International Journal of Finance, Economics and Business
Vol. 3, No. 3, September 2024, pp.206-216 e-ISSN: 2948-3883

DOI: 10.56225/ijfeb.v3i3.353

Original Article

The Effect of Local Revenue, General Allocation Fund and Special Allocation Fund on Poverty Through Economic Growth in Aceh Province, Indonesia

Amran Ibrahim [1], Srinita Srinita [1,*] and Muhammad Nasir [1]

[1] Department of Economics, Faculty of Economics and Business, Universitas Syiah Kuala, Darussalam, Syiah Kuala, 23111 Kota Banda Aceh, Aceh Province, Indonesia; amran22@mhs.usk.ac.id (A.I), nasirmsi@usk.ac.id (M.N.)
* Correspondence: srinita@usk.ac.id (S.S.)

Citations: Amran, I., Srinita, S., & Nasir, M., (2024). The Effect of Local Revenue, General Allocation Fund and Special Allocation Fund on Poverty Through Economic Growth in Aceh Province, Indonesia. *International Journal of Finance, Economics and Business*, *3*(3), 206-216.

Received: 20 May 2024 Revised: 9 August 2024 Accepted: 5 September 2024 Published: 30 September 2024

Abstract: Aceh Province faces serious challenges related to poverty that require special attention to improve people's welfare. Various efforts have been made by the Aceh government to reduce poverty, but the poverty rate in Aceh Province is still relatively high compared to other provinces in Sumatra. This study analyses the effect of local revenue, general allocation funds, and special allocation funds on poverty through economic growth in districts/cities of Aceh Province. Quantitative methods of path analysis and panel data regression models were used to analyse panel data from 23 districts/cities in Aceh Province for 2015-2023. The results showed that in Model I, local revenues had a positive effect on economic growth, general allocation funds had no effect on economic growth, and special allocation funds had a positive effect on economic growth. Furthermore, in Model II, local revenue has a negative effect on poverty, general allocation funds have a positive effect on poverty, and special allocation funds have no effect on poverty. In Model III, economic growth has a negative effect on poverty. Economic growth mediates the relationship between local revenues and special allocation funds on poverty. The government needs to implement policies that optimise revenues to increase regional fiscal independence, improve local economic growth and reduce poverty.

Keywords: Poverty, Economic Growth, Local Revenue, General Allocation Fund, Special Allocation Fund.

1. Introduction

Poverty is a socio-economic phenomenon that can hinder regional development. It indicates the inability of individuals or groups to fulfill basic needs such as food, housing, education, and health. Therefore, poverty is a serious problem that must be addressed immediately. The government plays a role in poverty alleviation by allocating the budget effectively to stimulate economic growth and reduce poverty (Miar & Yunani, 2020). (World Bank, 2020) defines poverty as a lack of welfare, and the poor are those who do not have sufficient income or consumption above a minimum threshold. Commitment to poverty reduction is a top priority in the achievement of the SDGs and the national development strategy RPJMN 2020-2024. Poverty alleviation remains a key theme in all regions, including Aceh, which is a high-poverty province and the sixth poorest in Indonesia. In 2023, the percentage of poor people in Aceh reached 14.45 percent with 806,750 people. The high poverty rate indicates that many people who live with low welfare, have difficulty accessing infrastructure, education, and quality health services. Information on the profile and characteristics of poverty is needed by planners and policy makers to ensure that programs are well-targeted. Figure 1 shows a comparison of the poverty rates in Indonesia and Aceh.

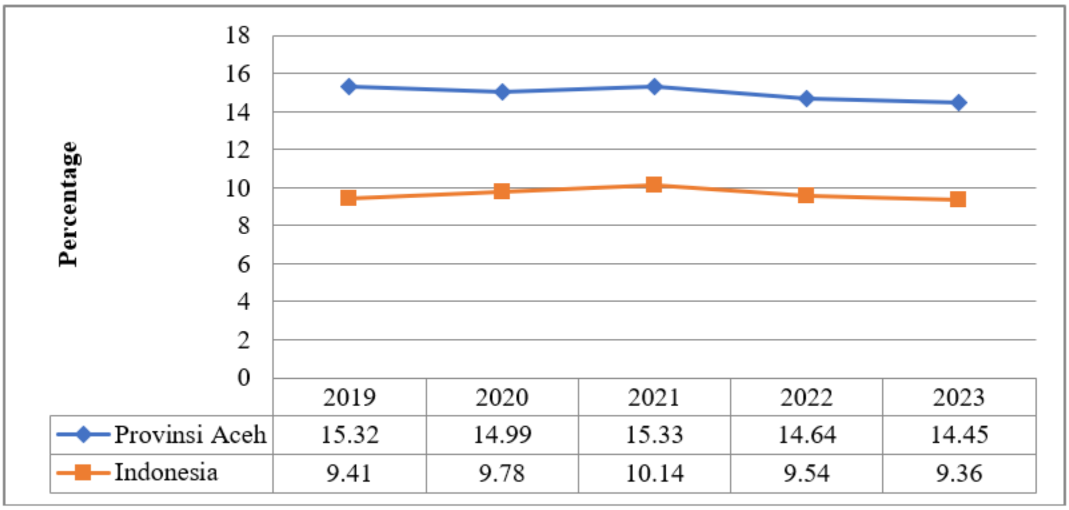

Figure 1. Percentage of Poor People in Aceh Province and Indonesia 2019-2023 (Percent)

Shows a comparison of the percentage of poor people in Aceh and Indonesian during 2019-2023 in Figure 1. During this period, the poverty rate in Aceh remained high, averaging 15 percent, exceeding the national rate of 9-10 percent. Contributing factors include reliance on a less productive agricultural sector, suboptimal management of Special Autonomy Funds, development disparities between urban and rural areas, as well as the impact of the COVID-19 pandemic that worsened economic conditions (Nurjannah et al., 2019). One way to reduce poverty is through achieving increased and sustainable economic growth. Economic growth is the development of economic activities that result in an increase in the production of goods and services of a society and an increase in people's welfare. The purpose of accelerating the economic development of a region is to utilize the growth rate of Gross Domestic Product (GRDP). The higher the GRDP of a region, the greater the potential source of income of the region, if the GRDP is lower, the greater the impact on poverty.

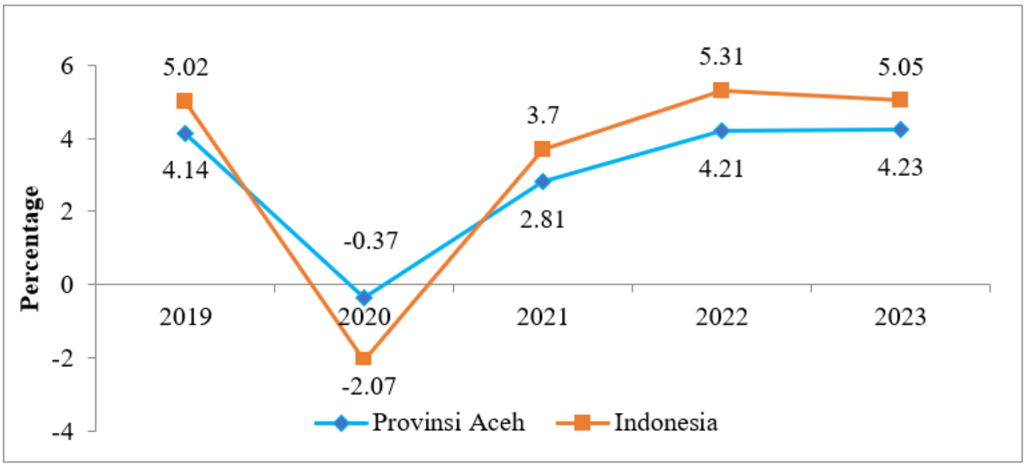

Figure 2. Economic Growth of Aceh Province and Indonesia 2019-2023 (Percent)

Trend of economic growth in Aceh and Indonesia during 2019-2023 so fluctuations in Figure 2. Overall, Aceh's economic growth increased every year, although it experienced a drastic decline of -0.37 percent in 2020. Usually, Aceh's economic growth is lower than Indonesia's, except in 2020 during the Covid-19 pandemic. In 2021, Aceh's economy improved again with a growth of 2.81 percent and continued to increase until it reached 4.23 percent in 2023. To alleviate poverty, the government decided to delegate power from the central government to local governments in the form of regional autonomy. Giving responsibility to local governments to handle the interests of the community through their policies and authorities, as well as the establishment of rural institutions as an effort to overcome the problem of development inequality. This is because inequality can lead to high poverty rates. The authority given to local governments is considered because they better understand the conditions of their regions so that they can better manage and develop their regions through the regional autonomy provided.

Investigating poverty through the lens of economic growth in Aceh Province is essential for understanding the role of financial flows and local revenue sources in alleviating poverty. Aceh exhibits distinctive economic and social characteristics, including a significant reliance on fiscal transfers from the central government and persistent challenges in enhancing its own-source revenue. Examining the interrelationship between these variables can yield valuable insights into the effectiveness of fiscal policies and resource allocation strategies in fostering inclusive economic growth and, ultimately, reducing poverty in the region. The findings of this research are expected to serve as a reference for local policymakers in formulating more effective strategies to stimulate economic growth and mitigate poverty in Aceh. Based on this context, the central research questions are: (1) What are the effects of local revenue, general allocation funds, and special allocation funds on economic growth, and how do these, in turn, influence poverty levels across districts and municipalities in Aceh Province? (2) Does economic growth mediate the relationship between these financial factors and poverty? Accordingly, this study aims to analyze the influence of local revenue, general allocation funds, and special allocation funds on both economic growth and poverty, as well as to assess the mediating role of economic growth in this relationship across districts and municipalities in Aceh Province.

2. Materials and Methods

2.1. Materials

The scope of this research is focused on examining the relationship between the influence of village funds, economic growth, and the open unemployment rate on poverty levels across districts and cities in Aceh Province. Specifically, this study aims to analyze how these factors interrelate and contribute to poverty in the region over a defined period. The research utilizes annual data spanning from 2015 to 2023, providing a comprehensive view of trends and changes over time. The study is conducted across 23 districts and cities within Aceh Province, ensuring a broad and inclusive representation of the area. By employing secondary data, this research draws from panel data, which is a combination of cross-sectional and time-series data. The panel data structure allows for a more in-depth analysis of both the differences between districts/cities and their development over time. The data used in this study was sourced from reliable institutions, namely the Directorate General of Fiscal Balance (DJPK) and the Central Statistics Agency (BPS), ensuring the accuracy and relevance of the findings. This research offers insights into how economic and social factors interact to influence poverty, potentially guiding future policy decisions in Aceh Province.

Table 1. Operational Definition of Variables

Variable(s)	Definition	Unit
Poverty	Total population of poor districts/cities in Aceh province.	Percentage
Economic Growth	GRDP per capita of districts/cities in Aceh Province.	Percentage
Local Revenue	Total revenue obtained by the local government from revenue resources that are directly managed by the region.	Percentage
General Allocation Fund	Funds allocated by the central government to local governments each year, with the aim of funding the needs of local governments in the context of implementing decentralization.	Percentage

Special Allocation Fund	Funds are allocated by the central government to local governments for the purpose of financing special activities that are national priorities and cannot be fully financed by local revenues.	Thousands

2.2. Methods

This study employs two primary analytical techniques: descriptive analysis and panel data regression analysis. The descriptive analysis serves to summarize and elucidate the fundamental characteristics of the dataset, which includes variables such as poverty rates, economic growth, local revenue, the general allocation fund, and the special allocation fund. By doing so, it provides an initial overview of key patterns and trends observed over the period from 2019 to 2023, offering valuable insights into the dynamics within these variables. The descriptive analysis also highlights shifts and correlations that may not be immediately evident, setting the foundation for more in-depth exploration. The second technique, panel data regression analysis, is instrumental in examining the relationship between these variables over time while accounting for variations across different regions or entities. As noted by Gujarati, (2012), panel data methods effectively combine both cross-sectional and time-series data, allowing for a more comprehensive analysis that captures the complexity of the data. This approach not only enhances the robustness of the findings but also provides a clearer understanding of how these variables interact in both temporal and spatial dimensions. The general form of the panel data model can be represented by the following equation:

$$Y_{it} = \alpha_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}, \tag{1}$$

Model I is to analyze the effect of local revenue, general allocation fund, and special allocation fund on the economic growth.

$$GDRP_{it} = \beta_0 + \beta_{11}\log LR_{it} + \beta_{12}\log GAF_{it} + \beta_{13}\log SAF_{it} + e_{it}, \tag{2}$$

Model II to analyze the effect of local revenue, general allocation fund and special allocation fund on poverty.

$$POV_{it} = \alpha_0 + \alpha_{21}\log LR_{it} + \alpha_{22}\log GAF_{it} + \alpha_{23} SAF_{it} + e_{it}, \tag{3}$$

Model III is to analyse the effect of economic growth on poverty.

$$POV_{it} = \alpha_0 + \alpha_{31} GDRP_{it} + e_{it}, \tag{4}$$

Where PE is GDP per capita regional; POV is Poverty measured using total percentage population poor per location in district/city in Aceh; LR is Local Revenue; GAF is General Allocation Fund; SAF is Special Allocation Fund; $\alpha 0$ is Constant; $\alpha 1$ is Economic Growth Regression Coefficient; $\beta 0$ is Constant; $\beta 1$ is Poverty Regression Coefficient; i is Country; t is year; and e is error term.

3. Results

3.1. Descriptive Statistics

The descriptive statistics presentation seeks to comprehensively illustrate the frequency distribution of variables involved in this study, such as mean, median, maximum, minimum, and standard deviation. This analysis provides an insightful overview of key metrics by summarizing the central tendencies and dispersion patterns of the data. The study specifically utilizes data related to poverty levels, local revenue, general allocation funds, special allocation funds, and economic growth across 23 districts and cities within Aceh Province over the period from 2015 to 2023. This dataset encompasses a total of 207 observations, offering a broad understanding of the socio-economic conditions and fiscal performance over the studied timeframe. Statistics presentation seeks to comprehensively illustrate the frequency distribution of variables involved in this study, such as mean, median, maximum, minimum, and standard deviation, providing an insightful overview of key metrics by summarizing the central tendencies and dispersion patterns of the data.

Table 2. Descriptive Statistics

	POV (Percent)	EG (Percent)	LR (Thousand)	GAF (Thousand)	SAF (Thousand)
Mean	16,07217	31,53377	125363955,54	562370772.77	176771310.71
Median	16,26000	28,05000	101119970	493792581	159484181
Maximum	23,79000	90,76000	903488941	4294175386	525006617
Minimum	6,90000	15,86000	35108979	292296821	42758540
Std. Dev.	3,63837	12,77971	92686948	303777189,25	78977121
Obs.	207	207	207	207	207

Note: POV is Poverty; EG is Economic Growth; LR is Local Revenue; GAF is General Allocation Fund; SAF is Special Allocation Fund.

The descriptive statistics provided in Table 2 represent the data analyzed in the research period 2019-2023 in the form of annual data with a total of 207 observations used for each of the research variables. The poverty variable has a minimum value of 6.90 percent, a maximum value of 23.79 percent and a mean value of 16.07 percent and a standard deviation value of 3.63 percent, which means that the mean value is greater than the standard deviation value so it can be concluded that the distribution of values is evenly distributed. the economic growth variable has a minimum value of 15.86 percent, a maximum value of 90.76 percent and a mean value of 31.53 percent and a standard deviation value of 12.77 percent, which means that the mean value is greater than the standard deviation value so it can be concluded that the distribution of values is even. The local revenue variable has a minimum value of Rp35,108,979, a maximum value of Rp903,488,941, a mean value of Rp125,363,955, and a standard deviation of Rp92,686,948. Because the mean value is greater than the standard deviation, the distribution of values can be considered evenly distributed. The general allocation fund variable has a minimum value of Rp292,296,821, a maximum value of Rp4,294,175,386, a mean value of Rp562,370,772, and a standard deviation of Rp303,777,189, also showing an even distribution. Meanwhile, the special allocation fund variable has a minimum value of Rp42,758,540, a maximum value of Rp525,006,617, a mean value of Rp176,771,310, and a standard deviation of Rp78,977,121, which means that the distribution of values is also evenly distributed.

3.2. Chow, Hausman and Lagrange Multiplier Tests

After estimating descriptive statistics, proceed with the selection of the best model. Panel data model selection is used to determine the best model used in a study. In selecting a model, several important steps include model specification by selecting relevant and theoretical independent variables, and considering the assumptions underlying the estimation method used, such as the Common Effects Model (CEM), Fixed Effects Model (FEM) and Random Effects Model (REM). To obtain the best model, estimation and testing for each equation are conducted.

Table 3. Determining the Best Model

	Effect Test	**Description**	
		Prob.	**Decision**
Model I	Chow	0.000 < 0.05	Fixed effect
	Hausman	0.000 < 0.05	Fixed effect
	LM	-	-
Model II	Chow	0.000 < 0.05	Fixed effect
	Hausman	0.000 > 0.05	Fixed effect
	LM	-	-
Model III	Chow	0.000 < 0.05	Fixed effect
	Hausman	0.000 > 0.05	Fixed effect
	LM	-	-

The next important step in the analysis is conducting the Hausman test. This test is designed to help researchers or analysts determine which model is most suitable between the Fixed Effect Model (FEM) and the Random Effect Model (REM) for estimating panel data. By comparing these two models, the Hausman test assesses whether the individual effects are correlated with the regressors. In Table 3, under Models I, II, and III, it is evident that the probability value associated with Cross-Section Random is less than the alpha (α) level (0.000 < 0.05). This result indicates that the null hypothesis (H0), which suggests that REM is appropriate, is rejected. Consequently, it is confirmed that the Fixed Effect Model (FEM) is the more appropriate model to use in this context. As FEM is selected, it eliminates the need for the Lagrange Multiplier (LM) test, which would typically be performed to compare the Common Effect Model (CEM) and the Random Effect Model (REM). In this case, the FEM is conclusively deemed the most suitable model for the given data, rendering further comparison unnecessary.

3.3. Panel Data Regression

Table 4. Result of Panel Data Regression for Model I

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-85.234	61.244	-1.391	0.1657
Log(PAD)	3.795	1.347	2.816	0.0054
Log(DAK)	4.965	1.426	3.481	0.0006
Log(DAU)	-2.346	2.435	-0.963	0.3365

The estimation results in Table 4. show that local revenue has a positive and significant effect on economic growth in the districts/municipalities of Aceh Province, with a coefficient of 3.759631 and a probability of 0.0054, which is smaller than 0.05. This confirms that partially local revenue plays an important role in increasing economic growth, where every 1 per cent increase in local revenue will increase economic growth by 3.759631 per cent, ceteris paribus. In addition, special allocation funds were also found to have a positive influence on economic growth, with a coefficient of 4.965142 and a significance level of 0.0006, indicating that a 1 per cent increase in special allocation funds would increase economic growth by 4.965142 per cent, ceteris paribus. On the other hand, general allocation funds did not show a significant effect on economic growth, with a significance level of 0.3365, which is greater than 0.05, signalling that fluctuations in general allocation funds do not directly affect economic growth in the districts/municipalities of Aceh Province.

Table 5. Result of Panel Data Regression for Model II

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	27.482	11.784	2.332	0.0208
Log(PAD)	-1.230	0.259	-4.747	0.0000
Log(DAU)	0.946	0.468	2.020	0.0448
Log(DAK)	-0.407	0.274	-1.485	0.1391

Table 5 explains that the effect of Regional Original Revenue (PAD) on poverty is -1.230801 with a significant level of 0.0000 which is smaller than 0.05 per cent. This shows that partially, PAD has a negative and significant effect on poverty. In other words, when PAD increases by 1 per cent, there will be a decrease of 1.230801 per cent in the poverty rate assuming cateris paribus in the districts/municipalities of Aceh Province. This result indicates that high local revenues are not always followed by a decrease in the poverty rate, or in some cases, can even decrease poverty. In addition, the table also shows that the effect of the General Allocation Fund (DAU) on poverty is 0.946761 with a significant level of 0.0448, which is also smaller than 0.05 per cent. This shows that DAU has a positive influence on poverty, so that when DAU increases by 1 per cent, the poverty rate will decrease by 0.946761 per cent. This confirms that the general allocation fund can contribute to reducing poverty in the districts/municipalities of Aceh Province. On the other hand, Table 5. also reveals that the Special Allocation Fund (DAK) has no significant effect on poverty. The coefficient of DAK is recorded at -0.407683 with a significant level of 0.1391, which is greater than 0.05 per cent, thus indicating that DAK partially has no significant impact on poverty. This suggests that fluctuations in DAK, although increasing, are not always accompanied by significant changes in poverty levels or may even reduce economic growth in certain contexts in the districts/municipalities of Aceh Province.

Table 6. Result of Panel Data Regression for Model III

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.14760	0.350067	57.55361	0.0000
Perkapita	-0.129240	0.010943	-11.81057	0.0000

Table 6 shows that the effect of economic growth on poverty is -0.129240 with a significant level of 0.0000 <0.05 per cent. This shows that partially economic growth has a negative and significant effect on poverty. In other words, when economic growth increases by 1 per cent, it will result in a decrease of 0.129240 per cent *cateris paribus* in poverty in the districts/cities of Aceh Province. This could indicate that high economic growth is not always followed by a decrease in poverty or can even reduce poverty in certain contexts. Determine whether there is a mediating role of economic growth in the relationship between local revenues, general allocation funds, and special allocation funds on poverty rates in districts/municipalities in Aceh Province, the Sobel test was conducted as a statistical analysis method. This Sobel test aims to test whether economic growth is really a significant mediating variable in the influence of these variables on poverty. If the results of the Sobel test show a probability value that is smaller than the predetermined significance level, it can be concluded that economic growth acts as a significant mediator in mediating the effect of local revenues, general allocation funds, and special allocation funds on poverty levels in districts/municipalities in Aceh Province.

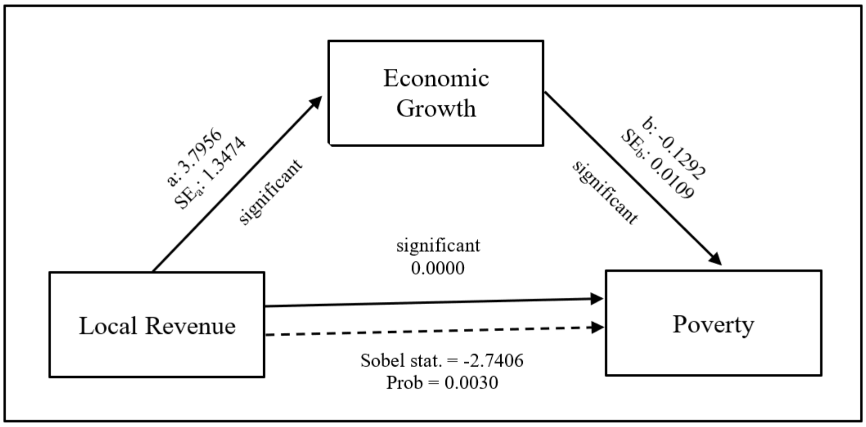

Figure 3. Sobel Test of Local Revenue on Poverty through Economic Growth

Figure 3 shows that local revenues have a positive and significant influence on economic growth in the districts/cities of Aceh Province. The coefficient value for local revenue is 3.759631 with a probability of 0.0054 <0.05. This indicates that partially local revenues have a statistically significant influence on economic growth. Furthermore, the effect of local revenue on poverty is -1.230801 with a significant level of 0.0000 <0.05 percent. This shows that partially local revenue has a negative influence on poverty. The sobel test results show that local revenue also affects poverty through economic growth with a probability value of 0.0030 <0.05 percent. These results indicate that economic growth partially mediates the effect of local revenue on poverty in the districts/cities of Aceh Province.

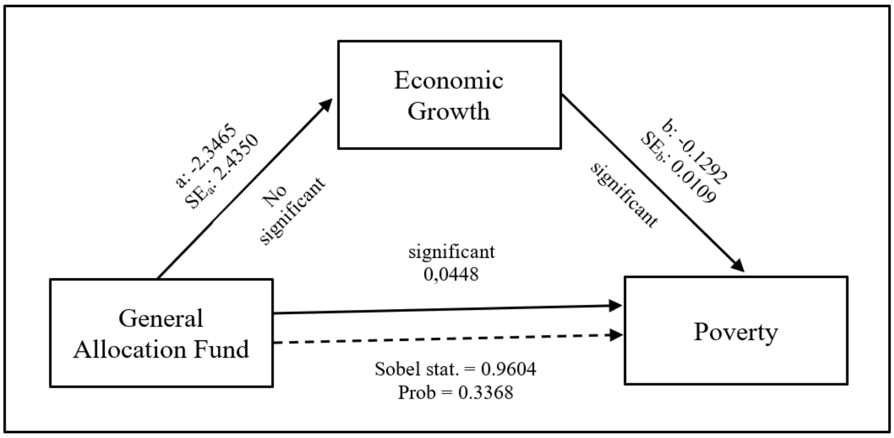

Figure 4. Sobel Test of General Allocation Fund on Poverty through Economic Growth

Figure 4 shows that the general allocation fund has no effect on economic growth, with a significant level of 0.3368 > 0.05. This indicates that partially fluctuations in general allocation funds do not have a significant impact on economic growth in the district / city of Aceh Province. Furthermore, it explains that the effect of general allocation funds on poverty is 0.946761 with a significant level of 0.0448 or less than 0.05 percent. This shows that the general allocation fund has a positive influence on poverty. The sobel test results show that local revenue has no effect on poverty through economic growth with a probability value of 0.3368 > 0.05 percent. The sobel test results interpret that economic growth does not play a role in explaining the relationship between general allocation funds and poverty.

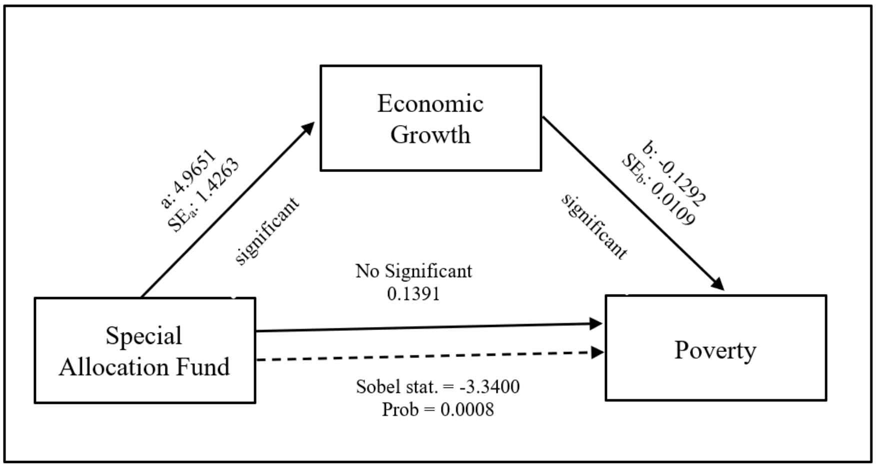

Figure 5. Sobel Test of Special Allocation Fund on Poverty through Economic Growth

Figure 5 shows that the special allocation fund affects economic growth in the district / city of Aceh Province. The coefficient of the special allocation fund is 4.965142 with a significant level of 0.0006 <0.05 percent, indicating that partially the special allocation fund has a positive influence. Furthermore, the special allocation fund has no effect on poverty in the districts/municipalities of Aceh Province. The coefficient of special allocation funds is -0.407683 with a significant level of 0.1391 > 0.05 percent, indicating that partially special allocation funds have no effect on poverty. Sobel test results show that special allocation funds affect poverty through economic growth with a probability value of 0.0008 < 0.05 percent. The results of the sobel test interpret that economic growth fully mediates the effect of local revenue on poverty in the districts/cities of Aceh Province.

4. Discussion

The estimation results of Model I show that local revenue (PAD) has a positive effect on economic growth in the districts/municipalities of Aceh Province, as it reflects the ability of regions to utilise local resources effectively. An increase in local revenue enables the funding of development and infrastructure projects, as well as increasing investment in productive sectors, which accelerates economic growth and increases regional fiscal independence. This research is in line with the findings of Siswiyanti (2017), Febrianto & Muchtolifah (2022), Silitonga & Purbadharmaja (2021), Putu et al., (2020), Usman et al., (2021), Adur et al, (2019), Budiman et al., (2023) and Savitry & Suarjaya (2020) who state that PAD contributes positively to economic growth. In contrast, the general allocation fund (DAU) has no effect on economic growth because many regions use it for routine and inefficient spending. Managerial limitations and fiscal dependence reduce initiatives to increase PAD. This is consistent with research by Rawung et al, (2023) who found that DAU has no real relationship with economic growth. However, special allocation funds have a positive effect on economic growth because they are used for specific projects that support infrastructure and public services, focusing on the development of strategic sectors that increase productivity and community welfare.

Results of Model II show that local revenue (PAD) has a negative and significant effect on poverty in districts/municipalities of Aceh Province, as an increase in PAD provides more resources for development programmes and public services that target poverty reduction, such as infrastructure, education, and health. Damanik & Saragih (2023), Usman et al., (2021) and Panggabean et al., (2022) strong PAD reflects vibrant local economic activity, creates jobs and increases people's income, thus contributing significantly to poverty reduction. In contrast, general allocation funds (DAU) have a positive effect on poverty, by providing additional resources for programmes that improve people's welfare. Usman et al., (2021) and Khatimah & Ichsan., (2022) however, this positive impact is highly dependent on well-targeted management and allocation, requiring close monitoring. Meanwhile, the special allocation fund (DAK) has no effect on poverty, as it focuses mainly on specific infrastructure projects and public services, whose impact on poverty depends on how effectively the projects improve access and quality of services for the poor. If DAK is not directed at programmes that directly address poverty, its impact can be minimal.

Estimation results of Model III show that economic growth has a negative effect on poverty in the districts/municipalities of Aceh Province, because economic growth increases activities that create jobs and incomes, allowing better access to basic needs such as food, education, and health. This growth is also often accompanied by investments in infrastructure and public services, which improve quality of life and reduce social inequalities. Therefore, poverty rates decline with sustainable and inclusive economic growth. This finding is in line with Panggabean et al., (2022), Usman et al., (2021), Hasan., (2021), Prasetyo (2022) and Nurjannah et al., (2019) which show that economic growth has a negative effect on poverty in Indonesia and several other regions.

The mediation test estimation results show that economic growth mediates the relationship between local revenue and poverty in the districts/municipalities of Aceh Province by increasing local investment and creating jobs, which in turn increases the income and purchasing power of the community, including the poor. The results of this study are in line with research conducted by Usman et al., (2021) which found that economic growth can mediate the relationship between local revenue and poverty. The mediation test estimation results show that economic growth is not able to mediate the relationship between general allocation funds to poverty in the districts/cities of Aceh Province. This is because if the DAU is not used effectively to encourage sustainable economic activity. Although DAU aims to support government functions and public services in the regions, if these funds are mostly used for routine or operational expenditures, their impact on economic growth may be limited. These results are in line with research conducted by Panggabean et al., (2022), which shows that economic growth is unable to mediate the relationship between general allocation funds and poverty. The mediation test estimation results show that economic growth mediates the relationship between special allocation funds and poverty in the districts/cities of Aceh Province. By increasing the effectiveness of these funds in reducing poverty. When DAK is allocated to infrastructure development projects or public services that support economic growth, such as road improvements, education facilities, and health services, it can stimulate economic activity and create jobs. The economic growth generated from these projects increases people's incomes and improves their access to basic needs, thus helping to reduce poverty. The results of this study are in line with research conducted by , Sukanto et al., (2018), Fatmasari et al., (2021), Qomariyah et al., (2018), which shows that economic growth is able to mediate the relationship between special allocation funds on poverty.

5. Conclusions

On the basis of the estimation results of Models I, II, and III, the path analysis conducted using panel data from districts and municipalities in Aceh Province yielded several significant findings. Firstly, local revenue demonstrated a positive contribution to economic growth, whereas the General Allocation Fund

(DAU) did not exhibit a statistically significant effect. Conversely, the Special Allocation Fund (DAK) was found to have a significant negative relationship with economic growth. Additionally, local revenue was negatively associated with poverty, suggesting its role in poverty reduction. In contrast, the General Allocation Fund was positively associated with poverty, while the Special Allocation Fund showed no significant impact in this regard. Economic growth itself was found to negatively affect poverty levels. Notably, economic growth served as a mediating variable in the relationship between local revenue and poverty but did not mediate the relationship between the General Allocation Fund and poverty. However, it positively mediated the effect of the Special Allocation Fund on poverty.

In light of these findings, public policies aimed at poverty reduction—such as social assistance programs, education, vocational training, and institutional reforms that promote equitable access—should be prioritized to achieve inclusive growth. It is imperative for districts and municipalities in Aceh Province to diversify their sources of local revenue (PAD) by leveraging potential in sectors such as tourism, the creative economy, and agriculture. Enhancing the capacity of local government officials in financial management is also crucial to optimize the use of the General Allocation Fund and to ensure transparency in fiscal administration. Moreover, the allocation of the Special Allocation Fund should be concentrated on strategic sectors, including education, health, and infrastructure, accompanied by strict monitoring to guarantee effective implementation. Ultimately, poverty alleviation efforts must emphasize empowering the poor through skill development and improved access to targeted financial support.

Author Contributions: Conceptualization, A.I., S.S and M.N.; methodology, A.I. and S.S.; software, A.I. and S.S.; validation, A.I., S.S and M.N.; formal analysis, S.S.; investigation, A.I; resources, A.I., S.S and M.N.; data curation, S.S. and M.N.; writing—original draft preparation, A.I.; writing—review and editing, A.I., S.S and M.N.; visualization, S.S.; supervision, S.S.; project administration, S.S.; funding acquisition, S.S. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: Not applicable.

Acknowledgments: The authors would like to thank Universitas Syiah Kuala, Aceh, Indonesia, for supporting this research and publication. We would also like to thank the reviewers for their constructive comments and suggestions.

Conflicts of Interest: The authors declare no conflict of interest.

References

Adur, V. R. G. B., Apriyanto, G., & Sutriwanto. (2019). Impact of pure regional income (PAD), general allocation funds (DAU) and special allocation funds (DAK) toward capital expenditures and its impact on economic growth (Case Study of Local Government in Malang Area). *International Journal of Academic Research and Development*, 4(6), 10–19.

Budiman, H., Arifuddin, Madris, & Sabir. (2023). The Effect of Regional Original Income, Special Allocation Funds and General Allocation Funds on Economic Growth in Makassar City for the 2010–2021 Period. 77, 339–350. https://doi.org/10.2991/978-94-6463-146-3_35.

Damanik, D., & Saragih, D. A. (2023). the Effect of Local own-source Revenue and Village Funds on the Poverty Rate in the Province of North Sumatra. *The Third International Conference on Innovations in Social Sciences Education and Engineering (*ICoISSEE)-3.

Fatmasari, D., Harjadi, D., & Hidayat, A. (2022). Analysis of economic improvement to reduce poverty in 2016-2020. *Khazanah Sosial*, 4(4), 757–764. https://doi.org/10.15575/ks.v4i4.23445.

Febrianto, D., & Muchtolifah. (2022). Pengaruh PAD, DAU, dan DAK Terhadap Pertumbuhan Ekonomi Dengan Kemiskinan Sebagai Variabel Intervening di Provinsi Jawa Barat. *Jurnal Manajemen Dan Bisnis*, 8, 2411–2425. https://doi.org/10.34006/jmbi.v8i2.111.

Gujarati, D. N. (2012). *Dasar-dasar Ekonometrika Buku 2 (Edisi 5)*. Jakarta: Salemba Empat.

Hasan, Z. (2021). the Effect of Economic Growth and Human Development Index on Poverty in Indonesia. *Journal of Economics and Sustainability, 3(No.1), 42–53*. https://doi.org/10.32890/jes2021.3.1.5.

Khatimah, H., & Ichsan. (2022). Dampak Pertumbuhan Ekonomi Dan Dana Alokasi Umum Terhadap Tingkat Kemiskinan Di Provinsi Aceh. 30(03), 1–10

Miar, & Yunani, A. (2020). The Analysis of Influence of The Government Expenditure on Poverty in Indonesia. *Jurnal Ekonomi Pembangunan*, 18(01), 91–102.

Nurjanah, F., Kusnendi, & Juliana. (2019). The Impact of Economic Growth and Distribution of Zakat Funds on Poverty (Survey in the Third District of West Java Province Period 2011-2016). *KnE Social Sciences*, 3(13), 55. https://doi.org/10.18502/kss.v3i13.4195.

Panggabean, H. L., Hariani, D., & B, A. Y. (2022). Pengaruh Dana Alokasi Umum, Pendapatan Asli Daerah dan Dana Alokasi Khusus terhadap Kemiskinan dengan Pertumbuhan Ekonomi sebagai Variabel Intervening Tahun 2015-2019. Owner, 6(2), 2200–2208. https://doi.org/10.33395/owner.v6i2.836.

Prasetyo, H., Kartikasari, E. D., Mahmudah, A., & Salukh, A. (2022). Effect of Regional Genuine Revenue and General Allocation Funds on Economic Growth with Regional Expenditures as Intervening Variables (Study On the Regencies/Cities in East Java 2019-2021). *Review of Politics and Public Policy in Emerging Economies*, 4(2), 83–96. https://doi.org/10.26710/rope.v4i2.2761.

Putu, N., Ria, Y., Putu, L., Indah, V., & Nyoman, N. (2020). Local Revenue and Financial Independence on Economic Growth Through Capital Expenditure. XXV(02), 320–336.

Qomariyah, N., Suharno, S., & Priyarsono, D. S. (2018). Dampak transfer fiskal dan belanja modal pemerintah daerah terhadap [erekonomian sektoral, ketimpangan dan kemiskinan di Indonesia. *Jurnal Ekonomi Dan Kebijakan Pembangunan, 5(2), 45–67*. https://doi.org/10.29244/jekp.5.2.45-67.

Rawung, S. S., Poluakan, T. C., & Hamenda, B. (2023). The Effect Of Regional Original Revenue, General Allocation Funds, And Special Allocation Funds On Economic Growth In The North Sulawesi Province. *Jambura Equilibrium Journal, 5(2), 410–421*. https://doi.org/10.48175/ijarsct-13062.

Savitri, N. M. Y. S., & Suarjaya, A. A. G. (2020). Effect of Local Taxes, Regional Levies and general Allocation Funds (DAU) on the Economic Growth of Local Goverments in Bali Province. *American Journal of Humanities and Social Sciences Research* (AJHSSR), 4(3), 379–386.

Silitonga, M. T., & Purbadharmaja, I. B. (2021). The Effect of the Number of Tourist Visits, the Role of the Government , and Local Own Revenue (LOR) on the Economic Growth of the Regency / City of Bali Province. 8(6), 163–169.

Siswiyanti, P. (2017). Pengaruh Pad, Dau, Dak Terhadap Pertumbuhan Ekonomi Dengan Belanja Modal Sebagai Variabel Intervening. AKRUAL*: Jurnal Akuntansi*, 7(1), 1. https://doi.org/10.26740/jaj.v7n1.p1-17.

Sukanto, -, Juanda, B., Fauzi, A., & Mulatsih, S. (2018). Specific Allocation Funds, Economic Growth, and Unemployment: A Case Study in Banten Province, Indonesia. *International Journal of Scientific and Research Publications (IJSRP), 8(9), 386–390*. https://doi.org/10.29322/ijsrp.8.9.2018.p8153.

Usman, Ilyas, G. B., Azis, M., Rianti, M., Muliaty, Rumaolat, W., & Sely, M. D. (2021). Overcoming poverty by increasing local own revenue and general allocation funds through economic growth in central mamuju regency. *Proceedings of the International Conference on Industrial Engineering and Operations Management, 3234–3240*. https://doi.org/10.46254/sa02.20210879.

World Bank. (2020). Understanding Poverty.