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RESEARCH ARTICLE

The effect of special autonomy funds, regional own-source revenue and village funds on poverty in Aceh

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ABSTRACT

This study analyzes the impact of Special Autonomy Funds (Otsus), Local Own-Source Revenue (PAD), and village funds on poverty levels in 23 regencies/municipalities in Aceh from 2020 to 2024. This research uses panel data regression to examine the relationship between these three fiscal variables and poverty. The findings indicate that Otsus and PAD do not significantly reduce poverty, while village funds have a significant negative effect, demonstrating their effectiveness in improving rural welfare. The regression model explains 98.6% of the variance in poverty reduction. The study also highlights that Otsus and PAD are often allocated for routine expenditures and large-scale infrastructure projects, with limited direct benefits for poverty alleviation. In contrast, Village Funds, which emphasize basic infrastructure and community empowerment, have a more direct impact on local welfare. These findings underscore the need for optimizing Otsus and PAD management to support pro-poor programs and strengthening oversight mechanisms to ensure the transparency and effectiveness of village fund utilization.

1. Introduction

The Indonesian government is improving the economy at various levels, including the district and provincial. In implementing regional economic development, the government makes short- and long-term plans discussing regional development programs. The development plan is contained in the Regional Medium-Term Development Plan (RPJMD) and the Regional Long-Term Development Plan (RPJPD).

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Development priorities, problems that occur in the region and how to overcome them are described in the plan for the next five years for the medium term and twenty years for the long term. The goal is to realize a region that stands independently and develops with its resources in each region. One of the main priorities in regional or national plans is poverty.

According to BPS 2022 data, Indonesia's current poverty condition is 2.04%. Meanwhile, based on World Bank (2015), the extreme poverty rate is 1.5%. Indonesian President Joko Widodo targets extreme poverty to approach 0 percent by 2024 and has issued the basis for Presidential Instruction (Inpres) Number 4 of 2022 concerning the Acceleration of the Elimination of Extreme Poverty. While pursuing these efforts, the poverty rate in Indonesia has not yet recovered from the pandemic. The Central Statistics Agency (BPS) noted that the poverty rate in Indonesia is still high. As of March 2023, the number of poor people reached 25.9 million or 9.36% (CNBC Indonesia, 2023).
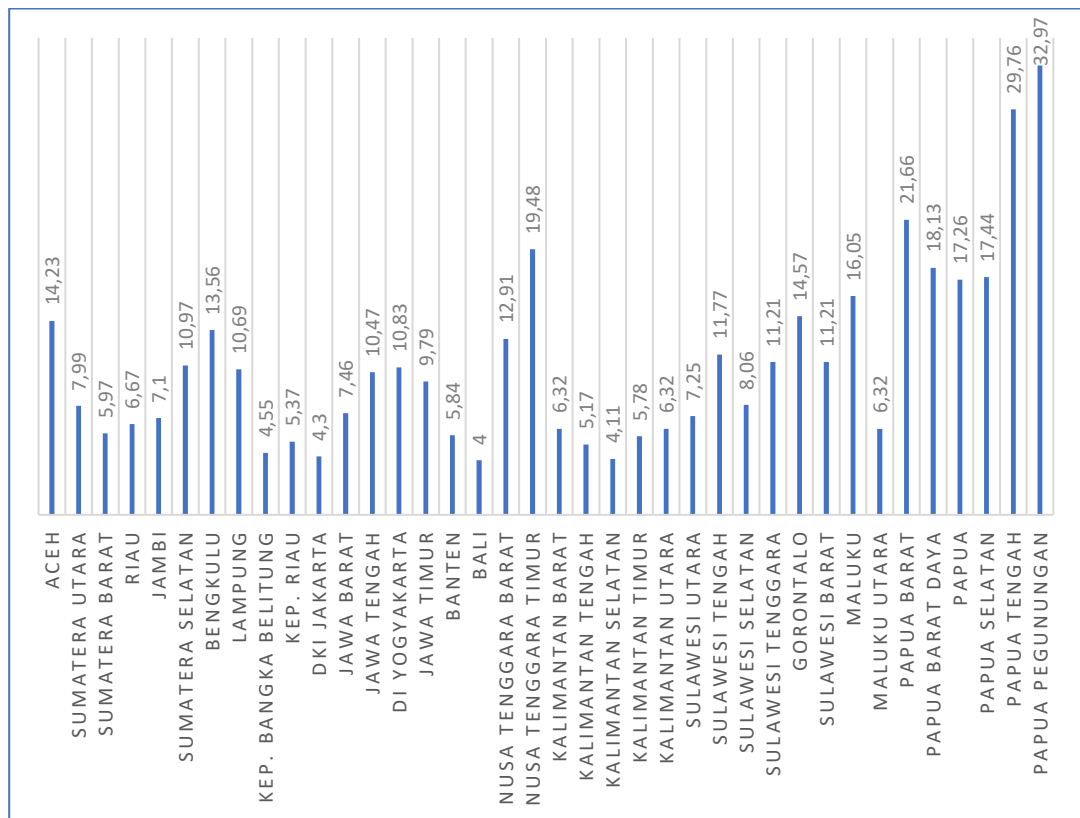

Figure 1. Percentage of Poor Population by Province, 2024. Source: BPS-Statistics Indonesia

Aceh is one of the provinces with a high poverty rate in Indonesia. At the national level, Aceh Province has the 10th-highest poverty rate and the first-highest rate in Sumatra (Figure 1).

The central government's considerable attention to Aceh has several considerations. One of the main points is the high poverty rate in the province. Although it has decreased from year to year, the percentage of poverty in Aceh is still far above the national percentage. The decline in poverty is also considered quite slow, so it is necessary to pursue effective policies to accelerate the decline in poverty in Aceh (Figure 2).
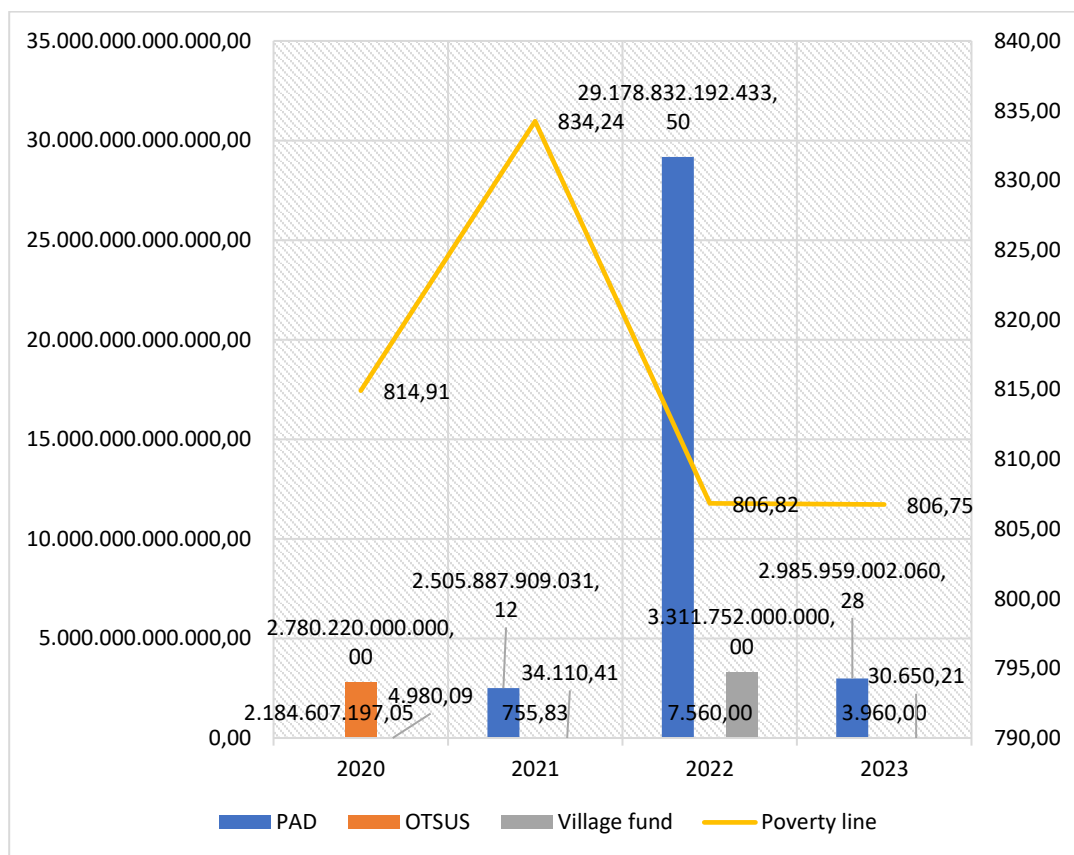

Figure 2. Local Own-Source Revenue (PAD), Special Autonomy Fund (OTSUS) and Village Fund with Poverty Line in Aceh in 2020-2023

This condition shows the increasing income inequality between the community and the receipt of funds from the government. A small part of the community still enjoys the large flow of funds to Aceh. As a result, only a small part of the community

has increased their welfare, while most others have decreased their welfare level. If left unchecked, economic disparities will potentially lead to social problems in the future.

2. Literature review

2.1. Poverty

According to Suharto in Febriaty & Nurwani (2017), poverty is a problem that never ends. In developing countries, poverty is caused by the economic and political system of the nation concerned. Meanwhile, in developed countries, poverty is individualized. According to BPS (2023), poverty is seen as the inability to meet the minimum standard of basic needs, including food and non-food. BPS calculates the poverty rate by calculating the population's consumption level of basic needs. This approach defines poverty as the economic inability to fulfill basic food and non-food needs. According to Sholeh in Khomsan et al. (2010), poverty is a multidimensional development problem because tackling the problems faced is not only limited to matters concerning the causal relationship of the onset of poverty but also involves preferences, values and politics.

The poverty measure developed by BPS uses expenditure poverty lines, both non-food poverty lines and food poverty lines. Each component is given a weight and summed up. The weighting of each commodity must be clear, consistent, and, most importantly, under the facts of the community. Since 1990, the United Nations Development Program (UNDP) has routinely issued an annual report on human development in various countries, the Human Development Report. The Human Poverty Index (HPI) defines poverty as the inability to expand choices in life. However, the HPI cannot identify poor individuals or households. To improve this, the multidimensional poverty approach (MPI) was developed, which analyzes poverty at the household and individual level through three dimensions: education, health, and living standards.

Indonesia uses an indicator of the percentage of poor people calculated through the Head Count Index (HCI-P0) with the following formula:

$$P_\alpha = \frac{1}{n}\sum_{i=1}^{q}\left(\frac{z - y_i}{z}\right)^{\alpha}$$

$$(1)$$

where P_o is the percentage of poor people, Z is the poverty line, y_i is the average monthly per capita expenditure of the population below the poverty line, q is the number of people below the poverty line, and n is the total population.

2.2. Special autonomy fund

The granting of special autonomy funds to the Government of Aceh in Law No. 11/2006 on the Government of Aceh is intended for the independence of the local government in managing the interests of the people by the needs of the people of Aceh itself. Article 183, paragraph 4 regulates special autonomy funds for provincial and regency/municipality development programs, but the Provincial Government carries out administrative management. In applying the regulation on the receipt of special autonomy funds (Law No. 18 of 2001), Aceh Province will receive an additional 55 percent of the proceeds from the mining of petroleum natural resources and 40 percent from the mining of natural gas, net of taxes. Meanwhile, implementing the LoGA regulation suggests that the special autonomy funds transferred by the central government are sourced from the National General Allocation Fund (DAU), which has been valid for 20 years. This means that from the first time Aceh, in 2008, will receive a transfer of special autonomy funds until the fifteenth year, 2022, it will receive 2 percent of the National DAU ceiling. Furthermore, in the sixteenth year, namely 2023 until the twentieth year or 2027, the Aceh Government will receive special autonomy funds amounting to 1 percent of the National DAU ceiling.

2.3. Village fund

As stipulated in Law No. 6 of 2014 on Villages, villages in Indonesia have authority based on original rights, local-scale village authority, and authority delegated by the central government, provincial government, or regency/municipalitygovernment. Additionally, villages may be assigned other responsibilities as per government regulations. Article 90, paragraphs 3 and 5 of Law No. 6 of 2014 states that central and regional governments can delegate village authority. Village authority assigned by the central government is funded through the State Budget (APBN), while authority assigned by the regional government is funded through the Regional Budget (APBD). Based on these regulations, every village receives funding from both

central and regional sources, which serve as the foundation for village financial resources and assets.

One of the key components of village funding is the Village Fund Allocation (ADD), which comes from the district/ budget (APBD). This allocation ensures financial equity among villages and supports village governance, infrastructure development, and public services. The ADD is part of the revenue-sharing mechanism between central and regional governments and is distributed through the village treasury account. According to Minister of Home Affairs Regulation No. 113 of 2014, ADD is a balancing fund a regency/municipality receives from the central and regional financial distribution, excluding **Special Allocation Funds (DAK).

Meanwhile, based on Government Regulation No. 60 of 2014, the Village Fund originates from the State Budget (APBN) and is transferred to villages through the regency/municipality budget. These funds finance village governance, infrastructure, social development, and community empowerment. The management of these funds follows Law No. 6 of 2014, which grants villages autonomy in their utilization based on local priorities. However, since the Village Fund is sourced from the central budget, the government has the authority to set priorities for its use to align with national development programs while respecting village autonomy.

The allocation of Village Funds to each regency/municipality is determined based on the number of villages and the average Village Fund per province, which considers factors such as the total number of villages, population size, land area, poverty rate, and geographical challenges within the district/city. According to Article 11, paragraph (8) of Government Regulation No. 60 of 2014, the regent head/mayor is responsible for determining the distribution of village funds for each village, which is calculated based on three key factors: 30% for population size, 20% for land area, and 50% for the poverty rate. This allocation system ensures that Village Funds are distributed fairly and effectively, considering demographic and economic factors to support sustainable rural development.

3. Research methods

3.1. Data

In this study, the data type used is panel data, a combination of cross-section data from 23 (twenty-three) regencies/municipalities in Aceh province and time series

data for 2020 - 2024. This study uses secondary data sources obtained from the Central Statistics Agency (BPS) of Aceh Province, the Directorate General of Fiscal Balance (DJPK), and the Aceh Financial Management Office, as well as the realization report of the Special Autonomy Fund, Village Fund and Local Own-Source Revenue for the 2020-2024 fiscal year (Table 1).

Table 1. Variables and definitions

Variables	Definition	Units
Local Own-Source Revenue (*PAD*)	Revenue is derived from indigenous economic sources levied based on local regulations.	IDR
Special Autonomy Fund (*OTSUS*)	Funds are allocated to finance the implementation of a region's special autonomy each year.	IDR
Village Fund (*VF*)	The use of existing funds in a village, whether it comes from government assistance, original village income, or other sources of income.	IDR
Poverty (*POV*)	Percentage of poor people below the poverty line	IDR

3.2. Data analysis

In this study, the data analysis method used is the Panel data simple regression analysis method, which combines time series and cross-section data. Using the Random Effect Method (REM) Random Effect Model (REM), this research model uses quantitative analysis. The Panel Data Regression Estimation Method determines the most appropriate model, and several tests can be carried out, including the Chow test, the Hausman test, and the panel data estimation method.

The data analysis method used in this study is simple panel data regression analysis, which combines time series and cross-section data. Cross-section data refers to data collected at a single point across multiple individuals, whereas time series data is collected over time for a single individual (Gujarati, 2003).

There are two main advantages of using panel data models compared to using only time series or cross-section data (Verbeek, 2004, cited in Firdaus, 2011):

1. Increased observations and accuracy
   Combining time series and cross-section data in panel data increases the number of observations. The panel data model allows the marginal effect of explanatory variables to be analyzed from two dimensions (individual and time), making parameter estimation more accurate than other models. Technically, according to Hsiao (2004), panel data provides more informative datasets, reduces

collinearity between variables, and increases degrees of freedom, thereby improving efficiency.

2. Better identification and control of heterogeneity

   Using panel data helps reduce identification issues. Panel data is more effective in identifying and measuring effects that cannot be addressed using only cross-section or time series data. Panel data can control individual heterogeneity, allowing for explicitly including individual differences in estimation.

This study employs quantitative analysis to analyze measurable data, which is tested and presented in equations, tables, and other formats. The quantitative analysis estimates a regression model using panel data formulated in equation (2).

$$POV_{it} = \beta_0 + \beta_1 \ln PAD_{it} + \beta_2 \ln OTSUS_{it} + \beta_3 \ln VF_{it} \tag{2}$$

where *POV* is poverty level, ln*OTSUS* is the natural logarithm of special autonomy funds, ln*PAD* is the natural logarithm of locally generated revenue, ln*VF* is the natural logarithm of village fund, β_0 is constant, β_1-β_2 is regression coefficients, and *it* is a cross-section of 23 regencies and cities at time *t*.

4. Results

4.1. Results of model selection

4.1.1. Results of Chow test

The Chow test is a process to determine the best model between the Fixed Effect Model (FEM) and the Common Effect Model (CEM) to be used in Panel Data Regression. The following are the results of the Chow test processed.

Table 2. Result of Chow test

Effect Test	Statistic	d.f.	Prob.
Cross-section F	263.763901	(22,89)	0.0000
Cross-section Chi-square	482.158367	22	0.0000

Based on Table 2, the Cross-section F-statistic and Cross-section Chi-square values are 263.763901 and 482.158367, which show the significance level of the difference between the FEM and CEM models. The degree of freedom or d.f. shows the number of independent variables or groups in the model. This is related to the

number of city district data in Aceh Province, namely 23. The d.f. results of Cross-section F and Cross-section Chi-square are 22.89 and 22. This differs from the number of city districts in Aceh Province because the number of observations has been reduced by the number of parameters estimated.

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4.1.2. Results of Hausman test

The Hausman test is a process to determine the best model between the Fixed Effect Model (FEM) or Random Effect Model (REM) to be used in Panel Data Regression. The following are the results of the Hausman test.

Table 3. Result of Hausman test

Test-section random	Chi-Sq.Statistic	Chi-Sq.d.f.	Prob.
Cross-section random	24.554254	3	0.0000

Based on the Table 3, the Chi-Sq statistical value is 24.554254, which shows the significance level of the difference between the FEM and REM models. The degree of freedom or d.f. shows the number of independent variables totaling 3: OTSUS, Regional Original Income, and Village Funds. In contrast, the probability value (p-value) shows the possibility of coincidental differences with a value of 0.0000.

The Hausman Test assessment criteria can be interpreted through the Chi-Sq value and the low Prob (p-value) value (<0.05), so there is a significant difference between the FEM and REM models, so the FEM model is more appropriate to use—the Chi-Sq.Statistic value is 24.554254 (fairly high), then the Prob value. Also <0.05, namely 0.0000, meaning that there is a significant difference between the two models, so the FEM model is chosen.

4.2. Results of static panel data regression

The regression coefficient value of variable X1 (OTSUS) is positive at 8.7594, meaning that if variable X1 increases by one unit, variable Y (POVERTY) will increase by 8.7594 (a very small value), and vice versa. This is supported by a t-statistic value of 1.509967, which indicates that the influence of the Special Autonomy Fund (OTSUS) on poverty reduction is weak, as the p-value is 0.1346 > 0.05. Therefore, OTSUS does not have a significant partial impact on reducing poverty. However, when considered simultaneously with Local Own-Source Revenue and Village Funds, it has a significant effect of 98.67% on poverty reduction.

Table 4. Result of panel data regression

Variable	Coefficient	t-Statistic	Prob.
C	-9.3664	-5.8491	0.0000
OTSUS	8.7594	1.5099	0.1346
PAD	4.6992	1.7765	0.0791
VF	-3.4861	-6.1468	0.0000
Effects Specification			
Adjust R-square	F-statistic	Prob(F-statistic)	
0.9867	339.7924	0.0000	

Note: The dependent variable is Poverty

Based on the Table 4, the regression equation that can be represented is as follows:

$$POV = -9.3664 + 8.7594*OTSUS + 4.6992*PAD - 3.4861*VP + [CX=F]$$

The constant value obtained is -9.3664. This value means that if the independent variable increases, the dependent variable will decrease by -9.3664. This is reinforced by the t-statistic value of -5.8491, which means it is a statistically significant measure because the p-value (0.0000) <0.05. The regression coefficient value of variable X1 (OTSUS) is positive at 8.7594, which means that if variable X1 increases by one unit, variable Y (poverty) will increase by 8.7594 (very small value) and vice versa. This is indicated by the t-statistic value of 1.509967, which shows that the effect of the OTSUS variable on the poverty reduction variable is weak because the p-value is 0.1346> 0.05 so that the *OTSUS* partially has no significant effect in reducing poverty. The regression coefficient value of the X2 variable (PAD) is positive at 4.6992, which means that if the X2 variable increases by 1 unit, the Y variable

(Poverty) will increase by 4.6992 and vice versa. The t-statistic result of 1.7765 is close to significant but still low because the p-value (0.0791) > 0.05, so PAD partially has no significant effect on poverty reduction. The regression coefficient value of variable X3 (*VF*) is negative at -3.4861, which means that if variable X3 increases by one village unit, variable Y (Poverty) will decrease by -3.4961 and vice versa. This is reinforced by the t-statistic value of -6.1468, which shows that the Village Fund variable strongly affects poverty reduction because the p-value (0.0000) <0.05 shows that the Village Fund partially has a significant effect on poverty reduction.

Apart from the Regression Equation results and T-test results above. The results of hypothesis testing are also seen from the coefficient of determination. In this study, the Adjust R Square value is 0.9867, so it can be concluded that the contribution of the influence of the Independent Variable (X) on the Dependent Variable simultaneously (together) affects poverty reduction by 98.67%. At the same time, the remaining 1.33% is influenced by other variables. The results of the Adjust R Square Test (Coefficient of Determination) are further strengthened by the results of the F Test. It can be seen from the F-Statistic value of 339.7942 with a Prob. (p-value) of 0.0000 (<0.05), it can be concluded that the OTSUS Variable, Regional Original Income, and Village Funds have a significant effect simultaneously (together) on reducing the poverty variable.

5. Discussion

5.1. The influence of special autonomy funds on poverty reduction

The regression coefficient value of variable X1 (OTSUS) is positive at 8.7594, meaning that if variable X1 increases by one unit, variable Y (POVERTY) will increase by 8.7594 (a very small value), and vice versa. This is supported by a t-statistic value of 1.509967, which indicates that the influence of the OTSUS on poverty reduction is weak, as the p-value is 0.1346 > 0.05. Therefore, OTSUS does not have a significant partial impact on reducing poverty. However, when considered simultaneously with Local Own-Source Revenue and Village Funds, it has a significant effect of 98.67% on poverty reduction.

The Special Autonomy Fund (OTSUS) for Aceh Province is an allocation from the central government granted to Aceh based on Law No. 11 of 2006 on Aceh Governance. This fund aims to support the implementation of special autonomy in Aceh as part of a peaceful solution following the conflict between the Free Aceh

Movement (GAM) and the Indonesian government. Specifically, the primary goal of the Aceh OTSUS is to improve community welfare (education, health, and poverty alleviation), post-tsunami reconstruction and rehabilitation, strengthen infrastructure, and promote economic empowerment. Essentially, the provision of the OTSUS is an effort to eradicate poverty.

Several studies have yielded different conclusions. Tasya & Nailufar (2024) argue that the OTSUS significantly affects poverty in Aceh Province. Other studies by Sakinah (2022), Gunawan (2023), and Anisah (2023) have found that the OTSUS significantly contributes to poverty reduction (Anisah, 2023; Gunawan, 2023; Sakinah, 2022). However, Sari (2024) states that the OTSUS influences poverty but needs to be mediated by Economic Growth as an Intervening Variable.

Different perspectives are provided by Budiratna & Qibtiyah (2020), who evaluated the transfer of Special Autonomy Funds in Aceh, Papua, and West Papua. Their study found that the fund significantly correlates with poverty reduction in West Papua. However, in the context of Aceh and Papua regencies/municipalities, the study did not find a strong correlation with poverty reduction. Amar et al. (2023) examined the impact of the Aceh OTSUS on community welfare using indicators such as education, health, and poverty. They concluded that the OTSUS has not yet improved the welfare of Aceh's population. Kadafi & Murtala (2020) argued that the lack of impact from the OTSUS on poverty reduction in Aceh's regencies/municipalities is due to improper distribution. Amar et al. (2023) suggested that the central and provincial governments should reassess the priorities of the special autonomy fund to enhance community welfare in Aceh.

The findings of this study align with the aforementioned statements, confirming that the OTSUS does not significantly affect poverty reduction. However, unlike previous research, this study finds that the OTSUS will significantly impact poverty reduction when combined with an increase in Local Own-Source Revenue and Village Funds. Therefore, Local Own-Source Revenue and Village Funds can be considered intervening variables.

According to an article by Infoaceh.net (2023), the OTSUS allocation for Aceh in 2024 is IDR 3.3 trillion, a reduction of IDR 600 billion from 2023. This fund is intended to support accelerated development, including poverty reduction, investment growth, health insurance, direct assistance for productivity improvement, and strategic initiatives such as scholarships. Regional autonomy expert Djohermansyah Djohan, in an article by Habibi (2024) published on the Aceh Journal National

Network (AJNN), argued that the OTSUS has not successfully helped Aceh catch up as the poorest region in Sumatra despite receiving funding annually. The key issues that need urgent improvement include leadership and governance. Leaders must build synergy between Aceh and the central government, creatively develop development programs that align with national initiatives, and engage the Acehnese diaspora, especially those with strong national networks. Additionally, financial management should be transparent and prioritized for public welfare. It is also crucial to focus on strategic groups in Aceh, such as former Free Aceh Movement (GAM) combatants, by training them for business ventures and providing access to capital for economic independence.

5.2. The influence of local own-source revenue on poverty reduction

The regression coefficient value of variable X2 (PAD) is positive at 4.6992, meaning that if variable X2 increases by one unit, variable Y (POVERTY) will increase by 4.6992, and vice versa. The t-statistic value of 1.7765 approaches significance but remains low since the p-value (0.0791) > 0.05. Thus, PAD does not significantly impact poverty reduction. However, when considered simultaneously with the OTSUS and Village Funds, it has a significant effect of 98.67% on poverty reduction.

Local Own-Source Revenue (PAD) in Aceh Province refers to income generated by the region from local financial sources, managed independently by the local government according to prevailing regulations. PAD is intended to finance regional development and governance, reduce dependency on central government transfers like the General Allocation Fund (DAU) and OTSUS, and enhance regional fiscal independence. Positive growth in PAD can contribute to economic growth, which is often linked to poverty reduction (Fitriyanti & Handayani, 2020; Kadafi & Murtala, 2020).

Studies such as those by Kadafi & Murtala (2020) suggest that PAD has not significantly contributed to poverty alleviation in Aceh. Similarly, Rahmat (2024) and Iskandar & Bawono (2023) found that PAD has a negative but insignificant effect on poverty reduction. Therefore, future PAD revenues should be directed toward pro-poor programs (Kadafi & Murtala, 2020), such as free or affordable education, accessible healthcare services, infrastructure development, skill training for the underprivileged, microfinance for small businesses, and subsidies for farmers, fishermen, and informal sector workers.

This study supports the notion that PAD does not significantly impact poverty reduction. However, unlike previous research, the positive coefficient value suggests that an increase in PAD correlates with an increase in poverty, implying no substantial effect. Nevertheless, PAD will significantly impact poverty reduction when combined with increases in OTSUS and Village Funds, making them potential intervening variables.

According to the Directorate General of Taxes (2024), Aceh's PAD has reached approximately IDR 3.45 trillion (56.97%). However, most of the regional budget (APBD) still relies on central government transfers, amounting to IDR 18.78 trillion (84.37%). This dependency and inflation (2.29% year-on-year in 2024) may explain why PAD has not significantly influenced poverty reduction.

5.3. The influence of village funds on poverty reduction

The T-test results show that the Special Autonomy Fund for Aceh Province partially influences poverty reduction in the regencies/municipalities of Aceh Province. This interpretation is based on the Prob. value of $0.0000 < 0.05$ and the negative regression coefficient of $-3.48618762654\text{e-}11$. Simultaneously, with the Special Autonomy Fund (OTSUS) and Local Own-Source Revenue (PAD) variables, the effect on poverty reduction is significant at 98.6%.

The regression coefficient for variable X3 (Village Funds) is -3.4861, meaning that if the X3 variable increases by one unit (one village), the Y variable (poverty) will decrease by -3.4961, and vice versa. This finding is further supported by the t-statistic value of -6.1468, which indicates that the Village Fund variable strongly affects poverty reduction, as the p-value $(0.0000) < 0.05$. Therefore, Village Funds significantly influence poverty reduction. Simultaneously, together with the Special Autonomy Fund and Local Own-Source Revenue variables, the effect on poverty reduction is 98.67%.

Village Funds are allocations sourced from the State Budget (APBN) intended for villages and transferred through the regency/municipality regional budgets. These funds aim to support village development and community empowerment following the mandate of Law No. 6 of 2014 on Villages. The primary objectives of Village Funds are to improve the welfare and quality of life of village communities, eradicate poverty and reduce inequality, enhance village capacity and self-sufficiency, and support community-based development.

This finding aligns with the research by Annisa & Seftarita (2019) and Afrizal, et al. (2024), which found that village funds have a negative and significant coefficient concerning poverty levels in Aceh Province. Similarly, Wulansari et al. (2024) found that village funds significantly influence poverty levels. The number of poor people in rural areas is affected by the allocation of village funds in the State Budget, where the provision of village funds has a negative coefficient, indicating a significant effect in reducing rural poverty (Bukhari, 2021; Sigit & Kosasih, 2020; Ujung et al., 2024). Moving forward, programs that increase village funds need to be promoted. The development of independent businesses in each village should receive full attention from both central and regional governments to ensure that village funds are used for infrastructure development and poverty reduction.

The results of this study support the above statements, affirming that Village Funds significantly contribute to poverty reduction. However, this study differs from previous research in highlighting that the maximum reduction in poverty occurs when the Special Autonomy Fund and Local Own-Source Revenue of Aceh Province simultaneously increase. Thus, the special autonomy fund and local own-source revenue can also be considered intervening variables.

The Aceh Village Community Empowerment Agency (DPMG) (2024) stated that the allocation of Village Funds this year is slightly higher than the initial allocation in 2023, amounting to IDR 4.76 trillion, with an additional IDR 168 billion at the end of last year from the Ministry of Finance. The distribution of Village Funds remains the same as before, consisting of regular Village Funds and Direct Cash Assistance (BLT) for Village Funds, with priority given to communities experiencing extreme poverty. However, three villages could not withdraw their 2024 Village Funds: Kambuek Payapi Kunyet Village (Padang Tiji District) and Kramat Dalam Village (Sigli City District) in Pidie. The governments of these two villages could not finalize the Village Revenue and Expenditure Budget (APBG) due to disagreements between the village head and the village council (*tuha peut*), preventing the disbursement of Village Funds. Additionally, Rantau Pauh Village (Rantau District, Aceh Tamiang) could not withdraw its 2024 Village Funds due to an ongoing audit by the inspectorate regarding the misuse of Village Funds in 2023.

Moving forward, at least three policies need improvement: (1) refining the formulation aspects, (2) strengthening oversight mechanisms, and (3) enhancing innovation in the utilization of village funds (Sigit & Kosasih, 2020).

6. Conclusion

OTSUS partially did not have a significant effect on poverty reduction in Aceh. The positive coefficient indicates that although the allocation of funds increased, the impact on poverty reduction was insignificant. This is thought to be due to the distribution of less well-targeted funds, less transparent financial governance, and a decrease in the allocation of funds from the central government.

PAD has no significant effect on poverty reduction. In fact, the positive coefficient value indicates that an increase in PAD can potentially increase poverty, which indicates that local revenue management has not been effective in targeting poverty alleviation. High dependence on central transfer funds and inflation are also inhibiting factors.

The Village Fund has a significant effect on poverty reduction. With a negative coefficient, an increase in the Village Fund allocation is directly related to decreased poverty. The Village Fund is considered more effective because it is managed directly at the local (village) level and is more targeted in responding to community needs. Challenges to managing the Village Fund include misappropriation of funds in some villages and internal conflicts in determining the Village Budget (APBG), resulting in delays in the disbursement of funds.

Simultaneously, PAD, along with OTSUS and Village Funds, contributed significantly to poverty reduction. It can be concluded that poverty reduction in Aceh relies heavily on the synergy between OTSUS, PAD, and Village Fund. However, the effectiveness of each of these components depends heavily on good governance, transparency and oversight. The Village Fund is the most significant element in reducing poverty, while the OTSUS and PAD still face obstacles in providing direct impact.

Disclosure statement

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