The Impact of Fiscal Decentralization on Poverty in the Nine Provinces of Eastern Indonesia which are above National Poverty for the 2006–2022 Period

Magdalena Silawati Samosir[1] and Abd.Hamid Paddu [2] Agussalim [3] Sabir[4]

[1] Economics Doctoral Program Student, Postgraduate Faculty of Economics and Business Hasanuddin University, Makassar, Indonesia
[2,3,4] Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia
lena_0110@yahoo.com

Abstract. Poverty is still a big problem related to many aspects, such as political, cultural, economic, and social; every country, including Indonesia, is pursuing encouragement from various sides; many empirical studies are also developing, including focusing on the fiscal side. However, it cannot be denied that poverty behavior in research varies. Fiscal decentralization is leading to more allocative targets. A big boost from the fiscal side is hoped to reduce the poverty rate. This paper aims to analyze the impact of fiscal decentralization on poverty in areas with high levels of poverty above national poverty, where nine provinces in Eastern Indonesia are the research locus with the time series data range used from 2006 to 2009 and using data secondary. The results of the transfer fund regression test are divided into four independent variables: DAK, DAU, DBH, and Fiscal independence on the dependent variable poverty shows that simultaneously, DAK, DAU, DBH, and Fiscal independence have an effect on poverty and partially the impact of DAK, DAU and fiscal independence is significant on poverty where DBH has a positive effect while DAK, DAU and fiscal independence has a negative effect.

Keywords: Government transfers, Fiscal independence, Poverty

1. Introduction

Development does not only focus on per capita output, but various development highlights focus on improving living standards, overcoming inequality, and eradicating poverty. Poverty is still a problem in society with various aspects. Poverty is a big problem related to many things, such as politics, culture, environment, and social economics. Poverty is a condition of individuals or groups of people who cannot fulfill basic needs to survive and improve the economy. [1] Social democratic theory views that poverty is not an individual problem. However, structural poverty is caused by injustice and inequality in society due to blocked access to certain groups access to poverty. Poverty alleviation can be done through fiscal decentralization, regional transfers, and regional spending, which will increase

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per capita income in the regions, and conversely, low per capita income will increase the number of poor people [2].

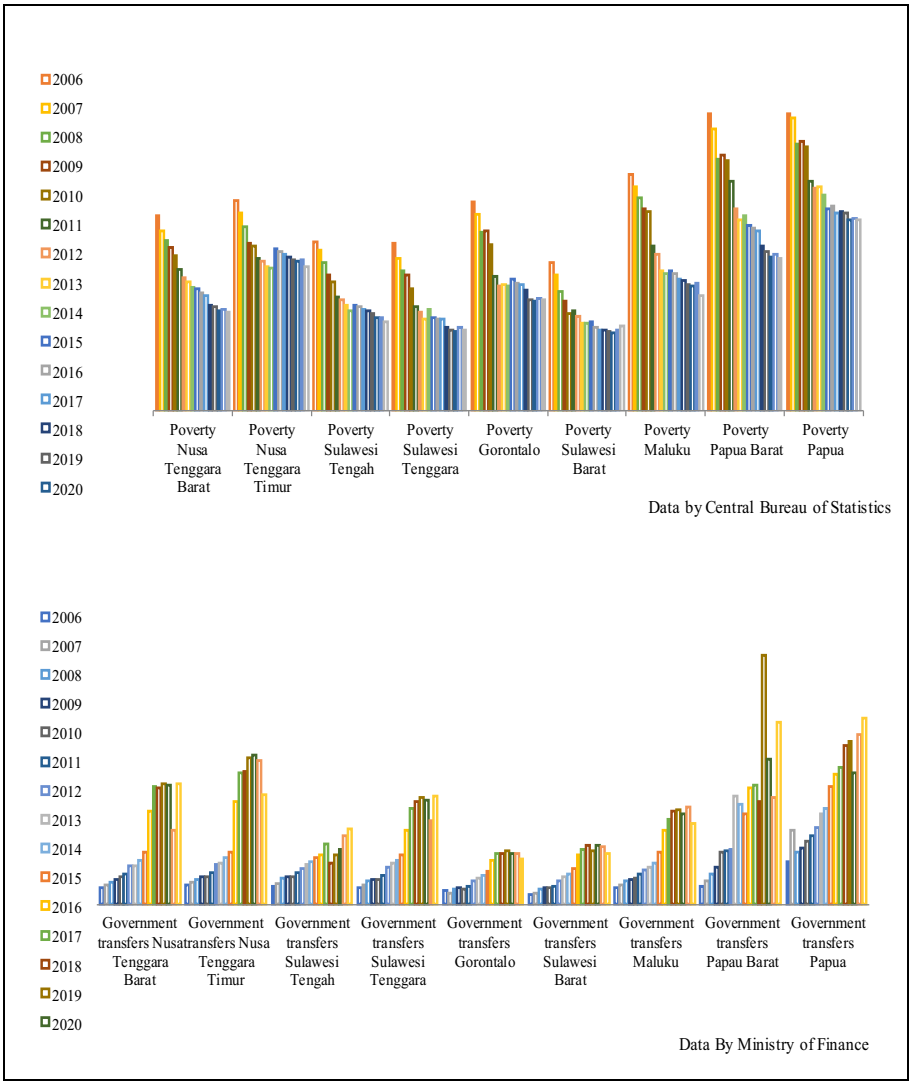

Fig. 1. Poverty and Government Transfers

Central Goverrnment transfers to the provinces in Indonesia in their development from 2006 to 2022 from BPS sources have a trend tending to increase; this means that every year, the transfer funds are substantial, but the phenomenon is that a decrease in differences accompanies the increase in transfer funds. Poverty

levels in provinces in the same region are interesting to see this phenomenon. Transfers hurt poverty [3] [4][5] Government transfers are not effective in reducing poverty [6]. The government transfer variable harms poverty [7][8][9][10][11]. Meanwhile, research shows that government transfers are positively and significantly related to reducing poverty levels [12][13][14][15]

The same policy with different results is the background for this research study, where the research also only focuses on poverty in areas that are in the category above national poverty. With the hope of becoming a reference for government policy in reducing poverty in these areas, the conceptual framework is as follows:

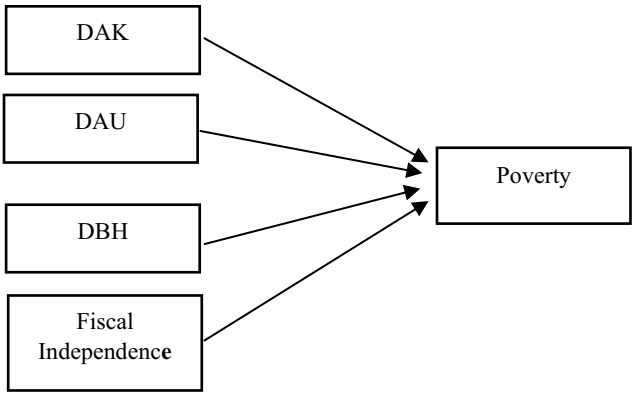

Fig. 2. Conceptual Framework

2. Methodology

This research studies how poverty is influenced by DAK, DAU, DBH, and Fiscal Independence from 2006 to 2022. The data used is secondary, namely Panel data from 2006 to 2022. Data such as poverty, DAK, DAU, DBH, and fiscal independence were taken from the website of the Directorate General of Financial Balance and the Central Statistics Agency, and this research is of a quantitative type. This study emphasizes theory testing between data analysis and numbers for research variables.

Referring to the meaning of DAK, DAU, and DBH according to the Ministry of Finance, Directorate General of the Ministry of Finance, the operational definition of this research is as follows:

1. Special Allocation Funds (DAK), are revenues sourced from the APBN to finance special regional activities and by national priorities.

2. General Allocation Funds (DAU), are revenues sourced from the APBN to finance regional needs related to the implementation of decentralization.

3. Profit Sharing Funds (DBH), are income sourced from the APBN based on presentation figures to finance regional needs related to the implementation of Decentralization.

4. Fiscal Independence: Regional financial independence is an indicator of a region's ability to achieve autonomy consisting of original regional income divided by total revenue.

5. Poverty is the percentage of the population below the poverty line, known as poverty, which is measured in percent.

This research uses secondary data with documentation studies to collect data from websites, the Directorate General of Financial Balance, and the Central Statistics Agency. The hypothesis in this research is:

1. The influence of DAK, DAU, DBH, and Fiscal Policy simultaneously on poverty in 9 Eastern Indonesia provinces above National Poverty.
2. The partial influence of DAK on poverty in 9 provinces of Eastern Indonesia, which are above National Poverty
3. The partial influence of DAU on poverty in 9 provinces of Eastern Indonesia, which are above the National Poverty
4. Partial influence of DBH on poverty in 9 provinces of Eastern Indonesia, which are above the National Poverty
5. The influence of Fiscal Independence, directly and indirectly, on poverty in the nine provinces of Eastern Indonesia, which are above National Poverty

3. Results

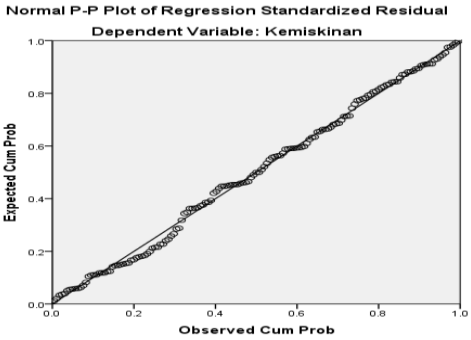

Fig. 3. Normality Test

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
Poverty	20.8023	7.26205	153
DAK	23.2525	8.10046	153
DAU	27.5428	.53033	153
DBH	25.4643	1.30147	153
fiscal Independence	.2089	.10566	153

Table 2. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	41.489	25.613		1.620	.107		
	DAK	-.324	.061	-.362	-5.277	.000	.644	1.552
	DAU	-2.534	1.114	-.185	-2.275	.024	.458	2.185
	DBH	2.446	.397	.438	6.168	.000	.600	1.668
	fiscal Independence	-26.977	4.011	-.392	-6.726	.000	.889	1.124

Table 3. Simultaneous Test Results (F-Test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4422.838	4	1105.709	45.542	.000[b]
	Residual	3593.252	148	24.279		
	Total	8016.090	152			

Dependent Variable: Poverty. b. Predictors: (Constant), DAK, DAU, DBH, fiscal Independence

Table 4. Coefficient of Determination Test Results (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.743[a]	.552	.540	4.92735	.383

a. Predictors: (Constant), Fiscal Independence, DAU, DAK, DBH

b. Dependent Variable: Poverty

Table 5. Partial Test (T Test)

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	41.489	25.613		1.620	.107		
	DAK	-.324	.061	-.362	-5.277	.000	.644	1.552
	DAU	-2.534	1.114	-.185	-2.275	.024	.458	2.185
	DBH	2.446	.397	.438	6.168	.000	.600	1.668
	fiscal Independence	-26.977	4.011	-.392	-6.726	.000	.889	1.124

Normality Statistics Test

Referring to the data distribution in Figure 3, this research data meets the testing standards.

Descriptive Statistics Test

In this research, statistics provide information about variables such as DAK, DAU, DBH Fiscal Independence, and Poverty. Table 1 shows a list of descriptive research variables, each processed over 17 years.

Multiple regression test

As seen in Table 2, the model based on the regression test is as follows :

$$\mathbf{Pvty = 41.489 - 0.324\ X1 - 2{,}534\ X2 + 2{,}446\ X3 - 2{,}534\ X4 + e}$$

Based on the test data results, the constant value obtained was 41.489. These results show that if there was no influence of the DAK, DAU, DBH, and fiscal independence variables, the poverty value would be 41,489. Based on the level of significance of all variables (DAK, DAU, DBH, Independence) affect poverty. The DBH variable has a positive effect, and the DAK, DAU, and Independence variables have a negative effect.

Simultaneous Test

The value of 45.532 in the F Test with a significance level of 0.000 is less than 0.05 as seen in Table 3. Therefore, H0 is not accepted and H1 is accepted. In other words, independent variables such as X1 (DAK), X2 (DAU), X3 (DBH), and X4 (Fiscal Independence) have a significant influence on variable Y (Poverty) simultaneously.

Coefficient of Determination Test (R2)

Table 4 shows that the Adjusted R Square is 0.540 so it can be said that DAK, DAU, DBH, and Independence can explain poverty by 54.0%. Meanwhile, 46.0% are other factors not included in this research

4. Discussion

4.1 The Effect of Spacial Allocation Funds on the Poverty.

DAK (X1) has a t value of -5.277 and a significance of 0.00 which is smaller than (0.05). This shows that Hypothesis 0 is rejected and Hypothesis 1 is accepted, so it can be said that variable X1 (DAK) negatively influences the Poverty variable. These results show that if DAK increases, poverty will decrease in the nine provinces of Eastern Indonesia, which are above national poverty. The same finding was also carried out by the negative DAK variable explaining the inverse influence between DAK and Poverty Levels, and this research shows that if the DAK budget received by regional governments is higher, the poverty level will decrease significantly. The government can use the high DAK budget to finance health facilities, education, infrastructure, and other matters directly related to human development. [16], The DAK variable shows that regional capacity is still low, which means that district and city governments in Central Java still depend on the central government to reduce poverty. [17] Special and village allocations funds increase by 30% each year on average, but the average reduction in poverty is only 1.12% in North Sumatra [18]. Special Allocation Funds tend to increase local government fixed assets to improve public services and are directed at long-term activities that are expected to reduce poverty levels. This shows that Special Allocation funds have a negative and significant impact on poverty levels. [19] On the contrary, different results were put forward by DAU, DAK, and DBH. Balancing funds does not have a significant

impact on poverty, and some of the suggestions given are that the balance of funds from the central government to the regions should be focused on poverty based on demand, namely empowerment programs community [20][21] The process of providing special allocation funds is different. Regions that do not receive special allocation funds use these funds to support regional finances to achieve national targets. As a result, special allocation funds are not significant for regions in efforts to eradicate poverty in their regions. [22] However, there are also those who argue that it is true that DAK has a positive impact on poverty if capital expenditures [23].

4.2 The Effect of General Allocation Funds the Poverty

The variable X2 (DAU) obtained a t value of -2.275 and 0.024 smaller than (0.05) significance level. This shows that Hypothesis 0 is rejected and Hypothesis 1 is accepted, so it can be said that the variable X2 (DAU) has a negative and significant effect on the Poverty variable. These results show that if DAU increases it will reduce poverty in nine provinces in Eastern Indonesia which are above national poverty. These results were obtained because they were based on existing data in 9 Eastern Indonesia Provinces that were above National Poverty. It illustrates that DAU has a vital role in reducing poverty. The same findings were made by the general allocation fund, which had a negative and significant impact on poverty, showing that the budget given to Ngawi Regency by the central government was used for regional welfare and progress purposes, significantly improving the quality of services that were not evenly distributed. [21. On the other hand, different results were stated by other researchers that DAU had a significant positive impact on poverty levels. Because the absorption of these funds is generally still small, the government should prioritize allocating DAU for capital expenditure in areas that are in direct contact with the public interest, for example, infrastructure or facilities to encourage economic growth and reduce poverty levels. [19], [20] General allocation funds partially does not affect poverty. In other words, changes in general allocation funds in Indragiri Hulu Regency, whether up or down, cannot reduce poverty. [1] However, some argue that it is true that DAk has a positive impact on poverty if it is through economic growth [24]

4.3 The Effect of Profit Sharing Funds on the Poverty

Variable X3 (DBH) obtained a t value of 6.168 and 0.00, smaller than the (0.05) significance level. This test shows that Hypothesis 0 is rejected and Hypothesis 1 is accepted, so it can be said that the variable X3 (DBH) positively affects the poverty variableThese results show that if DBH increases, it will also increase poverty in the 9 Provinces of Eastern Indonesia, above National Poverty. The same finding was also made by [16] that the DBH variable positively impacts the poverty variable but is not significant. This means that the poverty level will increase if profit-sharing funds increase, and if profit-sharing funds decrease, the poverty level will also decrease in Malang [25]. On the other hand, different results are shown by the poverty level consistently being influenced negatively and significantly by Sharing Funds. Results. The higher the DBH, the more funds are allocated for economic development, creating jobs, and reducing poverty[19][20] However, some believe that it is true that DBH has a positive impact on poverty if it is capital

4.4 The Effect of Fiscal Independence on the Poverty

Variable X4 (Fiscal Independence) obtained a t value t value of -6.72 and of 0.00 less than (0.05) significance level. This test shows that Hypothesis 0 is rejected and Hypothesis 1 is accepted, so it can be said that the variable X4 (Fiscal Independence) hurts the Poverty variable. These results show that if Fiscal Independence increases, it will reduce Poverty in the 9 Provinces of Eastern Indonesia above National Poverty. These results were obtained because they were based on existing data in 9 Eastern Indonesia Provinces that were above National Poverty. It illustrates that Fiscal Independence has an essential role in reducing Poverty. During the 2012–2019 period, regional financial independence negatively and significantly impacted Poverty in Aceh Province. The results show that every one percent increase in regional financial independence will reduce Poverty, showing how vital regional financial independence is because increasing regional financial independence can reduce Poverty in Aceh Province.[26] On the other hand, different results were presented. The Regional Financial Independence Ratio (RKKD) did not have a significant effect on poverty levels in North Sumatra Province [27]; regional financial performance in various districts and cities in Central Sulawesi Province did not have a significant effect on reducing poverty levels in that area. Limited budget availability for poverty alleviation programs is caused by the lack of ability of district and city governments to utilize the wealth they have under their control. The budget allocated for this program becomes smaller because the amount of the budget allocated for indirect expenditure increases for personnel expenditure [28], but some argue that it is true that fiscal independence has a positive impact on Poverty if Capital Expenditures [23]

5. Conclusion

This study aims to determine the influence of DAK, DAU, and DBH on poverty in 9 provinces of Eastern Indonesia, which are above national poverty. Analysis was carried out using multiple linear regression techniques. Thus, the research findings show: The results of simultaneous tests show that DAK, DAU, DBH, and Fiscal Independence positively and significantly affect poverty. The partial test results for DAK have a negative and significant effect on poverty. Furthermore, the partial test results for the DAU variable show a negative and significant influence on poverty. The partial test results show that the Fiscal Independence variable has a significant effect on poverty. Meanwhile, the partial test results for the DBH variable have a positive and significant effect on poverty in 9 provinces of Eastern Indonesia, which are above National Poverty.

The government must increase DAU for poverty alleviation programs. DAU must be maximized to help finance regional affairs necessary to the community because it is the most significant income in the APBD. Maximizing regional income, especially DAK, for the development process because it has been set as a national goal. Allocate DBH for economic programs optimally. Improving community services related to reducing poverty levels, especially in education and education, by improving the quality of teachers and schools, health by increasing the number of doctors and hospitals, and the economy by improving the quality of infrastructure to

create jobs and reduce income gaps. PAD is an indicator of financial independence and must be managed and used by the government to grow community economic activities. This economic activity can directly improve people's welfare because people's income increases so that their needs can be met. It means that this can reduce the amount of poverty. It is hoped that policymakers can increase regional income to obtain sufficient funds for poverty alleviation programs. Moreover, these funds must be allocated wisely.

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