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The Effect of Special Allocation Funds and Regional Original Income on Poverty in Cities/Regencies of West Kalimantan Province

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Abstract

The study analyzes how the Special Allocation Fund (SAF) and Regional Original Income (ROI) impact poverty in cities/districts in West Kalimantan. It utilizes secondary panel data from 12 districts and two cities in the region between 2018-2022. The findings suggest that SAF Non Fisik has no effect on poverty, while ROI has a negative impact. The study concludes that local governments should evaluate the effectiveness of using transfer funds from the central government to ensure effective poverty alleviation efforts.

Keywords: Special Allocation Fund (SAF), Regional Original Income (ROI), Poverty

INTRODUCTION

Indonesia's vast archipelago, consisting of 17,504 islands, presents unique challenges for the government. With 38 provinces, 99 cities, and 416 regencies, it's essential for the government to implement regional autonomy. This ensures efficient government affairs and the best possible service for the community. Additionally, regional autonomy is a concrete step towards reforming the government.

The regional autonomy policy has significant implications for the financial balance between the central and local governments. According to Law No. 33/2004 on Financial Balance between the Central Government and Local Governments, the economic balance between the two entities is a comprehensive system that aims to fund the implementation of the principles of decentralization, deconcentration, and assistance tasks. To reduce fiscal disparities, the law mandates the central government to transfer equalization funds to local governments. The balance fund in question consists of Revenue Sharing Funds (RSF), General Allocation Fund (GAF), and Special Allocation Fund (SAF), where the amount of the equalization fund is determined each fiscal year in the State Budget (SB). For local governments, the balancing fund transfer is a source of funding for their functions and services, while funding shortfalls are expected to be explored through their funding sources., which is Regional Original Revenue (ROR) (Prakosa, 2004).

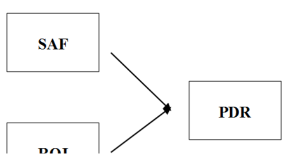
Fiscal decentralization empowers local governments to respond to the needs of their communities in a more efficient and effective way. (Noermanisa, 2023). It is important for local governments to focus on policies that can drive economic growth and improve the overall welfare of their communities. Unfortunately, poverty remains a chronic issue in many regions, hindering progress towards Indonesia's Golden Generation 2045 vision. Addressing poverty should be a top priority for the government, and fiscal decentralization can provide local governments with the tools they need to tackle this issue effectively.

Efforts to tackle poverty issues can be addressed by utilizing the non-physical SAF funds provided by the central government. According to PMK No. 24/PMK.07/2022, Non-physical SAF refers to the funds allocated for the purpose of supporting the operationalization of regional public services, as determined by the government. It is expected that local governments will maximize the use of Non-physical SAF to ensure that public services are delivered effectively and efficiently, thus minimizing service gaps.

In addition to the transfer of funds from the central government, local governments are also responsible for generating their own sources of funding, such as Regional Original Revenue (ROR), to meet their needs and provide essential services to the community. ROI refers to the revenue collected by a region based on statutory regulations. It comprises an increase in the wealth of a region that is obtained through the collection of provincial taxes, regional levies, regional wealth management results, BUMD results, and other legally permissible means of generating revenue. A higher ROI for a region signifies a reduced level of fiscal dependence on the central government. This translates to greater budget accessibility for the region, enabling them to fulfill their economic agenda more effectively (Setyanto & Setiawati, 2021).

The study focuses on analyzing how Non-physical SAF and ROI affect the poverty rate in municipalities and districts located in West Kalimantan Province

Figure 1
Model Research



Research exploring the relationship between SAF, ROI, and poverty levels is quite common. In a study by Alvaro and Zahara (2019), the impact of RSF, SAF, village funds, and GRDP on poverty was examined. Interestingly, the research found that RSF and SAF had no effect on poverty, while village funds and GRDP had a significant negative impact on poverty. According to Nugroho et al. (2021), the impact of SAF on the poverty rate varies depending on the sector being considered. The study found that SAF in education and health has a negative and significant effect on the poverty rate. However, SAF in infrastructure has a positive but insignificant impact on poverty. Meanwhile, Lindrianti's (2022) study focused on the effect of ROI and central fund allocation on poverty. The results showed that ROI, GAF, and RSF have no impact on the poverty rate. On the other hand, SAF has a positive effect on poverty. Furthermore, the study found that when ROI, GAF, SAF, and RSF are combined, they significantly affect poverty. In a study conducted by Febrianto & Muchtolifah (2022), poverty was used as an intervening variable to investigate the impact of ROI, GAF, and SAF on economic growth. The findings revealed that all three independent variables had a negative and insignificant effect on economic development through poverty. In contrast, Nurrizqi et al. (2023) examined the impact of GAF and ROI on poverty and discovered that ROI has a significant positive impact on poverty. On the other hand, GAF has a significant negative impact on poverty. The hypothesis is formulated based on the information provided as follows:

H_1: SAF Non-physical negatively affects poverty

H_2: ROI negatively affects poverty

METHOD OF RESEARCH

The research is an empirical quantitative research with Poverty (PDR) as the dependent variable. The definition of poverty used in this study aligns with the definition provided by the Central Statistics Agency (BPS), which defines poverty as the state of economic inability to meet basic needs in the form of food and non-food, as measured in expenditure.

Table 1
Kinds and Source of Data

Kinds	Sources
Realization of Special Allocation Fund	DJPK Finance Ministry
Realization of Regional Original Income	DJPK Finance Ministry
Poverty Depth Rate (P1)	Central Bureau of Statistics

The study utilized secondary data collected from 2018 to 2022 and analyzed it using the IBM SPSS Statistic 23 application.

RESULT AND DISCUSSION

As per the study, the poverty variable is represented by the poverty depth rate (P1). The poverty depth rate calculates the average expenditure gap of each poor person against the poverty line. The higher the index value, the farther the average expenditure of the population is from the poverty line. Poverty data was collected from the official website of the Central Bureau of Statistics.

The independent variables in the study are the Special Allocation Fund (SAF) and Regional Original Income (ROI). It's worth noting that SAF, in this case, refers to Non-physical SAF. The data for Non-physical SAF realization and ROI were obtained from the official website of the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia.

It was found that the significance value from the F test was 0.001, which is less than the alpha of 0.05. Therefore, it can be concluded that the model used is appropriate or has met the goodness of fit.

The t-statistical test was conducted to analyze the relationship between independent variables and the dependent variable. Upon analyzing the test results, it was found that the SAF variable's significance value on poverty is 0.321, which is greater than alpha 0.05. Therefore, it can be concluded that hypothesis 1 is rejected, and it can be assumed that SAF does not have any significant effect on poverty. On the other hand, the ROI variable's significance value on poverty is 0.002 with a negative direction, which indicates that hypothesis 2 is accepted. Hence, it can be concluded that ROI negatively impacts poverty.

1. Effect of SAF on Poverty

Based on the results of the study, it can be concluded that SAF Non-physical does not have any effect on poverty levels, which is consistent with the findings of Alvaro & Zahara (2019). Therefore, the amount of non-physical SAF received by local governments may not necessarily reduce poverty in cities/districts in West Kalimantan province. It is, therefore, important for local governments to assess the effectiveness of using SAF Non-physical. Effective use can improve the community's standard of living and ultimately alleviate poverty.

2. Effect of ROI on Poverty

The study suggests that ROI has a negative impact on poverty, which is consistent with the findings of Febrianto & Muchtolifah (2022), Paulus et al. (2019), and Rahmadeni (2019). The results imply that an increase in ROI could potentially help in reducing poverty. According to Law No. 33/2004 on Financial Balance between the Central Government and Local Governments, ROI serves as a source of funding for priority programs and regional development in the regions. Thus, local governments allocate ROI for poverty alleviation efforts.

CONCLUSION

Fiscal decentralization in Indonesia seems to be an effective policy that can help improve economic growth and community welfare through targeted policies. Local governments can make use of balanced funds from the central government and ROI to support poverty alleviation programs. A recent study conducted on poverty in cities/districts in West Kalimantan Province examines the effect of SAF Non-physical and ROI. The study uses panel data from 12 districts and two cities in West Kalimantan Province spanning from 2018 to 2022. The results of this study indicate that SAF Non-physical does not have any effect on poverty, but ROI, on the other hand, hurts poverty. However, it is important to note that there are a few limitations to this study, such as not using all the components of equalization funds as variables and the research being limited to cities/districts in only one province. The study provides some important implications, such as the need for local government evaluation to improve the efficiency of using SAF Non-physical so that poverty alleviation can be well-organized.

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