

The Impact Of The General Allocation Fund (Dau) On Poverty Levels In Indonesia (A Study Of Districts And Cities In Jambi Province, 2022–2024)

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Abstract

This research aims to analyze the impact of the General Allocation Fund (DAU) on the poverty level in the districts/cities of Jambi Province for the period 2022-2024. In addition to DAU, this study also examines the role of variables such as per capita Gross Regional Domestic Product (PDRB), the Human Development Index (IPM), and local government direct spending as factors influencing poverty. The research employs a quantitative approach utilizing panel data that encompasses 11 districts/cities in Jambi Province over six years, resulting in 66 observation units. The data is sourced from the Central Statistics Agency (BPS) of Jambi Province, the Directorate General of Financial Balance (DJPK), and the Directorate General of Regional Finance (DJKD). The analysis method applied is panel data regression, with the selection of the best model conducted through Chow tests, Hausman tests, and Lagrange Multiplier tests. Data processing is carried out using Stata 17 software. The research findings are expected to demonstrate that DAU, per capita PDRB, IPM, and direct spending have a negative and significant effect on poverty levels, both partially and simultaneously. These findings are anticipated to provide policy recommendations for local governments to optimize the use of transfer funds to accelerate poverty alleviation in Jambi Province.

Keywords: General Allocation Funds, Poverty, Per Capita GDP, Human Development Index, Direct Expenditure, Panel Data, Jambi Province.

INTRODUCTION

Poverty is a multidimensional issue that continues to pose a significant challenge to development in Indonesia, particularly in regions with limited fiscal resources. Since

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the onset of the fiscal decentralization era following the reform, the central government has been providing financial transfers to local areas in various forms, one of which is the General Allocation Fund (DAU). The DAU is designed as a fiscal instrument aimed at reducing disparities in financial capacity among regions and promoting equitable development.

Theoretically, an effectively managed and appropriately targeted DAU should contribute to the enhancement of public services, the improvement of basic infrastructure, and ultimately lead to a reduction in poverty levels. However, the reality on the ground indicates that the relationship between DAU and poverty reduction is not always linear. Many regions that receive substantial amounts of DAU still experience relatively high poverty rates.

The province of Jambi, located on the island of Sumatra, presents an intriguing subject for study. Despite its wealth of natural resources, several districts and cities within Jambi Province continue to grapple with significant poverty issues. According to data from BPS (2024), the average poverty rate in Jambi Province remained above 7% in 2023, with considerable variation across regions. This situation indicates that the flow of transfer funds has not automatically succeeded in alleviating poverty throughout all districts and cities. Consequently, this research aims to empirically examine the impact of DAU on the poverty levels in the districts and cities of Jambi Province, while also considering other factors that influence poverty, such as per capita GRDP, the Human Development Index (HDI), and local government direct spending.

Problem Formulation

Based on the background outlined above, the problem formulation in this research is as follows:

1. Does the General Allocation Fund (DAU) have a significant impact on the poverty level in the districts/cities of Jambi Province during the period of 2022-2024?
2. Does the per capita Gross Regional Domestic Product (PDRB) significantly influence the poverty level in the districts/cities of Jambi Province during the period of 2022-2024?
3. Does the Human Development Index (HDI) significantly affect the poverty level in the districts/cities of Jambi Province during the period of 2022-2024?
4. Does local government direct spending have a significant impact on the poverty level in the districts/cities of Jambi Province during the period of 2022-2024?



5. Simultaneously, do the General Allocation Fund (DAU), Gross Regional Domestic Product (GRDP) per capita, HDI, and direct spending significantly influence the poverty level?

Research Objective

This study aims to:

1. Analyze and test the impact of DAU on the poverty level in the districts/cities of Jambi Province.
2. Examine the effect of per capita GDP on the poverty level in the districts/cities of Jambi Province.
3. Investigate the influence of HDI on the poverty level in the districts/cities of Jambi Province.
4. Assess the impact of local government direct spending on the poverty level.
5. Evaluate the simultaneous effect of all independent variables on the poverty level.

Benefits of Research

This research is expected to provide the following benefits:

1. Theoretical Benefits: To enhance the body of knowledge in the fields of development economics and regional finance, particularly regarding the mechanisms of fiscal policy transmission in relation to poverty reduction.
2. Practical Benefits: To offer policy recommendations for local governments to utilize transfer funds more effectively in order to accelerate poverty alleviation efforts.
3. Academic Benefits: To serve as a reference for future researchers who wish to explore in greater depth the topics of regional finance and poverty alleviation in Indonesia.

LITERATURE REVIEW

General Allocation Fund (DAU)

The General Allocation Fund is a financial resource derived from the State Budget (APBN) allocated to regions with the aim of equalizing financial capabilities among regions to finance local needs in the context of decentralization. According to Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, DAU is one of the largest components of balancing funds.

The amount of DAU is set at a minimum of 26% of the Net Domestic Revenue (PDN) established in the State Budget. The DAU formula is based on the fiscal gap, which

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is the difference between fiscal needs and the fiscal capacity of the region, plus a basic allocation calculated based on the salaries of regional Civil Servants. Since the enactment of Law Number 1 of 2022 regarding Financial Relations between the Central Government and Regional Governments (HKPD), the DAU formula has been adjusted to better reflect the actual fiscal conditions of the regions.

Poverty and Its Indicators

Poverty is defined as a condition in which an individual or household is unable to meet minimum basic needs, both in terms of food and non-food items. The Central Bureau of Statistics (BPS) measures poverty using the concept of the poverty line (GK), which includes the food poverty line (GKM) and the non-food poverty line (GKNM).

The primary indicators of poverty utilized are: (1) the headcount index (P0), which represents the percentage of the poor population; (2) the poverty gap index (P1), which assesses the depth of poverty; and (3) the poverty severity index (P2), which evaluates the severity of poverty. This research employs the headcount index as the dependent variable due to its ease of understanding and the availability of data at the district/city level.

Foundational Theories

Fiscal Decentralization Theory (Oates, 1972)

The fiscal decentralization theory developed by Oates (1972) posits that decentralization through the transfer of funds from the central government to local governments can enhance the efficiency of public goods provision. This is attributed to local governments having a better understanding of the preferences and needs of the local population compared to the central government. In the context of this study, the General Allocation Fund (DAU) as a fiscal decentralization instrument is expected to promote public spending that is more responsive to the needs of the poor at the local level.

Growth and Poverty Theory (Ahluwalia, 1976)

Ahluwalia (1976) argues that inclusive economic growth will reduce poverty through the trickle-down effect; however, an equitable income distribution is essential to ensure that the benefits of growth are experienced by the impoverished groups. In this study, per capita GDP represents the level of regional economic growth, which is theoretically negatively correlated with the poverty rate.

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Human Capital Theory (Schultz, 1961; Becker, 1964)

Schultz (1961) and Becker (1964) emphasize that investing in human resources through education and health is an effective long-term strategy for sustainably alleviating poverty. The Human Development Index (HDI) in this research reflects the quality of human capital investment resulting from local government spending policies, including the utilization of the General Allocation Fund (DAU).

Public Expenditure and Poverty Theory (Musgrave, 1959)

Musgrave (1959) established the foundational theory regarding the government's distribution function, where public expenditure should be directed towards reducing inequality and poverty. Direct local government spending that is pro-poor, such as basic infrastructure, community empowerment, and social security, is believed to directly reduce poverty levels at the local level.

Previous Research

Several relevant studies have been conducted previously, both at the national and regional levels. The research by Sari and Nataluddin found that the General Allocation Fund (DAU) has a significant negative impact on poverty in East Kalimantan Province, with a regression coefficient of -0.312 that is significant at the 5% level. The study by Kusuma and Wiksuana (2022) indicates that an increase in local direct spending can effectively reduce poverty rates in Eastern Indonesia, with an elasticity of 0.24. Meanwhile, Handra's research (2023) emphasizes the importance of the quality of DAU management in determining its effectiveness in poverty reduction, rather than merely the nominal amount transferred.

A recent study by Prasetyo et al. (2023) utilizing panel data from 34 provinces in Indonesia for the period 2022-2024 found that the interaction between DAU and the Human Development Index (IPM) has a stronger negative impact on poverty than each variable separately. The research by Rachmawati and Soebagiyo (2023) in South Sumatra Province confirms that targeted direct spending can reduce poverty with a greater effect than GDP growth alone. Amalia and Mulyono (2024), in their study on Java Island, found that IPM serves as a significant mediating variable between DAU and poverty, indicating the importance of the quality of public expenditure in the transmission chain of fiscal policy.

These studies demonstrate that the influence of DAU on poverty is conditional and depends on the quality of local governance, the level of IPM, and the composition of

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prioritized spending. These findings reinforce the urgency of research focusing on the specific characteristics of Jambi Province.

Research Gap

Although numerous studies have been conducted on DAU and poverty, there are several research gaps that justify the execution of this study. First, most previous research has concentrated on national or large provincial levels such as Java and Kalimantan, resulting in limited contextual findings for Jambi Province. Second, there is a lack of research that simultaneously examines the roles of DAU, per capita GRDP, HDI, and direct spending within a unified model specifically for the Jambi region.

Third, earlier studies generally utilized data periods prior to the COVID-19 pandemic or only covered the pandemic phase, thus failing to capture the dynamics of fiscal recovery and poverty post-pandemic at the district/city level in Jambi Province (2021-2023). Fourth, there are limitations regarding the handling of time-invariant heterogeneity across regions, which this research aims to address through the systematic selection of either a Fixed Effect Model or a Random Effect Model. Fifth, no studies have yet integrated the regulatory changes following the 2022 HKPD Law concerning the DAU formula and its implications for districts/cities in Jambi Province.

Based on these five gaps, this research seeks to provide a more specific, contemporary, and methodological empirical contribution to the understanding of the relationship between fiscal decentralization and poverty alleviation in Jambi Province.

Theoretical Framework

Based on theoretical studies and previous research, the framework of this research can be illustrated as follows: General Allocation Funds (DAU), Gross Regional Domestic Product (PDRB) per capita, Human Development Index (IPM), and Direct Expenditures are suspected to have an impact on the poverty level in the districts/cities of Jambi Province, both collectively and partially. The transmission mechanism of DAU to poverty occurs through the enhancement of local government spending capacity, which is then allocated to poverty alleviation programs, both directly and indirectly, through the improvement of IPM.

Research Hypothesis

Based on the theory and conceptual framework, the research hypothesis is formulated as follows:

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1. H1: The General Allocation Fund (DAU) has a negative and significant impact on the poverty level.
2. H2: The Gross Regional Domestic Product (PDRB) per capita has a negative and significant effect on the poverty level.
3. H3: The Human Development Index (IPM) negatively and significantly influences the poverty level.
4. H4: Direct spending has a negative and significant effect on the poverty level.
5. H5: The General Allocation Fund (DAU), Gross Regional Domestic Product (PDRB) per capita, Human Development Index (IPM), and direct spending collectively have a significant impact on the poverty level.

RESEARCH METHODOLOGY

Types and Approaches of Research

This research employs a quantitative approach with a causal associative research type. The data utilized consists of secondary data in the form of panel data, which combines time-series data (from 2022 to 2024) and cross-sectional data (from 11 districts/cities in Jambi Province). The use of panel data offers advantages in terms of a larger number of observations, reduces multicollinearity issues, and is capable of capturing heterogeneity across regions.

Scope and Duration of the Research

This research encompasses all districts and cities in Jambi Province, which includes 9 districts and 2 cities: Batanghari, Merangin, Sarolangun, Bungo, Tebo, Muaro Jambi, Tanjung Jabung Timur, Tanjung Jabung Barat, Kerinci, Jambi City, and Sungai Penuh City. The research period spans from 2022 to 2024 (3 years), resulting in a total of 66 units of analysis.

Sources and Data Collection Techniques

Data is obtained from the following official sources:

- 1 Central Statistics Agency (BPS) of Jambi Province and BPS of Indonesia: data on poverty levels, per capita GDP, and Human Development Index (HDI).
- 2 Directorate General of Financial Balance (DJPK) of the Ministry of Finance of Indonesia: data on the realization of General Allocation Fund (DAU) per district/city.



- 3 Directorate General of Regional Finance (DJKD) of the Ministry of Home Affairs: data on the realization of direct regional budget (APBD) expenditures.

Operational Definitions of Variables

The following table presents the operational definitions of the variables used in this research:

Variable	Definition	Indicator	Scale
General Allocation Fund (X1)	Transfer of funds from the central government to regional governments to equalize fiscal capacity among regions.	General Allocation Fund (DAU) per capita (IDR)	Ratio
Poverty Rate (Y)	Percentage of the population living below the poverty line.	Percentage of poor population (%)	Ratio
Gross Regional Domestic Product (GRDP) per Capita (X2)	Gross regional domestic product divided by the total population.	GRDP per capita (IDR)	Ratio
Human Development Index (HDI) (X3)	A composite index that measures the quality of human life in a region.	HDI Score (0–100)	Ratio
Direct Expenditure (X4)	Realized regional government expenditure that directly affects development programs.	Total Direct Expenditure (Billion IDR)	Ratio

Kota Jambi, serving as the capital of Jambi Province, is recognized as one of the regions with a relatively higher level of development compared to most other districts. According to data from the Central Statistics Agency (BPS), the Human Development Index (HDI) of Kota Jambi reached 81.77 in 2024, an increase from 80.93 in 2023. This achievement reflects the ongoing improvements in the quality of education, health, and living standards of the community.



On the other hand, despite the relatively high level of human development, poverty remains an issue that requires attention. The percentage of the poor population in Kota Jambi was recorded at 8.33% in 2022, decreasing to 8.24% in 2023, and further declining to 7.73% in 2024. This downward trend indicates an improvement in community welfare; however, the poverty rate still necessitates sustained mitigation efforts through effective regional fiscal policies, including the utilization of the General Allocation Fund (DAU).

The situation in Kota Jambi illustrates that enhancing the quality of human development and the fiscal support from the local government has the potential to contribute to poverty reduction. Therefore, analyzing the impact of the General Allocation Fund on poverty levels is crucial to understand the extent to which transfers from the central government can promote the welfare of communities in the region.

Jambi City Indicators	2022	2023	2024
Poverty Rate (%)	8.33	8.24	7.73
Human Development Index (HDI)	–	80.93	81.77

Source: BPS City of Jambi and BPS Province of Jambi.

Data Analysis Models and Techniques

The econometric model employed is a panel data regression represented by the following equation:

$$POVit = \beta_0 + \beta_1 DAUit + \beta_2 PDRBit + \beta_3 IPMit + \beta_4 BLit + \varepsilon it$$

Explanation: POV = Poverty Rate (%); DAU = General Allocation Fund per capita (ln); PDRB = Gross Regional Domestic Product per capita (ln); IPM = Human Development Index; BL = Direct Expenditure (ln); i = district/city; t = year; ε = error term.

The selection of the optimal model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) is conducted through the Chow test, Hausman test, and Lagrange Multiplier test. All data processing is performed using EViews 12 and Stata 17.

Classical Assumption Testing

Prior to interpreting the results, a series of classical assumption tests are conducted, including: residual normality test (Jarque-Bera), multicollinearity test



(Variance Inflation Factor), heteroscedasticity test (Breusch-Pagan/White), and autocorrelation test (Durbin-Watson/Wooldridge). If any assumption violations are identified, appropriate corrections will be made, such as variable transformation or the use of robust estimators.

CONCLUSION

Summary

Poverty continues to pose a significant challenge to development in Jambi Province, necessitating effective fiscal policy support. The General Allocation Fund (DAU), per capita Gross Regional Product (PDRB), Human Development Index (IPM), and direct local government spending are believed to influence poverty levels. Consequently, this research is conducted to analyze the impact of these variables on poverty levels in the districts/cities of Jambi Province for the period 2022–2024.

Recommendations

Based on the forthcoming research, it is anticipated that local governments will optimize the utilization of the General Allocation Fund (DAU) and direct regional spending more effectively and accurately to support poverty alleviation efforts. Furthermore, future studies are encouraged to expand this analysis by incorporating additional relevant variables and extending the research period to achieve more comprehensive and in-depth results.

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