



**THE INFLUENCE OF REGENCY/MUNICIPALITY
MINIMUM WAGE, GDRP, AND BALANCED FUNDS
TO POVERTY IN THE WANARAKUTI – BANGLOR
AREA**

**Thesis
To Obtain a Bachelor's Degree in Economics
at Universitas Negeri Semarang**

**By
Ilham Rosyian Hanafi
NIM 7111416067**

**DEVELOPMENT ECONOMICS DEPARTMENT
ECONOMICS FACULTY
UNIVERSITAS NEGERI SEMARANG
2020**


SUPERVISOR APPROVAL

This thesis has been approved by the supervisor to be used as a thesis research on:

Day : Tuesday

Date : 17 July, 2020

Acknowledge,
Head of Development Economics Department



Fafurida, S.E., M.Sc.
NIP: 198502162008122004

Supervisor



Prasetyo Ari Bowo, S.E., M.Si
NIP : 197902082006041002

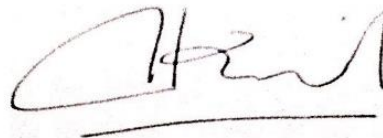
APPROVAL OF GRADUATION

This thesis has defended in front of the thesis examination committee session of the Economics Faculty Universitas Negeri Semarang on :

Day : Monday

Date : 24 August 2020

1st Examiner



Dr. Amin Pujiati, S.E., M.Si.
NIP. 196908212006042001

2nd Examiner



Phany Ineke Putri, S.E., M.Si.
NIP. 199012292015042003

3rd Examiner



Prasetyo Ari Bowo, S.E., M.Si.
NIP. 197902082006041002



Acknowledged,
Dean of Economics Faculty



Drs. Heri Yanto, MBA., Ph.D.
NIP. 196307181987021001

STATEMENT

I, the undersigned below :

Name : Ilham Rosyian Hanafi

NIM : 7111416067

Place Date of Birth : Blora, 12 May 1998

Address : Jl. Agil Kusumadya RT 01 RW 02 Kelurahan
Kauman, Kecamatan Blora, Kabupaten Blora

Declare that what is written in this thesis is really my work, and not a copy of someone else's work, either partially or entirely. Opinions or findings of other people in this thesis's writing have been quoted based on the rules and codes of ethics of citation in scientific writing. If in the future, it is proven that this thesis is the result of plagiarism from someone else's written work, then I am ready to accept sanctions under the applicable provisions.

Semarang, 14th July 2020



Ilham Rosyian Hanafi
NIM : 7111416067

MOTTO AND DEDICATIONS

Motto :

Innallaha la yughayyiru ma bi qoumin hatta yughayyiru ma bi'anfusihim

(Indeed, Allah will not change a person's situation if that person does not want to try) Q.S. Ar – Ra'd : 11.

The future doesn't belong to the fainthearted; it belongs to the brave.

Ronald Reagan.

Tributes :

By saying thanks to Allah SWT. for all the favors and gifts, so that the author can complete the writing of this thesis. I dedicate this thesis to :

1. My parents, Mr. Akhmad Suyuti and Mrs. Sri Mining continue to give prayers, encouragement, and support to the author to complete this thesis.
2. The alma mater of the Department of Development Economics, Economics Faculty, Universitas Negeri Semarang, where the author studied during college.

FOREWORD

Gratitude is always given to Allah SWT, who gives grace and gifts to the author to complete the thesis's writing with the title "The Influence of Regency/Municipality Minimum Wage, GDRP, and Balanced Funds on Poverty in the Wanarakuti – Banglor Area." This thesis is structured as one of the requirements to obtain a bachelor's degree in economics at Universitas Negeri Semarang.

In writing and compiling this thesis of course, the writer experiences various obstacles and challenges in the process of preparing this thesis. However, thanks to prayer and support from multiple parties, the author finished writing this thesis. Therefore on this occasion, the author would like to thank the various parties who have helped and encouraged and supported the author. The author would like to thank you very much :

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Semarang, 14 July 2020

Author

SARI

Hanafi, Ilham Rosyian. 2020. “Pengaruh Upah Minimum Kabupaten/Kota, PDRB, dan Dana Perimbangan Terhadap Kemiskinan di kawasan Wanarakuti – Banglor”. Jurusan Ekonomi Pembangunan Fakultas Ekonomi Universitas Negeri Semarang. Pembimbing : Prasetyo Ari Bowo, S.E., M.Si

Kata Kunci : Kemiskinan, Upah Minimum Kabupaten/Kota, PDRB, Dana Perimbangan

Kemiskinan merupakan salah satu permasalahan yang selalu dihadapi oleh setiap pemerintahan di dunia, termasuk di Indonesia. Penelitian ini bertujuan untuk mengetahui pengaruh yang ditimbulkan dari Upah Minimum Kabupaten/Kota, PDRB, dan Dana Perimbangan terhadap kemiskinan di kawasan Wanarakuti – Banglor selama periode tahun 2010 – 2018.

Metode yang digunakan dalam penelitian ini merupakan penelitian kuantitatif dengan menggunakan pendekatan deskriptif kuantitatif. Peneliti menggunakan studi cross section yaitu di 5 kabupaten yang ada di kawasan Wanarakuti – Banglor serta time series selama periode tahun 2010 – 2018. Metode pengolahan data dalam penelitian ini menggunakan metode analisis data panel (Pooled Data). Data yang digunakan dalam penelitian ini diperoleh dari Badan Pusat Statistik Provinsi Jawa Tengah serta Direktorat Jenderal Perimbangan Keuangan selama periode tahun 2010 – 2018.

Hasil dari penelitian ini menunjukkan bahwa variabel Upah Minimum Kabupaten/Kota dan Dana Perimbangan memiliki pengaruh negatif dan signifikan terhadap kemiskinan di kawasan Wanarakuti - Banglor. Sedangkan variabel PDRB memiliki pengaruh positif dan signifikan terhadap kemiskinan di kawasan Wanarakuti – Banglor.

Saran yang dapat diberikan penulis dengan peningkatan Upah Minimum Kabupaten/Kota dan PDRB, dan Dana Perimbangan yang didapatkan dapat dimanfaatkan oleh pemerintah daerah dengan sebaik – baiknya melalui berbagai kebijakan serta program pemerintah daerah dalam meningkatkan pembangunan di daerah serta meningkatkan taraf hidup masyarakat.

ABSTRACT

Hanafi, Ilham Rosyian. 2020. “The Influence of Regency/Municipality Minimum Wage, GDRP, and Balanced Funds to Poverty in the Wanarakuti – Banglor Area”. Department of Development Economics, Economics Faculty, Universitas Negeri Semarang. Supervisor: Prasetyo Ari Bowo, S.E., M.Sc.

Keyword: Poverty, Regency/Municipality Minimum Wage, GDRP, Balanced Funds

Poverty is one of the problems faced by every government in this world, also in Indonesia. The purpose of this study is to know the effect of the Regency/Municipality Minimum Wage, GDRP, and Balanced Funds to poverty in the Wanarakuti – Banglor area during the period 2010 – 2018.

The method used in this study is quantitative by using a quantitative descriptive approach. Researchers used a cross-section study in 5 regencies in the Wanarakuti – Banglor region and time series during 2010 - 2018. The data processing method in this study uses panel data analysis method (Pooled Data). The data used in this study were obtained from the Central Statistics Agency of Central Java Province and the *Direktorat Jenderal Perimbangan Keuangan* during the period 2010 - 2018.

This study indicates that the Regency/Municipality Minimum Wage variable and the Balancing Fund variable have a negative and significant effect on poverty in the Wanarakuti – Banglor area. In contrast, the GDRP variable has a positive and significant effect on poverty in 5 districts in the Wanarakuti – Banglor area.

Advise that researcher could give within this research are with the increasing of Regency/Municipality Minimum Wage and GDRP, and the Balance Funds can be obtained by the local government as best as possible through various policies and programs of the regional government in increasing development in the regions and improving the living standards of the communities.

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CHAPTER I

INTRODUCTION

1.1. Research Background

Poverty is one of the main problems in developing countries, including Indonesia. Poverty is a problem that can trigger other issues in various aspects of community life, such as low levels of education, poor health, crime, and other social issues. Poverty is an indicator that can measure a local government's success in carrying out development in the region (Sigit & Kosasih, 2018). In determining whether someone is said to be poor or not, it can be seen from his ability to meet the minimum life needs. If the person is unable to meet the minimum necessities of life, then that person can be said to be included in the poor population and is categorized as absolute poverty

Absolute poverty is the inability to meet the basic needs of life, such as the absence of income, inability to meet the needs of food, clothing, shelter, and health (Todaro & Smith, 2011). Poverty is a problem and a challenge for every government around the world, including Indonesia. Poverty is a multidimensional problem closely related to community welfare (Ratih et al., 2017).

If the government cannot control poverty, it will cause social, economic, and political problems in the community, because if this continues, it will cause losses to the country, because the government will find it challenging to maintain the stability of the country's security and politics, as well as in the field of economy, the economy will find it challenging to grow and develop, and investment

that will enter the country will decrease because investors are hesitant to invest due to the instability of conditions that occur in that country.

In improving inter-regional development coordination, the Central Java Provincial Government through the Regional Development Planning Agency (*Bappeda*) of Central Java Province, has divided various regions in Central Java Province into several development axes, such as Kedung Sapur, Barlingmascakeb, Bregasmalang, and Wanarakuti – Banglor. The purpose of this area's division is to coordinate the ongoing development between regions that are still part of the development axis. The coordination of inter-regional development programs is carried out through the Regional Development Planning Consultation (*musrenbangwil*), held annually by each region. The purpose of this *musrenbangwil* is to increase development in related areas and find solutions to solve problems that occur in each region in one area. One of the main issues that are always raised in the regional development planning meetings activities in each regional development axis is poverty, including in the development axis of Wanarakuti – Banglor.

Wanarakuti – Banglor is a combination of several districts located in the northern coastal region of Central Java Province and several areas such as Rembang Regency and Blora Regency directly adjacent to East Java Province. The districts incorporated in the Wanarakuti – Banglor area are Jepara Regency, Kudus Regency, Pati Regency, Rembang Regency, and Blora Regency.

The districts in the Wanarakuti – Banglor area have almost the same regional characteristics, where the majority of districts in the Wanarakuti – Banglor

area are on the northern coast of Java Island and are traversed by the *pantura* route, which is still the main route connecting the strategic cities that drive the economy in Indonesia, such as Jakarta, Semarang, and Surabaya. With the advantage of this geographical location, the areas in the Wanarakuti – Banglor area in the northern coastal areas of Java Island such as Rembang Regency, Pati Regency, and Jepara Regency have more capital to develop the economy in their area and improve the welfare of their people, because in This area has better regional advantages compared to other districts in the Wanarakuti – Banglor area which does not have any of these advantages such as Kudus Regency which does not have a coastal area, and is only traversed by the pantura route, and Blora Regency which is not traversed by the pantura route and does not. It has a coastal area, but in Blora Regency, it has advantages in the forestry and mining sectors with oil and gas mining in Blora Regency, which is not owned by other areas in the Wanarakuti – Banglor area. With a strategic location and regional potential in the Wanarakuti – Banglor area, it should be an adequate capital for local governments in the Wanarakuti – Banglor area to improve further the region's potential the welfare of the community.

All this time, poverty has occurred in some areas in the region Wanarakuti - Banglor still relatively high. From 2010 to 2018, poverty in Blora and Rembang is higher than the poverty level in Central Java province and national. This is inversely proportional to the poverty that occurred in Kudus Regency, Pati Regency, and Jepara Regency in the same year, poverty in these districts is much lower than poverty in Blora Regency, Rembang Regency, and in Central Java Province itself.

The existence of poverty inequality between regions in the Wanarakuti – Banglor region certainly shows the imbalance of economic development in the Wanarakuti – Banglor region. Besides, the development carried out by several local governments in the Wanarakuti - Banglor area has also not been maximized, and in some areas such as in Rembang Regency and Blora Regency have not been able to maximize the wealth and superiority of their regions to improve the welfare of their people so that poverty in their territories is still high. When measured based on the Williamson Index, inequality in the Wanarakuti – Banglor area from 2010 - 2018 has an average value of 0.791. It means that the imbalance between regions in the Wanarakuti – Banglor area is high, because based on the Williamson Index, if the inequality index value approaches 1, then the inequality that occurs in that area is high. The high level of inequality represents the economic development that is taking place in the districts that are part of the Wanarakuti – Banglor development axis, which has not been going well and has a direct impact on poverty that occurs in the area. Regional economic development, which has the main objective of increasing the number and types of job opportunities for local communities, must be supported by local governments and organisations in taking regional development initiatives by maximizing regional resources and potential to develop the regional economy (Arsyad, 2010:374).

Tabel 1.1
Poverty in Every Regency
on Wanarakuti – Banglor Area
During 2010 – 2018

Year	Poverty (%)				
	Kab. Blora	Kab. Rembang	Kab. Pati	Kab. Kudus	Kab. Jepara
2010	16.27	23.4	14.48	9.01	10.18
2011	16.24	23.71	14.69	9.45	10.32
2012	15.1	21.88	13.61	8.63	9.38
2013	14.64	20.97	12.94	8.62	9.23
2014	13.66	19.5	12.06	7.99	8.55
2015	13.52	19.28	11.95	7.73	8.5
2016	13.33	18.54	11.65	7.65	8.35
2017	13.04	18.35	11.38	7.59	8.12
2018	11.9	15.41	9.9	6.98	7

Source: Badan Pusat Statistik Provinsi Jawa Tengah, 2020.

The poverty that occurred in Rembang Regency from 2010 – 2018 was in the top rank followed by Blora Regency, and poverty that occurred in the two districts had quite a massive difference when compared to other districts in the Wanarakuti - Banglor area. In 2010, poverty that occurred in Rembang Regency and Blora Regency was 23.4 percent and 16.27 percent. The poverty that occurred in the two districts was quite different from Kudus Regency, Jepara Regency, and Pati Regency in the same year, where poverty was 9.01 percent, 10.18 percent, and 14.48. Since 2010 – 2018, Kudus Regency has always had the lowest poverty when compared to other districts in the Wanarakuti – Banglor region, and has quite a massive difference when compared to other districts, even when compared to poverty at the Central Java Province and national levels in Similarly, poverty in Kudus Regency is still much lower. While other districts in the Wanarakuti – Banglor region, poverty that occurs in their area has not been maximally suppressed, and only Jepara Regency can control the poverty problem in its area

evident with poverty being concealed at around 10 percent in 2010. In 2018, it was able to reach 7 percent.

Even though the majority of areas in the Wanarakuti – Banglor area have the same geographical conditions, which are located in the northern coastal area of Central Java Province which is also traversed by the Pantura route, not all areas in the Wanarakuti - Banglor area can take advantage of their geographical benefits to improve the welfare of their people. Se like the example of the difference in poverty is relatively high among Rembang located in coastal areas and traversed by the northern coastal road to the others district who do not have a beach area, and is crossed by the north coastal road instead of poverty in Kudus is much lower than the poverty in Rembang. It can be triggered by the lack of utilization of the region's geographical advantages in improving the welfare of the people in the areas.

One of the leading causes of poverty in society is the absence of income earned by someone to meet their basic needs, or the income received is less than the minimum standard of living requirements so that someone can be said to be a poor community because they are unable to meet their minimum life needs. Income is one of the main elements that determine a person's welfare. If the person has a high income, then that person will be able to make ends meet. However, suppose the income earned by the community is low. In that case, it will impact the lack of the community's ability to improve their living standards, such as the inability to obtain higher education and the inability to access health facilities. Low income will also impact low investment and public savings (Kuncoro, 1997: 73).

To realize decent income for workers and improve worker's welfare, the government, in this case, the provincial government or district/city government, through the Manpower Office, determines the amount of the Regency/Municipality Minimum Wage Policy (*UMK*) each year. (Mankiw et al., 2011: 162) defines the minimum wage as the minimum wage that companies must pay to workers, which is based on the applicable minimum wage regulations.

During 2010 - 2018, MSE in Kudus Regency was the highest among other districts in the Wanarakuti –Banglor area. The high MSE in Kudus Regency also has a good influence on poverty in the region during 2010 – 2018, where poverty in Kudus Regency was the lowest among other districts in the Wanarakuti – Banglor area. In 2010, although the *UMK* between Rembang Regency and Jepara Regency had the same value, the poverty in the two regions had a significant difference, wherein 2010 poverty in Rembang Regency was 23.4 percent and was the highest among the districts in the Wanarakuti – Banglor area. Meanwhile, in Jepara Regency, in 2010 the poverty was 10.18 percent. Apart from being the area with the smallest *UMK* value among other districts in the Wanarakuti - Banglor area, poverty that occurred in Rembang Regency was also the highest among different regions of the Wanarakuti - Banglor area during the 2010 – 2018 period. Meanwhile, Blora Regency in 2010 Being the area with the second-largest *UMK* in the Wanarakuti – Baglor area, it turns out that poverty that occurred in Blora Regency in 2010 was still one of the highest, amounting to 16.27 percent. The wages of workers in Blora Regency, which was one of the highest during the 2010

- 2013 period, have not reduced poverty in the area, because during the 2010 - 2013 period, poverty in Blora Regency only decreased by 1.63 percent.

Even though the value of MSE's in the regions is relatively high, if the predetermined *UMK* values cannot meet the minimum needs of life in that area, it will not positively affect and slower poverty reduction. Thus, the government's role in stabilizing the price of people's basic needs is very much needed so that the community's opinions can meet their daily needs and reduce poverty that occurs in the area.

Basically, worker's wages are worker's expenses, so that in determining the salaries, workers must pay attention to the costs of the workers living needs such as clothing, food, and shelter. If workers' wages decrease, it will reduce the quality of workers and their families' quality of health and education. As a result, workers will reduce the number of their responsibilities, such as reducing the number of family members, which will also reduce labor supply in the future. This decrease in labor collection will ultimately increase workers' wages so that workers' quality of life will increase (Smith & Seligman, 1962).

The increase in the economy in the region results from the development carried out in the area. The regional economy is represented by Gross Domestic Regional Product (GDRP). According to the Central Statistics Agency, GDRP is the added value generated by all economic units in a region. This GDRP value also explains how a region can manage and utilize all the area's potential and advantages. Besides, (Rahman & Chamelia, 2015) argue that GDRP is a vital indicator useful for determining the economy's state during a period.

From 2010 to 2018, Kudus Regency was still the area with the largest GDRP in the Wanarakuti – Banglor area, followed by Pati Regency. Meanwhile, Rembang Regency is the area with the lowest GDRP in the Wanarakuti – Banglor area. In 2010, the GDRP of Kudus Regency amounted to 52 trillion rupiahs and became one of the economic support areas in Central Java Province. The GDRP of Pati Regency in the same year was 18 trillion rupiahs. Even though Pati Regency is in the 2nd place with the largest GDRP in the Wanarakuti – Banglor area, the difference between the GDRP of Kudus Regency is the first rank, and the GDRP of Pati Regency is quite large, amounting to 34 trillion rupiahs. Meanwhile, in the same year, Rembang Regency GDRP was only 8.3 trillion rupiahs and became the region with the smallest GRDP among other areas of the Wanarakuti – Banglor area.

Kudus Regency is the area with the largest GDRP acquisition than other regions of the Wanarakuti – Banglor area. The GDRP obtained by Kudus Regency always has quite a massive difference compared to other regencies in the Wanarakuti – Banglor area during the 2010 to 2018 period. The two regions have a small GDRP difference. In addition to showing regional macroeconomic indicators, the GDRP difference also indicates local governments' performance and economic sector policies.

There has also been a sizable GDRP difference in Pati and Jepara districts from 2010 to 2018. Although these two areas have almost the same regional advantages, where Pati and Jepara are located in Java Island's northern coastal area, it is a strategic area. The main difference between the two districts is that the Pantura route is not directly traversed in Jepara Regency. Still, in actual conditions,

in both regions, there are many large industries with large production capacities every year. Of course, with this phenomenon it becomes homework for the Jepara Regency Government because their GDRP has quite a big difference when compared to the GDRP of Pati and Kudus Regencies, considering that these three regions have the same regional characteristics, and are also the main supporting areas for the economy in Wanarakuti – Banglor area.

To improve the quality and quantity of development in the regions and implement the decentralization principle, the central government, through the Directorate General of Fiscal Balance (*DJPK*), provides financial assistance to all local governments in Indonesia. One form of financial aid is through fiscal balance transfer. According to *Undang – Undang No. 33 Tahun 2004 Tentang Perimbangan Keuangan Antara Pemerintah Pusat dan Pemerintah Daerah*, the balanced funds is a fund sourced from APBN revenues allocated to regions to finance regional needs in implementing decentralization. This balanced fiscal aims to overcome gaps in the economy between the central and regional governments and create a financial balance between the central government and local governments in carrying out their duties and functions. In its implementation, what is included in the balanced funds is the general allocation fund (*DAU*), the special allocation fund (*DAK*), and the profit-sharing fund (*DBH*) between the central government and local governments.

The balanced funds' function helps local governments carry out development and local government programs to support community activities to carry out their activities, both in economic activities and in the community's social

activities. So it is hoped that with this fiscal balance transfer, public welfare can increase because local governments do not encounter obstacles in providing public facilities that are used to support community activities and economic activities in the region.

Balanced funds received by each district in the Wanarakuti – Banglor area during 2010 – 2018 has always increased every year. There is an increase in the fiscal balance transfer obtained by each district in the Wanarakuti – Banglor area, which is calculated based on the needs of each region in implementing governance in the region, as well as to support development in each region so that there is no gap between the central government and regional governments. As well as between local governments in the Wanarakuti – Banglor area. But in its implementation, an increase in balancing funds from the central government to regional governments often creates dependence on regional governments on the central government, because the majority of regional revenue comes from this balanced fund so that it is not able to spur local governments to maximize regional revenues by maximizing the potential in their regions.

Balanced funds used to provide facilities to support community activities such as infrastructure development and provision of public facilities, as well as to provide services to the community, both government services, health services, educational services or other services have the main objective of improving community welfare and improving the quality of development in the regions. , both physical development and non-physical development such as education, health, and so on (Tarigan, 2005). It is natural for an underdeveloped region to receive a larger

proportion of funds than other areas. Still, this region must continue to grow even though it no longer gets an excessive allocation. This is a challenge for local governments, including every regional government in the Wanarakuti – Banglor region in managing and developing their areas, because if one day the balance funds provided by the central government to local governments decline, the local economy will still grow by relying on economic activities that take place in its territory.

Based on the description above, through this study, the authors attempt to determine the partial influence between regency/municipality minimum wages, gross domestic regional product, and balanced funds on poverty in the Wanarakuti – Banglor region from 2010 to 2018 with the title "The Influence of Minimum Wage, Regency/Municipality, GDRP, and Balanced Funds to Poverty in the Wanarakuti – Banglor Area ".

1.2. Research Problem Identification

Based on the description above, even though the Wanarakuti – Banglor area is integrated into one development axis, poverty that occurs in the areas in the Wanarakuti area, namely Kudus Regency, Jepara Regency, and Pati Regency, has a reasonably massive poverty inequality, where poverty that occurs in the Wanarakuti much lower compared with areas incorporated in Banglor region, namely Blora, and Rembang during 2010 – 2018.

1.3. Research Problem Coverage

In this study, the researchers limited the scope of the problems raised in this study, namely the effect of regency/municipality minimum wage policy (*UMK*),

gross domestic regional product (GDRP), and balanced funds on poverty in the Wanarakuti – Banglor area. The researcher chose the Wanarakuti – Banglor area because in the Wanarakuti – Banglor area, there is an imbalance in poverty between the regions incorporated in the Wanarakuti area and the areas included in the Banglor area.

The data used in this study are secondary data for nine years, from 2010 to 2018, which were obtained from credible sources, namely the Directorate General of Financial Balance and the Central Java Province Statistics Agency in 2020.

1.4. Formulation of the Research Problems

Based on the description above, in this study, the researchers formulated the problems in this study as follows :

1. How did the regency/municipality minimum wage affect poverty in the Wanarakuti – Banglor area districts during 2010 - 2018?
2. How did the regional gross domestic product affect poverty in the Wanarakuti – Banglor area districts during 2010 - 2018?
3. How did the balanced fund affect poverty in the Wanarakuti – Banglor area districts during 2010 – 2018?

1.5. Research Purposes

The objectives to be achieved in this study are as follows :

1. To analyze the impact of Regency/Municipality Minimum Wage to poverty in the Wanarakuti – Banglor area.
2. To analyze the impact of Gross Domestic Regional Product to poverty in the Wanarakuti – Banglor area.
3. To analyze the impact of Balance Fund to poverty in the Wanarakuti – Banglor area.

1.6. Research Benefits

With this research, it is expected to provide the following benefits:

1. Theoretical Benefit

This research is expected to add theoretical evidence about the effect of regency/municipality minimum wages, gross domestic regional product, and balanced funds on poverty in a region or region.

2. Practical Benefits

1. For Researcher

With this research, it is expected to know the effect of regency/municipality minimum wages, gross domestic regional product, and balanced funds on poverty in the Wanarakuti - Banglor area.

2. For Government

With this research, it is hoped that the government can determine the right strategies and policies to improve people's welfare and reduce poverty,

which is still a problem in various countries in the world, including Indonesia.

1.7. Research Originality

This study's originality is the difference in the independent variables used, the study's location, and the study period. This study's independent variables are the regency/municipality minimum wage, gross regional domestic product, and the balance fund for the Wanarakuti - Banglor area for nine years, namely from 2010 – 2018. What distinguishes this research from previous research is using the balanced fund variable and GDRP as an independent variable. Meanwhile, the dependent variable used is poverty in the Wanarakuti – Banglor area for nine years, namely from 2010 - 2018.

CHAPTER II

LITERATURE REVIEW

2.1. Grand Theories

2.1.1. Poverty Reduction Strategies through People-Centered Development

In implementing the decentralization policy, poverty reduction in the community is one of the main focuses. Development centered on community development (People-Centered Development) will be relevant to the implementation of decentralization policies because, in this community-centered development model, people will have an excellent opportunity to increase their independence and internal strength through the ability to exercise internal control over their resources. , both in the material and non-material sectors.

In carrying out structural and normative changes in community-centered development (People-Centered Development), according to Korten in Hikmat (2004) There are three bases for making these changes, namely:

1. Focusing on government policy thinking and action on creating conditions to encourage and support people's efforts to meet their own needs and solve their problems at the individual, family, and community levels.
2. Develop the structures and processes of organizations that function according to the rules of the organizational system.
3. Developing production-consumption systems organized theoretically based on the rules of local ownership and control.

The people-centered development model is one of the community development strategies that emphasize community empowerment. In this model, community initiative and creativity are the essential development resources and view material - spiritual welfare as a goal that must be achieved in development (Kadji, 2014).

2.1.2. Wage Theory Based on Worker's Life Needs Limits

The basis for the theory of wages is that the price of wages is the expenditure of workers. Therefore, the determination of wages is used as the basis for determining workers' expenditures for their daily living needs. Thus, the minimum wage determination must be based on the minimum cost of living needs in the country or region and the dependents of the worker.

A decrease in the level of wages to below the minimum requirement of life will impact the level of health, nutrition, and education of the worker's family, so that the standard of living of workers will decrease. In this case, workers will reduce the number of responsibilities or reduce the number of family members covered. As a result, the number of family members will shrink and reduce labor supply in the future. This decrease in the supply of labor will have an impact on the increase in wage levels in the future which will affect the increase in the level of health, nutrition, and education of family members, as well as the supply of labor, and so on (Smith & Seligman, 1962).

2.1.3. Synergized Fast Track Growth Theory

Synergized Fast Track Growth Theory (Turnpike) is a theory introduced by Samuelson (1955). In this theory, every country or region needs to see what

sectors/commodities have great potential and can be developed quickly, both because of natural potential and because that sector has a competitive advantage. This means that with the same capital requirements, these sectors can provide enormous added value, produce quickly, and contribute to the economy is also quite large. By synergizing the sectors involved in economic activity, the development of these sectors will encourage other sectors to develop, so that the economy as a whole will grow.

Synergize the sectors is to make each sector interrelated and mutually supportive, thus spurring each of these sectors to continue to develop and also be able to stimulate the regional/regional economy to grow more rapidly (Tarigan, 2005:24). With the linkages and support from various sectors as well as the government, the synergy between these sectors will be even more robust and will improve the economy, both micro and macro.

2.1.4. Development Model Concerning the Development of Government Expenditure

Development model concerning the development of government expenditure was introduced and developed by Rostow and Musgrave, which connected government spending through three stages: the initial stage, the intermediate stage, and the advanced stage. In the early stages, government investment development was substantial because the government had to provide facilities and infrastructure to support community activities such as education, health, and transportation. Then, at the intermediate stage, government investment

is still needed to spur and maintain economic growth. However, at this stage, the role of private investment is also increasing.

Musgrave argues that private investment as a GNP (Gross National Product) will be more significant, and government investment in GNP will be smaller. Furthermore, at an advanced economic level, Rostow argues that government investment activities will shift from initially providing infrastructure to spending on social activities such as old age welfare and public health service programs (Dumairy, 1997).

2.2. Study of Research Variables

2.2.1. Poverty

2.2.1.1 Understanding of Poverty

Experts provide different definitions of poverty, but if examined further, the definition of poverty, according to these experts, has the same core problem. The following are some definitions of poverty, according to experts that are relevant to this research.

A. According to Todaro & Smith

Todaro and Smith defined poverty as a situation of being unable to meet the minimum levels of income, food, clothing, healthcare, shelter, and other essentials (Todaro & Smith, 2011). Based on the understanding, according to Todaro and Smith, poverty can be defined as a condition in which a person cannot fulfill his basic needs such as clothing, food, and shelter.

B. According to Lincoln Arsyad

Arsyad (2010:299) explain poverty as a multidimensional problem. This means that because people's needs vary, poverty also has many aspects. When viewed from general policies, poverty includes primary elements in low assets, socio-political organization, and knowledge and skills. Meanwhile, the second aspect comprises poor social networks, financial sources, and information.

C. According to the Central Statistic Agency

Badan Pusat Statistik (BPS) defines poverty from the amount of rupiah value spent to meet minimum basic needs such as food and non-food required by an individual to remain in a decent life. People who have an average monthly per capita expenditure income below the poverty line are categorized as poor (Badan Pusat Statistik, 2015).

2.2.1.2 Causes of Poverty

According to the Central Statistics Agency, based on the causes, poverty can be divided into the following:

1. Cultural Poverty

Cultural poverty is poverty caused by customary or cultural factors in a particular area that shackles a person or group of people to remain attached to poverty. Poverty like this can be eliminated or reduced by ignoring the factors that prevent him from making changes towards a better life level.

2. Structural Poverty

Structural poverty is poverty that occurs due to a person's powerlessness or certain community groups against an unfair social system or order. They are in

a weak bargaining position and do not have access to develop and free themselves from the poverty trap.

2.2.1.3 Types of Poverty

Todaro and Smith mentioned based on the type, poverty can be divided into the following:

1. Absolute Poverty

Todaro & Smith defined absolute poverty as a situation of being unable to meet the minimum levels of income, food, clothing, healthcare, shelter, and other essentials (Todaro & Smith, 2011:212).

2. Relative Poverty

Relative poverty is related to the lack of security that is owned by someone who has a low income (regardless of whether that person is included in the low community group or not) so that they are unable to provide for their children's education or develop their business (Todaro & Smith, 2011:220).

2.2.2. Regency/Municipality Minimum Wage

2.2.2.1 Understanding of Wages

1. According to *Undang – Undang No. 13 Tahun 2003 Tentang Ketenagakerjaan*

According to UU No. 13 Tahun 2003 Tentang Ketenagakerjaan, What is meant by wages is the right of a worker/laborer that is received and stated in the form of money as a reward from the entrepreneur or employer to the worker/laborer, which is determined and paid according to a work agreement, agreement, or statutory regulation, including allowances for workers/labor and his family for a job and/or service that has been or will be performed.

2. According to Peraturan Menteri Ketenagakerjaan Republik Indonesia Nomor 15 Tahun 2018 Tentang Upah Minimum

Regency/Municipality Minimum Wage from now on, referred to as *UMK*, is the minimum wage that applies within the territory of 1 (one) regency/municipality.

3. According to Robinson Tarigan

Tarigan defined wages and salaries as remuneration paid to workers according to their performance, while wages are remuneration whose value is fixed for a certain period of time (Tarigan, 2005:14).

2.2.3. Regency/City Minimum Wage Determination Method

Based on *Peraturan Menteri Tenaga Kerja Nomor 15 Tahun 2018*, in determining the regency/municipality minimum wage, consider the following:

- a. Current year's minimum wage.
- b. Inflation was calculated from September last year to September of the current year.
- c. Gross domestic product growth is calculated from the gross domestic product's growth relating to the third and fourth quarters of the previous year and the first and second quarters of the current year.

2.2.4. Gross Domestic Regional Product

2.2.3.1 Understanding of Gross Domestic Regional Product

1. According to the Central Statistic Agency

According to *BPS*, Gross Domestic Regional Product (GDRP) is the amount of added value generated by all economic units in an area.

2. According to the Indonesian Central Bank

According to the Indonesian Central Bank (*Bank Indonesia*), GDRP is the amount of added value produced by all business units in a particular area or the total value of all economic units' final goods and services in an area. GDRP is one of the essential indicators to determine the economic conditions in an area in a certain period, either at current prices or at constant prices (Departemen Statistik Ekonomi dan Moneter Bank Indonesia, 2016).

3. According to Robinson Tarigan

According to Tarigan, Gross Domestic Regional Product is a gross value added from all sectors of the region (Tarigan, 2005:18).

2.2.3.2 Types of Gross Domestic Regional Product

1. Gross Domestic Regional Product at Current Prices

Gross Domestic Regional Product at Current Price describes the added value of goods and services calculated using prices in the current period (Departemen Statistik Ekonomi dan Moneter Bank Indonesia, 2016).

2. Gross Domestic Regional Product at Constant Prices

Gross Domestic Regional Product at Constant Prices shows the added value of these goods and services, calculated using the prevailing prices in a specific year as the base year. GDRP at constant prices is used to determine real economic growth from year to year or economic growth that is not influenced by price factors. (Departemen Statistik Ekonomi dan Moneter Bank Indonesia, 2016).

2.2.5. Balanced Funds

2.2.4.1 Understanding of Balanced Funds

Balanced funds are funds sourced from the state budget revenues allocated to regions to finance regional needs in implementing decentralization. (Direktorat Jenderal Perimbangan Keuangan, 2015).

2.2.4.2 The Purpose of The Balanced Funds

According to the Directorate General of Fiscal Balance (*DJPK*), the purpose of the balanced fund is to support the implementation of regional government authority to grant autonomy to the regions, namely in particular improving services and improving public welfare. (Direktorat Jenderal Perimbangan Keuangan, 2015).

2.3. Previous Research Studies

This research is inseparable from various previous studies that have been conducted as a comparison, reference, and study. The following are some of the previous studies that are relevant to this research:

Table 2.1
Previous Research

No	Title, Researcher Name, and Journal	Method and Research Variables	Research Result
1	Income Inequality and Rural Poverty in China: Focusing on the Role of Government Transfer Payments, <i>China Agricultural Economic Review</i> , Vol. 7 No. 1, pp. 65-85, (Wu et al., 2015).	<p>In this study, the researcher used the inequality decomposition method and the poverty rate decomposition method using resources to describe overall inequality and poverty based on income sources.</p> <p>Dependent Variable: <i>Poverty (Y)</i></p> <p>Independent Variables: <i>Overall Income (X1), Government Transfer (X2).</i></p>	<p>This study indicates that the unequal distribution of income is one of the leading causes of poverty. Government transfers and assistance aimed at the poor, help reduce inequality and poverty but do not target the poorest. The uneven distribution of production subsidies has increased the poverty rate.</p>
2	Effect of Regency/City Minimum Wages (<i>UMK</i>), Human Development Index (HDI), and Unemployment Against the Number of Poor People in East Java Province 2006 - 2013 period, Artikel Mahasiswa Universitas Negeri Jember, (Lutfi et al., 2016).	<p>In this study, researchers used an explanatory research method, a study that explains the causal relationship between variables through hypothesis testing. Meanwhile, in processing data, researchers used panel data analysis method.</p> <p>Dependent Variable: <i>Poverty (Y).</i></p> <p>Independent Variable : <i>District/City Minimum Wage (X1), Human Development Index (X2), Unemployment (X3).</i></p>	<p>The results of the research analysis show that the district/city minimum wage and unemployment has a significant effect on the number of poor people in East Java Province in 2006 - 2013. However, the human development index does not significantly affect the number of poor people in East Java Province in 2006 - 2013.</p>
3	<i>Reducing Regional Poverty Rate In Central Java,</i>	<p>In this study, to determine the relationship between</p>	<p>This study indicates that the government, through its various policies, has a role in</p>

	Jurnal Ekonomi dan Kebijakan Vol 11 (1) (2018): 1-11. (Sriyana, 2018).	<p>variables, researchers used panel data regression approach to determine the effect between variables.</p> <p>Dependent Variable : Poverty (Y)</p> <p>Independent Variables : GDRP (X1), Regional Minimum Wage (X2), Unemployment Rate (X3), Total Population (X4), Education Level (X5).</p>	<p>reducing poverty levels. Economic factors and the quality of human resources have a significant role in reducing poverty levels. The policy in determining the minimum wage also influences reducing poverty levels in Central Java districts/cities. Meanwhile, unemployment has a positive effect on poverty levels.</p>
4	The Direct and Indirect Effects of Cash Transfers: The Case of Indonesia International Journal of Social Economics Vol. 45 No. 5, pp. 793-807. (Yusuf, 2018).	<p>The methodology used in this research is a model Computable General Equilibrium (CGE). The advantages of this model are relevant in this study because segregates households by expenditure class, allowing for precise estimates of distribution impacts and incidence of poverty.</p> <p>Dependent Variables : Poverty (Y1), Inequality (Y2).</p> <p>Independent Variables: Per capita Expenditure of Household (X1), Government Cash Transfer (X2).</p>	<p>The results of this study indicate that, although there was a massive poverty reduction, especially in rural areas, however transfers from the government will reduce Indonesia's GDP, mostly if financed domestically through increases the value-added tax of all commodities. However, about half the GDP reduction can be reduced when the cash transfer is funded by reducing deviant fuel subsidies. Besides, cash transfers financed by reducing fuel subsidies also decrease inequality is much greater than others.</p>
5	Analysis of the Effect of GDP per Capita,	This research is a quantitative study using	The results showed that the per capita

	<p>Education, Health, Unemployment, and Minimum Wages on the Poverty Level in Central Java Province in 2010 – 2015 <i>Thesis</i>, Fakultas Ekonomi dan Bisnis Universitas Padjajaran, (Sunarya & Indrawati, 2018).</p>	<p>the panel data regression to analyze the data used and know the effect of the independent variable on the dependent variable.</p> <p>Dependent Variable : Poverty (Y)</p> <p>Independent Variables : GDRP per capita (X1), The average length of schooling (X2), Life Expectancy (X3), Unemployment (X4), Minimum Wage (X5).</p>	<p>GDRP, health, and minimum wage variables each had a negative and significant effect on the poverty level. In contrast, the education and unemployment variables were not significant in influencing the poverty level. The minimum wage variable has an influence which is negative and significant to the poverty rate in Central Java.</p>
6	<p>Public Expenditure, Economic Growth, and Poverty Alleviation, <i>International Journal of Social Economics</i>, Vol. 43 Iss 6 pp. 604 – 618 (Prayoga, 2019).</p>	<p>In this study, due to analytical bias and model determination, the panel regression hypothesis was conducted using state-level data in India. Both models, namely the fixed effect and the random effect, have been used for this purpose.</p> <p>Dependent Variable : Poverty (Y)</p> <p>Independent Variables : Per Capita Net State Domestic Product (X1), Capital Expenditure (X2), Revenue Expenditure (X3), Expenditure on Infrastructure (X4), Expenditure on Social Services (X5).</p>	<p>This study has determined that economic growth has a significant impact on poverty reduction and public spending on infrastructure development has an important role to play in economic growth and poverty alleviation. Panel regression results based on the state level data in the Indian context show that poverty is negatively correlated with the country's per capita domestic product, and the relationship is statistically significant.</p>

7	<p>The Effect of General Allocation Funds and Direct Expenditures Against Economic Growth and Its Impact Against Poverty in the City of Manado, 2004 - 2012, Efficiency Scientific Periodical Journal Volume 14 No. 3, October 2014, (Paseki et al., 2014).</p>	<p>The method of analysis in this research is descriptive analysis and inductive analysis or inferential analysis. Analysis method Path analysis is to determine the effect of exogenous independent variables on endogenous dependent variables</p> <p>.</p> <p>Dependent Variable : Poverty Level (Y)</p> <p>Independent Variables : General Allocation Fund (X1), Special Allocation Fund (X2), Economic Growth (X3).</p>	<p>This study's results indicate the influence of the variable General Allocation Fund, Direct Expenditures on Economic Growth collectively does not affect. Meanwhile, the influence of the General Allocation Fund variable on poverty directly has an impact on reducing the level of poverty in Manado City. The effect of direct spending on poverty directly has a significant effect on reducing poverty in Manado City. Collectively, the variables of the General Allocation Fund, Direct Expenditures and Economic growth influences reducing the level of poverty in Manado City.</p>
8	<p>An Empirical Analysis of Factors That Determine Poverty Among The Beneficiaries of Pakistan Poverty Alleviation Fund, Journal of Enterprising Communities: People and Places in the Global Economy, Vol. 10 Iss 3 pp. 306 – 320 (Sundin, 2016).</p>	<p>This is to determine the effect of socio-economic variables related to credit on poverty status respondents, then in this study using Tbit regression analysis.</p> <p>Dependent Variable : Poverty Status of The Respondents (Y)</p> <p>Independent Variables :</p>	<p>The results of this study found that the six variables used in this study, namely education level, gender, volume loans, household income, age, and income to expenditure ratios have a significant effect on poverty.</p>

		This study includes age, gender and education to reflect the impact of an individual's demographic characteristics.	
9	The Determinants of Poverty in Central Java Province 2011-2014, <i>Economics Development Analysis Journal</i> 7 (3) (2018) pp. 235 – 242 (Megawati & Sebayang, 2018).	<p>This research using panel data analysis as a tool data processing. This research is about the influence of variables Human Development Index (HDI), Products Gross Domestic Regional Product (GDRP), and education financing to the amount the poor. Using the Fixed Effect Model (FEM) approach with Generalized Least Square (GLS) method.</p> <p>Dependent Variable : Number of Poor Population (Y)</p> <p>Independent Variables : IPM (X1), PDRB of Central Java Regency / City (X2), Education Financing (X3).</p>	Based on the results of research and testing, it can be concluded that IPM variable has a negative effect and poverty in the districts/cities of Central Java Province. Variable GDRP has a negative influence, and it doesn't mean poverty in the districts/cities of Central Java Province. Meanwhile, the education financing variable has a positive and insignificant effect against poverty.
10	The Effect of Minimum Wages, Population and Education Level on Poverty Levels in East Java in 2009-2013. (Trisnanesya, 2016)	This type of research used in this research is a type of quantitative research with a descriptive approach. The data analysis method used in this research is a multiple linear regression method as an econometric means of calculation, and a descriptive analysis method is also used.	In this study, the variables that significantly influence the poverty rate in East Java in 2009-2013 are the minimum wage, population, and education level variables.

		<p>Variable Dependent : Poverty (Y)</p> <p>Independent Variables: Minimum Wage (X1), Population (X2), Education Level (X3).</p>	
11	<p>The Effect of Balancing Funds on Economic Growth and Poverty Levels in Bali Province, E-Jurnal EP Unud, 5 [3] : 316 – 337. (Panji & Indrajaya, 2016)</p>	<p>In this study, researchers used analytical methods path / Path Analysis. Path analysis was developed to study the direct and indirect effects of variables exogenous to endogenous variables.</p> <p>Dependent Variable : Poverty Rate (Y), Economic Growth (Intervening Variable)</p> <p>Independent Variables: General Allocation Fund (X1), Special Allocation Fund (X2).</p>	<p>The results of this study show that the General Allocation Fund has a positive and significant effect on economic growth, but the Special Allocation Fund does not have a significant effect on economic growth</p> <p>Economic Growth, the General Allocation Fund, and the Special Allocation Fund have no effect significant to the Poverty Level, but economic growth has an effect negative and significant to the Poverty Level, the General Allocation Fund, and the Special Allocation Fund have an indirect effect on the Poverty Level through economic growth.</p>
12	<p>The Influence of Local Own Revenue, Balancing Fund Against Economic Growth and Its Impact Against Poverty in the city of Bitung,</p>	<p>The method of analysis used in this research is path analysis. This analysis is used to determine the independent variable's effect on the dependent variable through the intervening variable,</p>	<p>The results showed that local revenue had a negative effect on economic growth but had no effect significantly. Balanced Funds have a positive effect on economic growth but</p>

	<p>Jurnal Pembangunan Ekonomi dan Keuangan Daerah Vol. 19, No. 1, (Paat et al., 2017)</p>	<p>where the intervening variable in this study is economic growth.</p> <p>Dependent Variables : Economic Growth (Y1), Poverty Level (Z1),</p> <p>Independent Variables: Regional Original Income (X1), Balancing Fund (X2).</p>	<p>have no statistically significant effect. Regional Original Income and Economic growth have a negative and significant effect on poverty levels statistically. The Balanced Fund positively affects the poverty level in the Bitung city; however, it is not statistically significant.</p>
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This study's equation with previous research is the equation of the dependent and independent variables used, namely the regency/municipality minimum wage and GDRP as independent variables, and poverty as the dependent variable, and the research method used is panel data regression analysis. Meanwhile, the difference between this study and previous research is the independent variable used, the study's location, and the time period used in the study. This study uses secondary data over nine years, from 2010 to 2018. The independent variable that distinguishes this study from previous research is using balanced funds as one of the independent variables to determine its effect on poverty. At the same time, the location in this study is in the Wanarakuti – Banglor area.

2.4. Theoretical Research Framework

The theoretical research framework explains the researcher's mindset in solving the problems raised in the research. The theoretical research framework is based on theories relevant to the issues in research and a basis for solving problems

raised in the research. Systematically, the theoretical framework in this study can be seen in Figure 2.1 below:

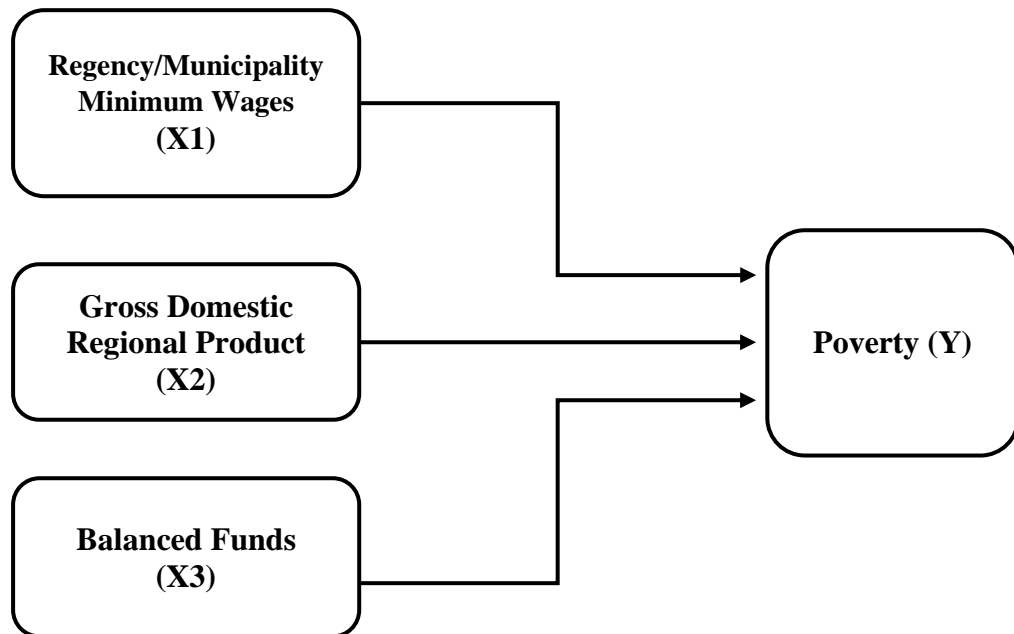


Image 2.1
Theoretical Research Framework

2.5. Research Hypothesis

The hypothesis is a temporary answer in research, or in other words, it is a temporary answer to the purpose of the research. Hypotheses are defined as provisional assumptions or assumptions about something that is made to be proven right or required to be checked (Sudjana, 2005).

Based on the theoretical basis above, the hypothesis in this study is as follows :

Hypotheses 1 : The regency/municipality minimum wage partially has a negative and significant effect on poverty in the Wanarakuti – Banglor area.

Hypotheses 2 : Gross regional domestic product partially has a negative and significant impact on poverty in the Wanarakuti – Banglor region.

Hypotheses 3 : Gross regional domestic product partially has a negative and significant impact on poverty in the Wanarakuti – Banglor region.

CHAPTER V

CLOSING

5.1. Conclusion

Based on the results of the discussion of this research, some conclusions that the authors can convey are as follows:

1. The Regency/Municipality Minimum Wage has a negative and significant effect on poverty in the Wanarakuti – Banglor area.
2. GDRP has a positive and significant effect on poverty in the Wanarakuti – Banglor area.
3. Balanced Funds has a negative and significant effect on poverty in the Wanarakuti – Banglor area.

5.2. Suggestion

Based on the results of this study, the suggestions that the author can submit to alleviate poverty in the Wanarakuti – Banglor area are as follows:

1. With an increase in the regency/municipality minimum wage, it is hoped that it can increase the income of workers and the community, to improve the standard of living of the people in the Wanarakuti – Banglor area and reduce the level of poverty, which is still relatively high in several regions in the Wanarakuti – Banglor area.
2. With the GDRP of each region increasing every year, the increase in GDRP is expected to be generated from all economic activities carried out by the community in the region equally, because so far the GDRP in the majority area has been contributed by the total output of large companies operating in the

area. Therefore, local governments need to make policies and programs to increase economic output in their regions, such as increasing the number of MSMEs in the areas. Until now, the MSME sector is one of the industries that have a significant role in the economy, both macro and micro; besides that, if MSMEs in the regions are well synergized, it will have an impact on increasing the output of MSMEs, which in turn will increase the regional economy and also reduce poverty that occurs in the regions, because with the growing MSMEs, it will increase employment to reduce unemployment, which has been one of the main factors driving high poverty in an area.

3. The Balanced Funds obtained by each district in the Wanarakuti – Banglor area are expected to be optimally utilized by each local government in the Wanarakuti – Banglor area; balanced funds received can increase development in the area and improve the standard of living of the community.

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