Determinants of Poverty in Indonesia
-a Multilevel Modelling Approach-

Puspita Suryaningtyas

Poverty alleviation is still a significant issue in Indonesian Government's development agenda. Though various research have already been carried out, the result obtained varied widely due to the complexity of poverty and due to the use of different analytical units. These researches mostly employed single level modelling, and cannot provided the information about multilevel aspects on poverty. Therefore, the present study aims to enrich the result from previous study by providing information about factors that determine poverty in Indonesia. In addition, the variability of poverty between regency, the variability of the geographical characteristics effect on poverty in Indonesia, and the implementation of poverty alleviation program also been examined. The result from present research expected to contribute significantly to poverty policy formulation.

Poverty not only affected by individual/household characteristics/micro/first level factors, but also affected by regional characteristics/macro/second level factors. On the other words, it is said that factors that determine poverty have hierarchical structure. The implementation of single level model to analyze hierarchically structured data could result in misleading inference due to the underestimation of standard error of regression coefficient and also too complicated. Therefore, in order to produce more comprehensive research related to poverty, multilevel modelling is used to analyze the hierarchically structured data of poverty in the present study.

Based on the result of analysis, factors like household dwelling location; household size, household-head gender and household-head year studying; and household-head primary sector of employment under geographical, social, and economic characteristic respectively, are found to be the determinants of poverty in the individual/household/micro/first level. While in the regional/macro/second level, factors that determine poverty are GRDP growth and the number of project funded by foreign investment. It is also proven that approximately 10% to 15% of the residual variation of household poverty is attributable to differences between regencies. The effect of geographical characteristics to poverty is also diver among regency. However, based on the analysis, allocation of community grant PNPM in a year before does not have correlation to probability of household being poor, while HDI have negative correlation and labor force participation have positive correlation, in which indicate that "working poor" phenomenon exist.

Derived from the conclusion of the analysis, some targeted policies for the poor proposed by author are pushing the improvement of infrastructure and knowledge in rural area; pay more attention on control of household size; gender inequality countermeasures; increase formal school participation rates; stimulate the agricultural growth; encourage the implementation of pro-poor growth; and create conducive investment climate. Government also should create equitable development and strengthen the rural-urban economic linkage. In addition, government should create more productive employment and stimulate self-employment activity to deal with working poor.