0.641 (> 0.05). Economic growth has a negative and significant effect on the poverty rate, with a sig=0.014 (< 0.05). The hypothesis testing results for the direct impact of government expenditure, balancing funds, and economic growth on the poverty rate shows that the beta value (SC) of -0.237 and the p-value of 0.098 obtained from the direct effect testing of X₁ has a negative and insignificant effect on Y₂. In addition, the beta score (SC) of -0.069 and a p-value of 0.641 acquired from the direct effect estimation of X₂ has a positive and insignificant influence on Y₂. Lastly, the beta score (SC) of -0.371 and a p-value of 0.014 acquired from the direct effect estimation of X₁ on Y₁ negatively influences Y₂.

Path Analysis

According to the research findings, the relationships between the research variables were represented by path coefficients in this study, which can be visualized through path diagrams. The structural equations can also be used to depict the model, as in structural equation 6 and 7.

$$Y_1 = 0.091X_1 - 0.312X_2 + e_1 \quad (6)$$

$$Y_2 = -0.237X_1 + 0.069X_2 - 0.371Y_1 + e_2 \quad (7)$$

Standard Estimated Error Value Result

To calculate the value of e₁, which represents the total variance of the poverty rate that is not accounted for by government spending and balance funds, use the following formula (see equation 8).

$$e_1 = \sqrt{1 - R_i^2} = \sqrt{1 - 0.119} = 0.881 \quad (8)$$

To estimate the e₂ value, which indicates the variance of the poverty rate that is not explained by the variables of gov-

ernment spending, balancing funds and economic growth, it is performed using the formula (see equation 9).

$$e_2 = \sqrt{1 - R_i^2} = \sqrt{1 - 0.253} = 0.747 \quad (9)$$

Indirect Effect Estimation

The indirect effect of government expenditure and balancing funds on poverty level through economic growth was examined with a 95 percent confidence level (α = 0.05). If the calculated Z is less than 1.64, then the null hypothesis (H₀) is accepted, meaning that economic growth is not an intervening variable and vice versa. Based on the examination, the indirect standard error value was 0 and the calculated Z value was. Since the absolute value of Z is ∞ < 1.64, it can be concluded that Y₁ is not an intervening variable in the nexus between X₁ and Y₂ or in other words, government spending does not indirectly affect poverty level through economic growth. In addition, the indirect standard error value was 0 and the calculated Z value was . Since the absolute value of Z is ∞ < 1.64, it can be concluded that Y₁ is not an intervening in the causality between X₂ and Y₂ or in other words, balance fund does not indirectly affect poverty level through economic growth.

DISCUSSION

Government Spending, Economic Growth and Poverty Rate

The output of the statistical calculation shows that government spending has a positive but insignificant influence on the economic growth of Bali Province in Indonesia. This implicates that increasing the amount of government spending allocated to regional development does not significantly enhance economic growth in a region. The output of this research paper in contrast with a study from Prasetya (2016)

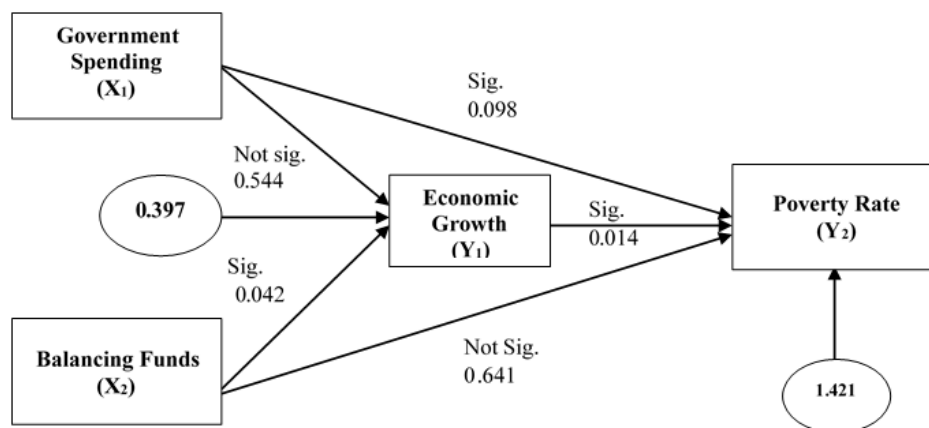


Fig. (2). Path Analysis.

who reported that government spending and their involvements raise over time. The finding of this research paper is also on the contrary with the study conducted by Yuliarmi et al. (2014), which mentioned that there is a positive relationship between variables involved in this research paper, such that an inclination in government expenditure will increase the growth of economy in a region. The rationale to support this finding is that, among other things, to an uneven distribution of government spending across regions, and to an allocation that does not yet match the needs and potential of each region, which differ greatly and are highly potential for development. Thus, identifying the leading sectors in each region is very urgent.

The role of government is essential in regulating the economy, and one of the government's roles in regulating the economy is to set fiscal policies by allocating government spending to build the infrastructure needed by the community (Erlina & Muda, 2017). Government spending should be the most effective government intervention in the economy (Mankiw, 2020). This is because government spending is closely related to the regional budget, which will directly affect regional revenue and financing, thus directly affecting economic growth. Based on the preliminary analysis, it can be explained that the increase in government spending in regencies/cities in Bali Province failed in boosting the growth of economy. This remarks that the development carried out in Bali Province through government expenditure cannot promote a greater economic growth in this region.

The next result indicated a negative and insignificant connectivity between government spending and poverty rates, indicating that government spending is not distributed evenly and managed properly. Government spending is allocated for the provision of government services and regional development, including infrastructure and facilities (Rondinelli, 2017). When infrastructure and facilities are available adequately, people can carry out their daily activities safely and comfortably, which will ultimately increase their productivity (Palei, 2015). However, the implementation of infrastructure development between regions is still unequal, so it has not been able to incline the quality of public services evenly. In addition, uneven infrastructure development between regions has not been able to maximize regional potential and in turn, cannot increase public participation in development,

which leads to uneven poverty rates between regions remaining unresolved (Todaro & Smith, 2009).

Balancing Funds, Economic Growth and Poverty Rate

The negative and significant relationship between the variable of balance funds and economic growth obtained in this research is closely related to the mismatch between regional spending allocations and regional needs. There have been several recent papers that support the negative and significant nexus between the variable of balance funds and economic growth. For example, Baker and Wurgler (2013) found that notable capital requisites enhance the cost of capital, which can reduce economic growth. Acharya and Steffen (2015) explained that understanding Eurozone bank risks can help prevent negative impacts on economic growth. The development of the financial sector generates positive economic growth in the early days of modern development, but if the financial system becomes more stable, it will accelerate growth in the real sector (Todaro & Smith, 2009). With balance funds, local governments can allocate them to improve the economy of their communities, which will eventually drive the development of the real sector, and ultimately increase economic growth.

In addition, this research found a negative and insignificant relationship between government spending and poverty rates. The finding supports some studies, for instance, Anderson et al. (2018) which mentioned that government spending negatively promotes poverty rates in such regions. This finding is consistent with previous research (e.g., Jones, 2015; Cantillon et al., 2014) and suggests that increasing government spending is not an effective way to reduce poverty rates. The rationale explanation to support this finding is that government spending is allocated for the provision of government services and regional development, including infrastructure and facilities (Nasution, 2017). In addition, uneven infrastructure development between regions has not been able to maximize regional potential and in turn, cannot increase public participation in development, which leads to uneven poverty rates between regions remaining unresolved.

Later, this study confirmed the negative and significant nexus between economic growth and poverty level. This research suggests that high economic growth can remarkably alleviate the poverty level in regencies/cities. This output is

relevant with the proposed hypothesis that the economic growth negatively promotes to poverty level in Bali Province of Indonesia. This is supported by empirical studies conducted in various countries such as China (Liu et al., 2017) and India (Ravallion & Chen, 2011). Furthermore, Ravallion and Datt (2002) found that the nexus between economic growth and poverty alleviation is stronger in countries with better social protection programs. They argued that social protection programs can help to diminish the negative impact of economic shocks on poverty.

The Role of Government Spending

This result indicates that government spending on poverty levels in the province of Bali is not indirectly influenced by economic growth as an intervening. In other words, government expenditure does not indirectly affect poverty levels through economic growth. This incorporates with a study which remarked that government spending does not indirectly affect poverty levels through economic growth as an intervening in the relationship between these two variables (DeSilva & Sumarto, 2015). This finding is significant as it challenges the conventional wisdom that government expenditure can effectively reduce poverty by promoting economic growth. Instead, the study suggests that direct policies targeting poverty reduction may be more effective than relying on economic growth to trickle down to the poor through government expenditure.

While government spending takes a significant action in promoting economic development and reducing poverty, it is important to carefully consider how and where this spending is allocated to ensure the greatest impact (Erlina & Muda, 2017). Additionally, efforts to address poverty should also focus on other factors such as education, healthcare, and social safety net programs to ensure that all members of society have the opportunity to thrive. Furthermore, this study highlights the importance of examining the causal mechanisms behind the nexus between government spending and poverty levels. Economic growth was found to be an inadequate mediator in the relationship. Future research can expand on this finding by exploring other potential mediators or moderators in the relationship.

Statistical calculation in the prior section shows that economic growth is not an intervening in balancing funds on the poverty rate or in other words, balancing funds do not have an indirect influence on the poverty rate through the economic growth of Bali province. This result is in line with the study performed by Liu et al. (2017), who reported that economic growth cannot significantly diminish poverty in China. They argued that while economic growth can increase employment and income, it does not necessarily lead to a reduction in poverty due to various factors such as unequal distribution of wealth and resources. Furthermore, the finding also supports the argument made by Sumartono et al. (2019) that direct interventions such as social programs and policies are needed to address poverty in Indonesia rather than relying solely on economic growth.

CONCLUSION

This research paper empirically investigates the nexus between government expenditure, balancing funds, economic

growth and poverty level in Bali provinces of Indonesia. The findings indicate that government spending has a positive but insignificant effect, while balancing funds has a negative and significant effect on economic growth in regencies/cities in Bali Province. Government spending and economic growth have a negative and significant effect, while balancing funds have a non-negative and insignificant effect on poverty levels in Bali Province of Indonesia. Government spending and economic growth have a negative and robust effect, while balancing funds have a non-negative and insignificant effect on poverty levels in Bali. Later, the economic growth cannot explain the link fiscal policy variables and poverty

From these findings, several suggestions can be proposed. The government needs to increase the realization of government spending and intergovernmental transfers to improve regional spending, particularly in infrastructure. Efforts to increase the allocation of these revenues should be carried out according to the different potentials of each region that are very potential to be developed. Therefore, identifying leading sectors in each region is essential and urgent. Furthermore, both revenues should be managed appropriately according to their allocation, so that their allocation can increase access to services in the field of infrastructure among regions to be more evenly distributed, systematically encouraging economic growth and reducing poverty rates in regencies/cities in Bali Province.

Although economic growth in Bali Province of Indonesia is relatively high, accelerating economic growth among regions, particularly in regions with economic growth below the provincial level, is urgent and a priority. Economic growth alone is not enough to alleviate poverty, as it is one of the factors needed. Even if the economic growth of an area is high, it does not necessarily mean that poverty rates will decrease or become more inclusive if it is not accompanied by an equitable distribution of income among regions. Government investment can be carried out through one of the policy instruments, namely government spending for investment, while private investment can come from domestic or foreign sources. This concept of investment is broader, not just including physical capital, but also human capital. If this can be realized regularly and systematically, then the relatively high and inclusive economic growth performance can significantly overcome, at least reduce the poverty rates in Bali Province of Indonesia.

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