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The Effect of Financial Inclusion, Investment, and Capital Expenditure on Inequality in Income Distribution and Community Welfare in Regencies/Cities in Bali Province

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Abstract

Community welfare is one of the goals of economic development. Achieving these goals requires access to sources of banking, financing, and requires a strong commitment from the government and the private sector in terms of investment to increase economic activity. This study aims to analyze the effect of financial inclusion, investment, and capital expenditure on inequality in income distribution; the influence of financial inclusion, investment, capital expenditure, and income distribution inequality on the welfare of the community; and the indirect effect of financial inclusion, investment, and capital expenditures on the welfare of the community through the unequal distribution of regencies / municipal income in Bali Province. This study is a quantitative study using panel data of 90 observations. The types of data used in this research are quantitative data and qualitative data. Sources of data in this study are secondary data sourced from the Central Statistics Agency (BPS) and the Financial Services Authority (OJK) starting from 2010-2019. This research was conducted through non-participant observation. The analytical method used in this research is path analysis regression. Based on the results of the analysis, it shows that (1) financial inclusion and capital expenditure have a negative and significant effect on inequality in income distribution, (2) investment has a negative effect on inequality in income distribution, (3) financial inclusion has a positive and significant effect on people's welfare, (4) investment and capital expenditures have a positive effect on people's welfare, (5) Inequality in income distribution has a negative effect on people's welfare, and (6) Inequality in income distribution does not mediate the effect of financial inclusion, investment and capital expenditure on people's welfare. Regional governments in development policies are expected to be able to prioritize equity in the aspect of income distribution, provision of financial services as well as the allocation of capital expenditures and investments in each region equally to achieve public welfare.

Keywords: *Financial Inclusion, Investment, Capital Expenditures, Inequality in Income Distribution, Community Welfare.*

1. Introduction

Regional development aims to improve the standard of living and welfare of the community through sustainable economic development, both between sectors and between sectoral developments with efficient and effective regional development planning towards regional independence and equitable progress. High economic growth is the hope of every central and regional government (Suryahadi, 2012). Basically, regional development is expected to solve problems that occur, such as reducing the level of poverty, unemployment, very low education and inequality between regencies / cities so as to improve the standard of living of the community. Regional economic development can be proven by implementing regional economic policies to provide opportunities for regions to develop their regions in accordance with existing characteristics and potentials. The financing provided by the government can help the growth process so that the government plays a very large role in economic growth (Dalamagas, 2010).

According to Todaro (2011: 65), human development is an indicator for the progress of a country. Countries that can be said to be developed are not only calculated from their gross domestic income, but also include aspects of life expectancy as well as education and public health. The method of calculating the Human Development Index (HDI) which consists of three components, namely the length of life measured by life expectancy at birth, the level of education is measured by a combination of literacy rates in the adult population, and the average length of schooling, as well as the appropriate level of life to be measured by adjusted per capita expenditure. Human development can be interpreted as a process to expand options for fulfilling basic human needs in terms of economy (purchasing power), health and education (Nehen, 2012). The

HDI describes three indices for measuring development achievement, namely the Life Expectancy Index, Knowledge Index, and Income Index (Yogi Swara, 2011).

The province of Bali is one of the regions that has felt the impact of the implementation of the regional autonomy policy, and government intervention is also very important in shaping policies. Based on data from the Bali Province Central Bureau of Statistics (2020), it is known that five regencies in Bali Province, namely Buleleng, Bangli, Jembrana, Karangasem, and Klungkung regencies are suspected of unequal income distribution so that their development has not been evenly distributed. Economic inequality seen from the inequality of people's income is a problem in itself. The development gap between regions is a common thing in the economic development of a region. This gap is basically caused by differences in the content of natural resources and differences in demographic conditions in each region. The existence of income inequality causes areas with high income distribution inequality to be categorized as poor, but it cannot be said that the entire population is poor because of the high level of income inequality (Dao, 2012).

Nurfitriyani (2018) states that the government has made efforts to realize economic equality in the community, including land distribution, rural development, and interest rate policies so that people can access capital from banks more easily. An empirical study related to fintech and financial inclusion was also conducted by Gabor and Brooks (2017), explaining the importance of the role of fintech-based financial services and access as a form of financial development intervention. Financial inclusion is a banking instrument that plays an important role in financial system stability through financial access and services (Rusdianasari, 2018). The Indonesian government makes financial inclusion as an effort to encourage economic growth through reducing poverty, equitable income distribution, and financial system stability (Hadad, 2010). 2010 in Hartati and Azwar, 2017). Efficiency and effectiveness based on the implementation of fintech have resulted in a shift in public interest in the banking sector both in the process of payment, investment, saving and savings in order to improve people's welfare.

Investments that occur in an area can lead to changes in both technology and other fields to support economic growth. Investments in various sectors will accelerate development in developing countries. With investment activities, it is expected that it will have an impact on the welfare of the community, of course it will absorb more workers and reduce unemployment, so that people have income to meet their daily needs, which in turn can reduce inequality in income distribution (Awandari, 2016). Regional government capital expenditures are expenditures made by local governments that produce certain fixed assets. The increase in capital investment (capital expenditure) is expected to be able to improve the quality of public services and in turn be able to increase the level of public participation (contribution) to development. In other words, investment in this sector will have an effect on improving the quality of human resources and reducing inequality in income distribution (Zasriati, 2015). The allocation of local government capital expenditures is getting bigger in the productive sector in order to increase production and economic activity, meaning that more financing is made by the government to increase economic activity so as to increase production output which encourages economic growth.

2. Literature Review

Financial Inclusion Theory
Leyshon and Thrift (1995) explain that financial inclusion is the antithesis of financial exclusion. The process of financial exclusion makes the poor unable to access the benefits of the financial sector and gives the community a loss in gaining access to the financial system due to lack of access, collateral, credit history, and networks. The financial inclusion index is a measure for the level of financial inclusion. This financial inclusion index includes three dimensions, namely dimensions of banking penetration, availability of banking services, and usability of banking services. The higher the index value of a dimension, the higher the achievement in that dimension.

Investment Theory
According to Sukirno (2005), investment activities enable a community to continuously improve economic activities and employment opportunities, increase national income and increase the level of community prosperity. Investment activities enable a community to continuously improve economic activities and employment opportunities, increase national income and increase the level of community prosperity. According to Taufik (2015) investments that have a multiplier effect have an impact on increasing welfare, which is measured by increasing income. This means that if income increases, the amount of goods consumed will also increase. If the demand for goods and services increases, it will increase employment opportunities which can reduce unemployment so that it can absorb the workforce in investment projects.

Capital Expenditure Theory
According to Halim (2004) capital expenditure is government expenditure (expenditure) whose benefits exceed 1 budget year and will increase regional assets or wealth and will further increase routine expenditures such as maintenance costs in the general administration expenditure group. More and more financing is being made by the government in increasing economic activity which in turn will increase production output and encourage economic growth.

Income Distribution Inequality Theory
According to Todaro and Smith (2011: 253), income disparity is the difference in income received or generated by the community, resulting in unequal distribution of national income among the community. Poor quality growth will lead to increased inequality; and high inequality will disrupt the process of sustainable economic growth. To see the measure of the difference in the even distribution of income within a country or between regions, benchmarks can be used including: World Bank Criteria, Williamson Index, Theil Entropy Index, Lorenz Curve and Gini Coefficient (Aidar, 2015). The gini ratio is a measure of the evenness calculated by comparing the area between the diagonal and the Lorenz curve divided into the area of the triangle under the diagonal,

Society Welfare Theory
According to Pigou (1960), welfare economic theory is a part of social welfare that can be linked directly or indirectly to the measurement of money. The concept of welfare is developed to be broader than just measuring aspects of nominal income. Welfare is the standard of living, wellbeing, welfare and quality of life. Community Welfare reflects the success of the development carried out by the government, measured using the Human Development Index (HDI). A family with a higher level of welfare means having a better quality of life, so that in the end the family is able to create better conditions to improve their welfare (Rosni, 2017).

Human Development Index Concept
According to the Central Statistics Agency (BPS) the Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education and living standards for all countries around the world. HDI is used to classify whether a country is a developed, developing or underdeveloped country and also to measure the effect of economic policies on the quality of life. There are three basic aspects of human development, namely: length of life, which is measured by life expectancy at birth and infant mortality rate, education which is measured by the average length of schooling and the literacy rate of the population aged 15 years and over and the standard life as measured by per capita expenditure that has been adjusted to purchasing power parity

3. Problem Formulation

The hypothesis of this project is:

a) Financial Inclusion, Investment, and Capital Expenditure have a negative and significant effect on the Inequality of Income Distribution of Regencies/Cities in Bali Province.
b) Financial Inclusion, Investment, and Capital Expenditure have a positive and significant effect, while the Inequality of Income Distribution has a negative and significant impact on the Welfare of Regency/City Community in Bali Province.
c) Financial Inclusion, Investment, and Capital Expenditures have an indirect effect on the Welfare of the Community through the Inequality of Regency / City Income Distribution in Bali Province.

4. Research Methodology

The approach used in this research is a quantitative approach, and this research was conducted using the associative paradigm, such as to determine the relationship between several variables, namely the effect of the independent variable on the dependent variable. This study was conducted to determine the effect of financial inclusion, investment, and capital expenditure on the inequality of income distribution and people's welfare. The location of this research was conducted in regencies/cities in the Bali Province using data released by the Central Statistics Agency and Bank Indonesia, because in regencies/cities in the Bali Province there are still inequality in income distribution and disparities in community welfare between regions. Based on the type of data, qualitative data in this study is a general description of the object of research, while the quantitative data used in this study are data on financial inclusion, investment, capital expenditure, income distribution inequality and community welfare in the Regency/City of the Province of Bali. In this study, the data obtained came from direct interviews with informants, and secondary data obtained indirectly through other parties or intermediary media. This study uses panel data which is a combination of the 2010-2019 time series (10 years) and a cross section of 9 regencies / cities in Bali Province, so that the total data in this study is 90 observations. The data collection method used in this study is the non-participant observation method. The data analysis technique used is path analysis.

5. Result Analysis

Descriptive Statistical Analysis

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	mean	Std. Deviation
Financial Inclusion	90	7	299	83.03	85,116
Investment	90	2298	15728798	1520322.93	2444800,965
Capital Expenditure	90	82896	1603761628	275687352.52	305096617,696
Inequality of Income Distribution	90	,22	,42	,3318	,03821
Community welfare	90	60.58	83.68	71,8686	5,71426
Valid N (listwise)	90				

Source: Research Data, 2021

Based on the results of the descriptive statistical test, it is known that the total number of data (N) is 90 data. The financial inclusion variable has a minimum value of 7 and a maximum of 299 with an average of 83.03 and a standard deviation of 85.116. The investment variable has a minimum value of 2298 and a maximum of 15728798 with an average of 1520322.93 and a standard deviation of 24448000.965. The capital expenditure variable has a minimum value of 82896 and a maximum of 1603761628 with an average of 275687352.52 and a standard deviation of 305096617.696. The income distribution inequality variable has a minimum value of 0.22 and a maximum of 0.42 with an average of 0.3318 and a standard deviation of 0.03821. The variable of community welfare has a minimum value of 60.58 and a maximum value of 83.68 with an average of 71.8686 and a standard deviation of 5.71426.

Result of Determination Coefficient Test (adjusted R2)

Based on the test results, the total determination value is 0.461 which means that 46.1% of the variation in the level of community welfare is influenced by variations in financial inclusion, investment, capital expenditure, and income distribution inequality, while the remaining 53.9% is explained by other factors. not included in the model.

Path Analysis Results

Table 2. Direct Influence, Indirect Influence and Total Influence of Variables of Financial Inclusion, Investment, Capital Expenditures, Inequality of Income Distribution and Welfare of Regency / Municipal Communities in Bali Province

Variable Relationships	Influence		Total
	Live	Indirect Through Y1	
Financial Inclusion (X1) → Inequality of Income Distribution (Y1)	-0.054		-0.054
Investment (X2) → Income Distribution Inequality (Y1)	-0.010		-0.010
Capital Expenditure (X3) → Income Distribution Inequality (Y1)	-0.020		-0.020
Income Distribution Inequality (Y1) → Community Welfare (Y2)	-0.012		-0.012

Financial Inclusion (X1) → Community Welfare (Y2)	0.065	(0.054 x -0.012) = -0.0006	0.064
Investment (X2) → Community Welfare (Y2)	0.004	(-0.010 x -0.012) = 0.0001	0.004
Capital Expenditure (X3) → Community Welfare (Y2)	0.003	(-0.020 x -0.012) = 0.0002	0.003

Source: Research Data, 2021

Financial Incluation Variables

The growth of the financial sector has an impact on reducing income inequality, increasing incomes for the very poor, and decreasing the percentage of the population living below the poverty line. Providing access to financial services is an important thing that needs to be done because it has an impact on changing consumption patterns, investment, education, and creating income for the poor, thereby reducing inequality in income distribution and creating inclusive growth. In line with the research of Honohan (2008) which states that the financial access index has a significant influence on reducing inequality in income distribution. Some areas in Bali Province that have high levels of financial inclusion also have large Gini coefficients. Although the reach of the banking sector is quite wide, the distribution of income is not evenly distributed with quite a large gap. The more open access to financial services, the public is expected to be able to take advantage of this access and increase their income through lending by financial institutions, especially when used for productive activities. If the difficulty of access to financial services causes the poor to rely on limited savings for investment and small entrepreneurs must rely on profits to continue their business. As a result, income inequality does not decrease and economic growth slows down (Allen et al. 2012). The results in this study also show that financial inclusion also has a positive and significant effect on people's welfare.

Investment Variables

The investment variable has no significant effect but has a negative relationship to the inequality of income distribution. This means that when foreign and domestic investment increases (short term) the distribution of income inequality will increase, that's because in the long term foreign and domestic investment will result in relatively little risk of social conflict and it will reduce income distribution inequality. The development of investment in Bali Province is very dominant in the southern Bali region, namely Badung Regency and Denpasar City, so that this area is considered potential compared to other regions. The amount of investment in these two regions cannot be separated from the influence of the tourism sector, which is the backbone of the region's economy. Meanwhile, other regions have also been able to open land to attract investors to make these investments. Only areas that get promising profits will be eyed by investors, both domestic and foreign investors. This inequality is what causes inequality in the distribution of regencies/city income in the province of Bali. This means that the theory of the trickle-down effect which is considered to be able to reduce the inequality of the income distribution of the upper and lower people has actually been felt by the surrounding area. Where investment activities are only centered in these areas and large-scale economic activities in fact do not provide benefits for smaller economies in other areas. This is also in line with the research of Pradnyadewi (2017) which states that investment does not have a significant effect on income distribution disparities in Bali Province in 2004-2015. Efforts to reduce the impact of this gap are by increasing the interest of investors to invest not only around southern Bali but in western, eastern, and northern Bali. One of them needs to be accelerated infrastructure development in West Bali, East Bali, and North Bali.

Investment has no significant effect but has a positive relationship to the welfare of the regencies/city community in Bali Province. This is in line with the research hypothesis which shows a unidirectional relationship between investment and human development. In the Harrod-Domar investment theory, investment is not only seen as an expenditure that will increase the ability of an economy to produce goods and services, but also increase the effective demand of society. The more investment in an area will be related to the availability of new jobs because it will give rise to increased production activities so that people who are absorbed will have income to meet their daily needs. In line with the research conducted by Suciati (2015) and Wahyuningsih (2012) which states that private investment has a positive effect on people's welfare, investment by the government through direct spending has been able to increase economic activities that can absorb labor so that it can improve people's welfare. With the large number of workers absorbed through domestic and foreign private investment, it can increase the Human Development Index (HDI) of regencies/cities in Bali Province.

Capital Expenditure Variable

The capital expenditure variable has a negative and significant effect on inequality in income distribution. This means that capital expenditure has been able to reduce the level of inequality in the distribution of people's income. Todaro (2006: 128) states that to reduce income disparities between groups of people, the government can allocate a larger budget for the public interest, namely directly in the form of “transfer payments” and indirectly through job creation, education subsidies, health subsidies and etc. Capital expenditures also allow a region to build facilities and infrastructure, make investments and increase public needs. The development of good facilities and infrastructure will increase the interest of investors to invest their capital which will then be able to increase per capita income in the area concerned, so that capital expenditure will also be a major contribution in reducing the level of existing income inequality. This is in line with research conducted by Nungki (2011), which confirms that capital spending has a negative effect on inequality in economic development between provinces in Indonesia.

Capital expenditure does not have a significant effect but has a positive relationship to the welfare of the community. This result is in line with the research by Badrudin (2011) which found that capital expenditure has no significant effect on HDI. The capital expenditure variable does not have a significant effect on the Human Development Index (HDI) due to the problem of the allocation of capital expenditures which does not have a significant role in financing development. The average capital expenditure allocation in each regency / city in Bali Province is only 15 percent. In addition, the development of capital expenditures during the last six years in several regions has decreased in certain years in its allocation due to the increasing number of Civil Servants (PNS) in areas where the APBD has been allocated a lot for Indirect Expenditures. Utilization of capital expenditure should be allocated for productive things, for example to carry out development activities. Capital expenditures can be used to improve the quality of public facilities and infrastructure or direct programs that can stimulate greater productivity for the community and business actors in the region. In addition, local government spending is also intended for basic services that must be obtained by the community, namely education and health. With the right allocation of regional expenditures, the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving the welfare of the community. Capital expenditures can be used to improve the quality of public facilities and infrastructure or direct programs that can stimulate greater productivity for the community and business actors in the regions. In addition, local government spending is also intended for basic services that must be obtained by the community, namely education and health. With the right allocation of regional spending, the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving community welfare. Capital expenditures can be used to improve the quality of public facilities and infrastructure or direct programs that can stimulate greater productivity for the community and business actors in the region. In addition, local government spending is also allocated for basic services that the community must obtain, namely education and health. With the right allocation of regional expenditures, the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving the welfare of the community. In addition, local government spending is also allocated for basic services that the community must obtain, namely education and health. With the right allocation of regional expenditures, the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving the welfare of the community. In addition, local government spending is also intended for basic services that must be obtained by the community, namely education and health. With the right allocation of regional spending, the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving community welfare.

Inequality in Income Distribution Variable

The inequality in income distribution variable does not have a significant effect but has a negative relationship to the welfare of the community. The regencies / city Gini ratio in Bali Province is not too imbalanced and is still in the moderate inequality category (less than 0.5). This means that there is a greater gap in welfare between upper and lower middleclass people. The high level of urbanization where most people who have higher education after success actually urbanize so that they leave the area of their birth that they should be able to build to be more advanced. It is necessary to pay attention to what is the problem, so that there is no longer a gap between the rich and the poor in the province of Bali. The results of this study are in line with research by Niyimbanira (2017), and Yasa & Sudarsana (2015) who obtained the results that the Gini Ratio and HDI had a significant negative effect. The negative relationship between the Gini ratio, which reflects the inequality of the income distribution of a region and the welfare of the community, shows that if the income distribution is more even, the level of community welfare will increase. This shows that the equitable distribution of income is an important thing that must be considered by the government in developing the economy of a region because the inequality of income distribution will adversely affect the welfare of the people of a region. The negative relationship between the Gini ratio that reflects the inequality of the income distribution of an area and the welfare of the community shows that if the distribution of income is more evenly distributed, the level of community welfare will increase. This shows that the even distribution of income is an important thing that must be considered by the government in developing the economy of a region because the inequality of income distribution will adversely affect the welfare of the people of a region. The negative relationship between the Gini ratio that reflects the inequality of the income distribution of an area and the welfare of the community shows that if the distribution of income is more evenly distributed, the level of community welfare will increase. This shows that even distribution of income is an important thing that must be considered by the government in developing the economy of a region because the unequal distribution of income will adversely affect the welfare of the people of an area.

6. Conclusion

Based on the results of the previous discussion and description, it can be concluded that financial inclusion has a negative and significant effect on inequality in income distribution. Providing access to financial services is an important thing that needs to be done because it can reduce inequality in income distribution and create inclusive growth; Investment has a negative effect on inequality in income distribution. High investment in one area cannot reduce the inequality of income distribution, because the location of investment realization is still dominantly centered in certain areas and large-scale economic activities in fact do not provide benefits for the smaller economy in other areas; Capital expenditure has a negative and significant effect on inequality in income distribution. Capital expenditures of an area are used to build facilities and infrastructure, make investments and increase public needs. The development of good facilities and infrastructure will increase the interest of investors to invest their capital which will then be able to increase the income per capita in the region so as to reduce the inequality of the existing income distribution; Financial inclusion has a positive and significant effect on people's welfare. Financial services can be accessed, used and utilized at affordable prices and of good quality and their availability can realize the acceleration of economic growth, sustainable development, and increase the welfare of society equally; Investment has a positive effect on people's welfare. The amount of investment in an area will be related to the availability of new employment opportunities because it will give rise to production activities, through domestic private investment and foreign investment it can absorb labor so that people's income increases and achieves community welfare; Capital expenditure has a positive effect on people's welfare. Capital expenditures can be used to improve the quality of public facilities and infrastructure or direct programs that can stimulate greater productivity for the community. The allocation of regional expenditure is appropriate so that the improvement of regional infrastructure and public facilities will remain good, thereby increasing the quality and quantity as well as increasing regional productivity, community income, and improving the welfare of the community; Inequality of income distribution has a negative effect on people's welfare. Equitable distribution of income is an important thing that must be considered by the government in developing the economy of a region because inequality in income distribution will adversely affect people's welfare. If the distribution of income is more evenly distributed, the level of community welfare will increase; Inequality in income distribution does not mediate financial inclusion in community welfare. High financial inclusiveness has better welfare and lower income distribution inequality compared to regions with lower inclusiveness, so that all people can access financial services; Inequality of income distribution does not mediate investment on people's welfare. The multiplier effect of investment developments in an area will, of course, affect the decline in the Gini ratio, so that investment activities are not only centered in certain areas and large-scale economic activities in fact provide benefits for smaller economies in other areas by creating jobs. which can increase community income and community welfare; Inequality in income distribution does not mediate capital spending on people's welfare. Capital expenditure can increase the development of economic activity by being allocated to the productive sector to increase production and economic activity.

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