

Decentralized Fiscal Governance and Efforts for Poverty Reduction in Aceh, Indonesia

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Abstract

Aceh's special autonomy in Indonesia is a promising case for decentralized fiscal governance, which emerged as a result of asymmetric decentralization in 2008. We assessed the framework for fiscal governance of the special autonomy fund, which is particularly important considering the difficulty in accelerating poverty reduction. There has also been interest in reviewing its evolution over time and analyzing its effectiveness in the quest for poverty reduction. This study draws on data from a questionnaire survey comprising government planners and parliament members from 23 districts/cities in Aceh. Based on the ordinary data gathered through a questionnaire survey engaging 117 respondents, we analyze the perceptions of city/municipality governments on two models of fiscal governance (FG) of special autonomy funds for poverty reduction; FG model#1 and FG model#2. Then, the semi-structured interviews were conducted to supplement data and validate the findings. The results show that FG model#2 is preferred for the quest for poverty reduction. With greater authority over the management of special autonomy funds, FG model#2 can better accommodate and create breakthroughs for fiscal governance to be more effective for pro-poor program implementation. This study represents an empirical contribution to a neglected topic of decentralized fiscal governance in the context of poverty reduction.

Keywords: Fiscal Governance, Asymmetric Decentralization, Poverty Reduction

INTRODUCTION

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Fiscal decentralization has been an important policy tool for poverty reduction in developing countries. As a diverse archipelago with significant regional disparities, Indonesia has implemented fiscal decentralization since the late 1990s to improve governance, development, and reduce poverty. Before the late 1990s, Indonesia was highly centralized with little autonomy granted to the subnational governments. However, the financial crisis of 1997-98 prompted the national government to implement decentralization reforms that facilitated greater autonomy for provinces, cities/districts. One of the main pillars of decentralization in Indonesia is the transfer of expenditure responsibilities from the central government to local governments, the creation of regional taxes and charges, and the establishment of intergovernmental transfer mechanisms (Wibowo, 2017). After almost two decades of regional autonomy implementation, the country has made great strides toward

maintaining economic development and reducing the poverty rate by more than 50 percent (Chaudhuri et al., 2019).

Despite the country reducing poverty significantly on a national scale, the pace of poverty reduction at the subnational level remains challenging. In this sense, Aceh's special autonomy province is a good case study. Although poverty incidence in Aceh has improved, but still at an alarming rate; the poverty rate in Aceh was higher, at 14.75 percent compared to the national average of 9.57 in September 2022 (BPS, 2023). It would be unfortunate, however, to see the progress of poverty reduction in Aceh given its distinctiveness as a special autonomous region as compared to other provinces in Indonesia. The Aceh's special autonomy status allows self-elected local government and local political parties, more remarkably, local authorities were given a discretionary power to innovate, experiment, and implement policies outside the general provisions.

Under the Law on Government of Aceh (LoGA) of 2006, all responsibilities for authority over local governments rest with the provinces and districts/municipalities, including an authority to govern and manage its own fiscal. Based on Article 7 of the LoGA, "the Aceh Governor, head of districts, and mayors of cities were given the discretion to exercise their authority in holding government power at their locality except for governmental affairs falling under the jurisdiction of the central government". The Aceh government has the discretionary power to manage its affairs, including innovating and developing a standardized policy, legal and institutional framework for poverty alleviation; to implement poverty alleviation programs, from planning, provision, administration, and management; determine the size and structure of their budget expenditure; and decide what and where to spend the capital expenditure.

From the revenue side, the Aceh Government receives an additional transfer* from the central government to finance strategic programs and development activities that can reduce poverty, this funding is called "special autonomy funds" which is disbursed for a period of 20 (twenty) years, from fiscal year 2008 to 2027 (LoGA, Article 183). Subsequently, the master plan for Aceh's development and several provisions of the local rules and regulations about the governance of the special

autonomy fund are clearly focused on poverty reduction. Following the theory of local autonomy by Clark (1984), with such authority and funding, local authorities in Aceh can assume full responsibility for their fiscal decisions and design specific expenditure programs that target the poor to benefit from and improve responsiveness to their demands and thereby reduce poverty.

Before the Special Autonomy status, Aceh was among the poorest regions in Indonesia with a GDP per capita of USD600-700 which accounts for less than half of the overall annual GDP per capita of the country which was around USD2000 (Suksi, 2011). Since Special Autonomy began in 2008, Aceh has received substantial revenue from central government transfers; for example, Figure 1 shows a threefold increase in Aceh's total revenue (in real term) from IDR 2.5 trillion in 1999 to IDR 16 trillion in 2011 (see Figure 1). Counting the special autonomy fund only, until the year 2021, Aceh Province has received an estimated amount of IDR88.4 trillion for local development and poverty reduction (DJP, 2022).

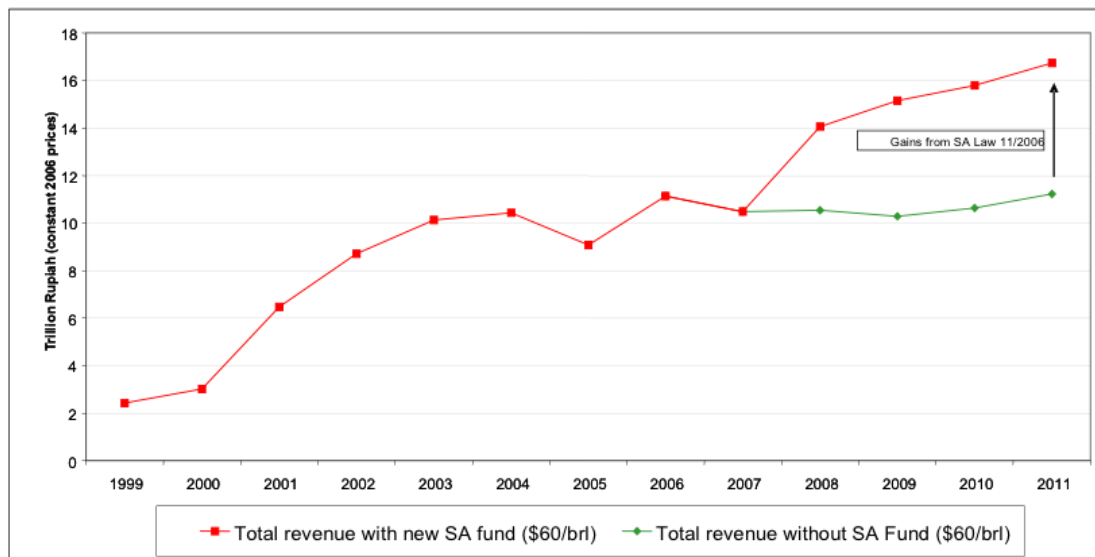


Figure 1: Aceh's Total Revenue with New Special Autonomy Fund
Source: World Bank, 2007

Recent studies show that the lack of achievement in reducing poverty in Aceh's special autonomy region has been linked to poor fiscal governance at the local level (Sari et al., 2020; Setiawan & Widyana, 2021). Likewise, in Papua suboptimal governance at the local level has been considered partly responsible for the lack of progress in reducing poverty (Hasibuan, 2022; Nurmasari & Al Hafis, 2019; Prabowo et

al., 2021). However, the prevailing viewpoints do not offer strong support for that assertion, there is still much to be learned about the outcomes from fiscal governance. This has yet to be closely studied, particularly in the context of asymmetrical fiscal decentralization. According to Faguet (2011) many of the studies on the quality of governance in a decentralized setting are more focused on service outputs than governance outcomes. This is because the data needed to analyze service outputs is more readily available than for budgetary governance issues, such as efficiency, accountability, and transparency.

Here we collect the perceptions or opinions of the government planners and parliament members in a construct of special autonomy fund for poverty reduction. Our hypothetical stance is that the quality of fiscal governance is the crucial factor behind the slowing pace of poverty reduction in Aceh province. Our study will provide new insights into the variance in outcomes of fiscal governance from different models of fiscal governance and provide evidence of the extent to which each model at the subnational level can support the quest for poverty reduction from 2008 to 2022.

LITERATURE REVIEW

As countries embark on decentralization and strive to improve governance, there is unequivocal evidence showing that it affects governance in many ways. The evidence shows that decentralization strengthened governance at the provinces, districts, and cities levels (Hamidi & Puspita, 2021). Where decentralization works effectively, it has been critical in improving the performance of local governments (Baidhowah, 2022). Decentralization also contributed to democratic development, and increased chances for citizens to participate in the policy-making process at the municipal and regional levels (Vengroff & Salem, 1992). More importantly, asymmetrical fiscal decentralization provides local governments with greater control over spending decisions and budget allocation. With that authority, local governments are more likely to allocate resources to areas in greatest need, such as health, education, and infrastructure, which are crucial for reducing poverty (Bahl & Linn, 1992).

The impact of decentralized fiscal on those living in poverty relies on several aspects, among others: (i) the capacity level of local governments (Resosudarmo, Vidyattama, & Wijayanti, 2018); (ii) fiscal or budgetary governance (Sari et al., 2020; Setiawan & Widyana, 2021); and (iii) structure of the intergovernmental relations (Hankla, 2009). A capacity to allocate effectivity and efficiency in resource distribution

among certain essential elements (Boadway, 2006; Boddy, 1983; Broadway & Shah, 2007; Shah, 1994, 2007). It is evident in Indonesia that the lack of achievement in reducing poverty in the special autonomy region has been linked to poor fiscal governance at the local level (Sari et al., 2020; Setiawan & Widyana, 2021). Suboptimal governance could be a sign of a lack of capacity to execute the budget effectively and efficiently and a lack of ability to implement pro-poor policies, or quite commonly a combination of all these issues. But, we know much less about fiscal governance in the quest for poverty reduction at the subnational level because empirical studies at both regional and local levels have not accounted for features of good governance over the fiscal i.e. (Hasibuan, 2022; Lele, 2019; Nurmasari & Al Hafis, 2019; Setiawan & Widyana, 2021). The structure of intergovernmental relations helps local governments in designing financial relations with lower-level administrative authority (Sharma, 2005, p. 38).

The term “fiscal governance” is widely used by the European Commission, it is defined as “those rules, regulations, and procedures that affect how budgetary policy is planned, approved, carried out, monitored, and evaluated” (Damasceno & Gomes, 2021; Hallerberg et al., 2010). Thus, effective fiscal governance can help to reduce fiscal risks by improving efficiency, accountability, and transparency, as well as retaining budgetary space (Kim et al., 2020). For fiscal governance to be effective, political settlement and institutional structures, including the sort of rule and the enforcement measures put in place – are both necessary (Atkinson et al., 2016; Debrun et al., 2008).

When fiscal governance is decentralized, this means a process where decision-making regarding the allocation and utilization of public resources is transferred from central authorities to local governments (Rondinelli, 1999). Following the concept of governance proposed by Adetoye and Omiluisi (2016), It can be further explained that decentralized fiscal governance is the process through which local governments conduct public affairs, manage public financial resources, and ensure the achievement of the public or common good of society. In other words, governance entails the effective implementation of socio-economic programs and the competent and impartial provision of public services (Riaz, 2019).

Having more authority over fiscal governance at the subnational level, local authorities are the key actors in designing, implementing, and monitoring public expenditure. They essentially need expenditure norms as “a guiding principle” – The laws, institutions, and processes that regulate the allocation, management, and use of public resources at the subnational level (Anheier, 2013). Several factors influence the choice of fiscal governance that governments employ. A systematic review of the literature by Damasceno and Gomes (2021) has listed several factors that were validated

by the studies including the system of government; institutional setting, electoral system, executive party composition, political fragmentation, citizen demands or preferences, and external authority pressures and rewards.

The literature demonstrates that good governance of institutions supports the quest for poverty reduction (Coccia, 2021). The pillars of modern budgetary governance offered by the Organization for Economic Co-operation and Development (OECD, 2015) explicitly state that fiscal governance encourages integrity and high standards in the fiscal plan, execution, and monitoring. Each of these capacities is essential for quality expenditure and delivering effective anti-poverty programs. Further, the OECD advocated the common elements of modern budgeting practice proposed high-level principles for guiding and informing budgeting procedures and reforms. The pillars of contemporary public governance include “integrity; openness; participation; accountability; and a strategic approach to planning and attaining national objectives”. The evidence shows that the governments that organize their budgetary affairs based on these governance principles are well-placed to meet public expectations for solid, reliable, and efficient governance (OECD, 2014, 2015).

On the other hand, ineffective governance, a condition in which a government lacks the competence and efficacy in regulating quality to address social issues (Yagboyaju & Akinola, 2019) is increasingly seen as a key challenge for poverty reduction. In other words, any society’s level of development progress is determined by the type (quality and features) of its governance architecture. Therefore, the negative impact of ineffective governance on the poor is real and systematically impedes attempts to reduce poverty (Sumarto et al., 2004).

Decentralized fiscal governance and poverty reduction

The theory upholds that decentralization policies can contribute to poverty reduction by overcoming inefficiencies of public expenditure (Crook & Sverrisson, 1999; Jütting et al., 2004). It also might lead to poverty reduction through regional targeting and economic efficiency (Khan, 2015). More appealing, the potential impact of fiscal decentralization on poverty is significant (Sepulveda & Martinez-Vazquez, 2011). Efficient public spending at the lowest level of government is to be consistent with welfare improvements, Afonso et al. (2010) demonstrate that the occurrence of both input and output inefficiencies across OECD countries when connecting public

social expenditure to the inequality in income distribution. Even though it is appealing for efficiency reasons, it may have unfavorable repercussions for income distribution (Sacchi & Salotti, 2014). Nevertheless, public spending is an effective instrument for income distribution and inequality among citizens and households can be reduced because public spending together with government transfers more prominent than taxation, they offer a larger average redistribution which is already twice as large as that achieved through taxation (Bastagli et al., 2012; OECD, 2011; Wang et al., 2014).

The range of autonomy granted to local governments is argued to be an important determinant of fiscal decentralization (Gil-Serrate et al., 2011; Isufaj, 2014; Scutariu & Scutariu, 2015). Given that local governments often reflect community preferences, Wolman and Goldsmith (1990) stated that autonomy provides them the ability to affect well-being through service provision. The evidence shows that a sound degree of autonomy over local fiscal governance led to improved efficiency and accountability (Isufaj, 2014) and both are key determinants for improvements in service delivery (Ghuman & Singh, 2017). Moreover, the research that advocates the importance of local autonomy shows it is valuable in the following ways: (i) building initiatives and innovation for local authorities in ways that are impossible for central authorities (Jones & Stewart, 2012); (ii) providing responsibility over the quality and quantity of the services (Isufaj, 2014; Ziaii-Bigdeli); (iii) making local government more responsive to local needs (Hagens et al., 2006; Suwandi & Warokka, 2013); and (iv) leading to more desired outcomes by changing the resources policymakers have and the constraints they face (Adams, 2016).

A question to be asked is “Under what circumstances does devolved fiscal governance yield the greatest impacts on poverty reduction?” Sufficient fiscal resources, definite functions, and responsibilities of local governments were argued to be important (Isufaj, 2014). For the revenue transfer type of fiscal decentralization such as in Indonesia (Liu, 2011), once a relatively sufficient financial resource is transferred to them with certain functional roles in expenditure assignment, (with their autonomy and discretionary power) what are the chances of the effective governance mechanism being adopted in their pro-poor programs? Or has effective governance been attained in all governmental decision-making related to pro-poor budget allocation? This aspect has been rarely touched on in the literature. Therefore, our standpoint is that success in the quest for poverty reduction at the subnational level is dependent on the quality of fiscal governance that encompasses planning and budgeting, implementation, and monitoring and evaluation.

Given the special treatment of subnational governments under the asymmetrical designs of fiscal decentralization, as compared to alternate models (Hierro et al., 2017;

Li, 2018), it is interesting to assess the extent to which local fiscal governance in Aceh's Special Autonomy can accelerate poverty reduction. There is limited study on that subject, and few research that examines the special autonomy-poverty nexus demonstrate that the lack of success in poverty reduction has been linked to poor governance (Hasibuan, 2022; Lele, 2019; Nurmasari & Al Hafis, 2019; Setiawan & Widyana, 2021). However, they do not offer strong support for that assertion, i.e., the evaluation of the features of good governance over fiscal was not well accounted for in the existing research due to a lack of analytical scope. Others have looked at decentralization-poverty nexus in the context of regional autonomy (Bird & Rodriguez, 1999; Canare, 2020; Hutahaeen, 2020; Pratiwi & Nurkholis, 2012).

In light of the objective of this study, the next question to be asked is to what extent does good governance over fiscal help reduce poverty? Few studies that examine the nexus between fiscal decentralization and poverty show fiscal governance as the cornerstone of achieving better poverty reduction outcomes at the subnational level. For example, a cross-country assessment by Komarudin and Oak (2022) on the interaction between governance quality and public spending shows, to all estimates, countries with good governance tend to reduce poverty by 1.62 to 1.9 percentage points than countries with poor governance without interaction with public spending in the health sector. But when the interaction occurs, the number rises to about 6.9 percentage points. Next, a study by Canare (2020) found the link between fiscal decentralization and poverty in the Philippines is stronger in provinces with good governance. Furthermore, in some selected provinces in Indonesia, decentralization significantly affected poverty alleviation (Sandjaja et al., 2020).

Fiscal governance model

The Aceh Government has been assuming full authority and responsibility for decisions and the design of the fiscal governance framework for the management of the special autonomy fund. Among the priorities of this fund, allocation is to address the need to cope with challenges in reducing the poverty rate. To achieve the targets in accelerating poverty reduction, the Aceh government has implemented a dynamic fiscal governance model for the special autonomy fund. Over 15 years of governing the special autonomy funds (2008 – 2022), the Government of Aceh has implemented three models of fiscal governance. First, the management of special autonomy funds is centralized in the province where the regional authorities were granted a complete

responsibility over the governance of special autonomy funds (from 2008 to 2010). Second, co-management arrangement with district and city governments assumes low responsibility (2013-2015). Third, co-management arrangements with district and city governments assume greater responsibility (2018 onward).

Aceh's fiscal governance framework of the special autonomy fund is based *Qanun* No.2/2008, which serves as a legal umbrella for provincial and district/city governments in Aceh for the governance of the special autonomy fund and it applies to all district and city governments. The authority for budget users and technical implementation is assigned to the provincial government units, thus the entire budget implementation process starting from the budget administration, procurement of goods and services, monitoring project implementation, and payments to third parties was carried out entirely by the provincial government. Amendments to that *Qanun* have been made several times, it was revised to *Qanun* No.2/2013, then *Qanun* No.2/2016, and eventually *Qanun* No.1/2018. Those amendments cause variations in the share of funding management between provincial and district/cities, level of authorization for district/city government, and allocative and expenditure rules.

Based on the Aceh fiscal governance framework, the special autonomy fund aimed at financing development programs in infrastructure, economic empowerment, poverty alleviation, education, social, and health; it sought to control the expenditure program to be consistent with the targets and priorities; it provides a mechanism to ensure compliance and political consensus with different level of governments; it set the right financial balance between provincial and district/city.

In Table 1, the model for fiscal governance used in Aceh Province is compared. It shows some similarities and differences concerning some parameters of the model. The models are distinguished into two, FG model-1 and FG model-2. However, this study ignores *Qanun* No.2/2008 which granted the Aceh province full authority to regulate a centralized governance of special autonomy funds from 2008 to 2010, and the management of special autonomy, it was deemed ineffective in responding to development challenges and needs. In the year 2010, the World Bank evaluated the governance of Aceh's special autonomy fund, and the results show that it has been less effective in addressing the challenges of local development and poverty reduction. Thus, in this study, we intentionally overlook the *Qanun* No.1/2008 that granted full authority to the provincial government over the management of the special autonomy fund.

Table 1:

Comparison of fiscal governance models for Aceh's special autonomy fund

	FG Model #1	FG Model #2
Period	2013-2015	2018 on word
Legal basis	Qanun No. 2/2013	Qanun No.1/2018
District/city assume authority level	Limited	Greater
Regional and Sub-regional share	40 % for regional development; 60 % for district/cities development	60 % for regional development; 40 % for district/cities development
Intergovernmental transfer (From the Province to district/cities)	Ceiling-based expenditure	Direct transfer
Expenditure rules for sub-regional share	-	50% to be allocated for monumental infrastructure development
Allocation formula to districts/cities	Using several indicators: population size; the size of area; HDI*; and CCI** (The percentage for each indicator decided by the governor)	Using several indicators: population size (50%); the size of area (20%) ; HDI (20%)*; and CCI (10%)**

Note: Based on Aceh's Local Regulation (*Qanun*) No.2/2013, and *Qanun* No.1/2018 on "Procedures for allocation of additional oil and gas profit sharing funds and the special autonomy funds.

*HDI=Human Development Index

**CCI=Construction Cost Index

METHODOLOGY

We designed a Likert Scale questionnaire survey (with a scale of 1 to 5) with a handful of details about what questions participants were asked. The questionnaire consists of Nineteen statements that were included in the replies, which were then rated by the respondents on a scale of 1 to 5 with 1 = "strongly agree", 2 = "agree", 3 = "undecided", 4 = "disagree", and 5 = "strongly disagree". The questionnaire survey engaged 117 Civil Planners from 23 districts/cities in Aceh Province, consisting of different working units of local government: the Education Office, Finance Services, Health Office, Public Works (Infrastructure) office, and Regional Planning Board. Representatives from the local parliament were also included in the survey. Before designing a questionnaire, we reviewed the local regulations (known as *Qanun*) that have been amended throughout 2008 - 2022. Next, we identify the variances in the features of fiscal governance from each *Qanun*, and classify the FG into Model #1 and Model#2.

FG model#1 was employed since 2010, based on *Qanun* 2/2008. This model gives limited authority to district/city governments in implementing the Special Autonomy Fund and the allocation of special autonomy funds to districts/cities was by ceiling-based expenditure set by the Provincial government. FG model#2 grants greater

authority to districts/cities' governments to manage the funds for the anti-poverty programs through a direct transfer mechanism, this started in 2013, (Qanun 2/2013 which is an amendment to Qanun No. 2 of 2008). Once data is analyzed and demonstrated as findings, then interviews are conducted to supplement data and validate the findings. This allows us to go into more depth on the common responses received from the Likert scale.

Statistical Analysis

This study applies several statistical tests to ensure the validity and reliability of primary data collected across regions, districts/cities, and departments. First, the Cronbach alpha test was taken to determine the level of confidence in this questionnaire survey (internal consistency). We obtained the overall value of Cronbach's alpha is 0.855 which indicated the internal consistency was good (George & Mallery, 2003). Second, the Kruskal-Wallis test was carried out to ensure that differences in the number of samples from different districts/cities did not cause errors in reaching conclusions, and Third, the Wilcoxon test.

We reached a relatively large number of respondents, and the distribution was relatively even across the various targeted institutions, but the distribution across the region is still less evenly distributed, especially for the central region, which has the lowest number of respondents (21.7 percent of the total respondents). To ensure that our sample originates from the same distribution, the Kruskal-Wallis test (K-W test) on all questionnaire was conducted. The results of the Kruskal-Wallis test show majority (13 out of 19) questions tested in the three groups (region, district/city, and department) have a P-value > 0.05 so the null hypothesis (H₀) cannot be rejected. This means that generalizations can be made on the answers to the questionnaire except those that have a P-value < 0.05 . Table 2 shows 6 questions that have a P-value is less than the significance level which means there is a significant difference between the group and the answers provided have rejected the null hypothesis. Therefore, it is necessary to conduct Spearman's rank correlation test for those questions to prove that group differences have caused variances in respondents' preference answers.

Table 2:

Summary of Kruskal-Wallis and result of the Spearman's rank correlation test

Code of Question	P-value from k-w test		Results of the correlation test
By group			
Region	District/city	Department	
1.03	0.031		Negligible correlation
1.06	0.019	0.02	Negligible correlation
1.09	0.009		
2.01	0.034		Negligible correlation
2.04	0.051	0.001	
3.01		0.023	

The result of Spearman's rank Correlation Test, as can be seen in Table 2, shows no significant correlation between those questions and the distinguishing factors (region, district/city, and department) for questions 1.03; 1.06; and 2.01. Further, The Wilcoxon signed ranks test compares respondents' preference of the models of fiscal governance that come in two versions, the FG model#1 and FG model#2. This test is to compare ordinal answers from paired data. (Syamsir, 2014). The hypothesis tested in the Wilcoxon test is as follows:

H0: There is no difference in preference between FGmodel#1 and FGmodel#2

H1: There is a preference for FGmodel#2

The results of the Wilcoxon signed ranks test show P-value of 0.000, which means you have to reject H0 and accept H1, this indicates that FGmodel#2 is preferred.

Table 3:

Wilcoxon signed ranks test

	Paired questions (FG model#1 & FG model#2)	Z	Asymp.Sig. (2-tailed)
Wilcoxon signed ranks	Fiscal governance model accommodates pro-poor developments	-4.422a	0.000
	Fiscal governance model can be a breakthrough that led to more development activities	-4.471a	0.000
	Fiscal governance model can accelerate poverty reduction	-5.737a	0.000
	Pro-poor programs were in line with those in the medium and the longer-term development plan	-4.079a	0.000
a=based on negative ranks			

RESULTS AND DISCUSSION

The analysis of results is presented here analyzing the effectiveness of the governance of the special autonomy funds (in Aceh Province, Indonesia) is the core objective of this study. We distributed 150 questionnaires to respondents from 23 districts/cities. The total number of questionnaires returned is 117 which is 78 percent. Based on regional positioning, the respondents were divided into 3 groups: (1) South-West region; (2) Central region; and (3) East-North region. Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Barat Daya, Aceh Selatan, Aceh Singkil, Subulussalam, and Simeulue are the districts/cities that make up the South-West area. Sabang, Aceh Besar, Banda Aceh, Bener Meriah, Aceh Tengah, Gayo Lues, and Aceh Tenggara are included in the Central area. Pidie, Pidie Jaya, Bireuen, Lhokseumawe, Aceh Utara, Langsa, Aceh Tamiang, and Aceh Timur are all part of the East-North area. The regional features of the respondents indicate that of the total sample of respondents, 34.03 percent were from the South-west region, 21,65 percent from the Central region, and 44.33 percent from the East-north region.

Table 4:
Respondent Distribution

Department / Office	No of Respondent (%)
Education	17.95
Finance	11.11
Health	13.68
Local parliament	5.13
Planning and development board	26.50
Public works	23.08
Secretariat office	2.56

The result also indicates that the majority (26.5 percent) of the respondents are from the Office of Planning and Development, followed by 23.0 percent from the Office of Public Works and 17.9 percent from the Office of Education. Only 2.5 percent of the respondents are from the district/city's secretariat office. The majority (94.8 percent) of the respondents are executive, while the remaining 5.3 percent are local parliament members. More than one-half (78.6 percent) of the respondents have a minimum qualification of a bachelor's degree, followed by 21.4 percent with a master's degree.

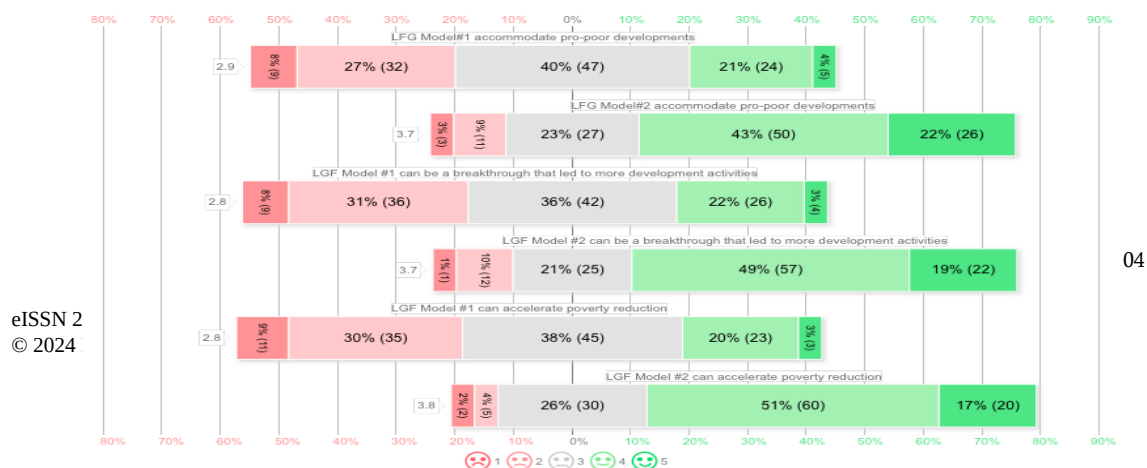
According to the findings about working experience, 45.7 percent of the respondents had between eleven and fifteen years of experience, followed by 28.9 percent who had between sixteen and twenty years. The findings also reveal that 14.2 percent of respondents have job histories spanning one to five years, while the remaining 11.1 percent have histories spanning 16 years or more.

Planning and Budgeting Phase

As can be seen from Chart 1, the majority of respondents are in favor of pursuing FG model#2 because it is flexible enough to accommodate pro-poor developments and leverage financial resources for local development. The respondents were asked if “the FG model#1 and FG model#2 accommodate pro-poor developments at the local level”. 35 percent of the respondents expressed disagreement with FG model#1 in their response, However, 25 percent agree that it accommodates pro-poor development, while 40 percent are undecided. The results presented in Chart 1 revealed that more than half (65 percent) of the respondents are affirmative in their response that FG model#2 was adaptive to pro-poor developments. On the other hand, only 9 percent are of the contrary view as they disagreed, while the remaining 23 percent are undecided.

The insights from the follow-up questions show that FG Model #2 is considered to better accommodate pro-poor programs at the district/city level because the changes to fiscal rules that provide the transfer mechanism (from the Provincial to district/city) facilitate a better mechanism that fits the needs of districts and cities. This also makes district/city governments assume greater authority and opportunities in managing the funds for poverty alleviation which gives them a stronger sense of ownership of the program. Even though the transfer mechanism has been implemented, district/city governments cannot unilaterally make changes to any approved pro-poor programs unless changes are made with the agreement through Regional development planning meetings (*Musrenbang*). Under both models FG, the province government has approved most of the district/city government suggested programs (via mutual agreement) but other proposals require further discussion. Unapproved initiatives are typically regarded as lacking acceptable administrative requirements or strategic value for poverty reduction.

Chart 1. Fiscal governance model and pro-poor development



When we assess the extent to which FG model#1 and FG model#2 can be as leverage for local development. The results presented in Chart 1 show, that for FG model#1, the amount of response for disagreement is higher (39 percent) than those who agree (25 percent) that it can be a breakthrough that leads to more development activities. The remaining 36 percent were undecided. In response concerning FG model#2, more than half (68 percent) of the total respondents affirmed the statement, while 11 percent disagreed. The insights into the respondent's response show that FG model#2 was able to create more development breakthroughs in the district/city as compared to FG model#1 where the provincial government often produces solitary determinations for programs/activities without the involvement of district/city authorities.

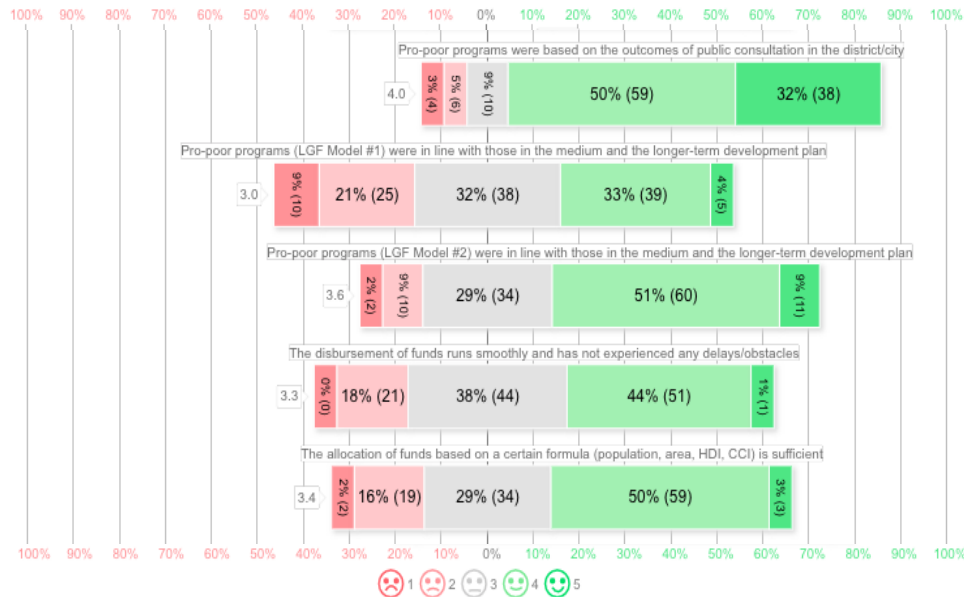
The results further revealed that FG model#1 did not significantly accelerate poverty reduction. The reason for this is that only 23 percent agreed that FG model#1 can accelerate poverty reduction, while 36 percent disagreed, and the remaining 38 percent were undecided. On the other hand, 68 percent of the respondents agreed that Model#2 accelerated poverty reduction, while only 6 percent disagreed, and the remaining 26 percent were undecided. Respondents in favor of pursuing FG model#2 indicated that planning and implementation processes including bidding procedures at the district/city can be carried out more quickly.

Based on Aceh's fiscal framework, Aceh's pro-poor programs funded by the special autonomy fund must be executed based on the outcomes of public consultation in the district/city. We next looked at the alignment of the anti-poverty program with the outcomes of public consultation (*Musrenbang*) in the district/city and with the medium and longer-term development plan. As can be seen from Chart 2, the score for the alignment of the pro-poor program was at its highest (82 percent agree) when it came to the outcomes of public consultation, with just 8 percent disagreeing and the remaining 6 percent uncertain. However, the alignment of FG model#1 and FG model#2 pro-poor programs with the medium and the longer-term development plan differ slightly as the respondents answered fractionally higher for FG model#2 (Model#2 agree score - 57 percent and model#1 agree score - 37 percent). This demonstrated that FG model#2, as opposed to FG model#1, proved to be more beneficial for poverty alleviation efforts.

According to respondents, most programs and activities implemented in districts/cities are yearly (as opposed to multiyear programs), given that the heads of district/mayors have directed that funds be allocated to solve urgent issues that favor the poor to significantly benefit from, even though they are small in scale, but require immediate interventions. The limited number of proposals for multi-year programs is partly due to the difficulty of obtaining political commitment (mutual agreement

between the legislature and the executive). Respondents from the legislative body admitted that they had been involved in proposing the program before it was discussed further in the *Musrenbang* for special autonomy fund

Chart 2. The pro-poor program, its alignment, and allocation



To ascertain what made pro-poor program implementation improved with FG model#2 that bring the new arrangement in funding allocation and disbursement. The results presented in Chart 2 show that 45 percent of the total respondents affirm that the disbursement of funds runs smoothly at all phases of program execution and has not experienced any delays/obstacles, while 18 percent disagreed. The remaining 38 percent were undecided. Then, the respondents were asked if the allocation of funds based on a formula that considers (population, size of area, human development index, and construction cost index) is sufficient. It was revealed from the result that half of the total respondents (53 percent) affirm that such an allocation formula is sufficient. The remaining 17 percent and 29 percent disagree and are undecided, respectively.

The respondents admit that the transfer mechanism has guaranteed funding for program implementation, but they question the basic data used by the provincial

government in determining the allocation of special autonomy funds (it seems not yet transparent) so they have difficulties in forecasting the revenues from special autonomy funds with greater certainty.

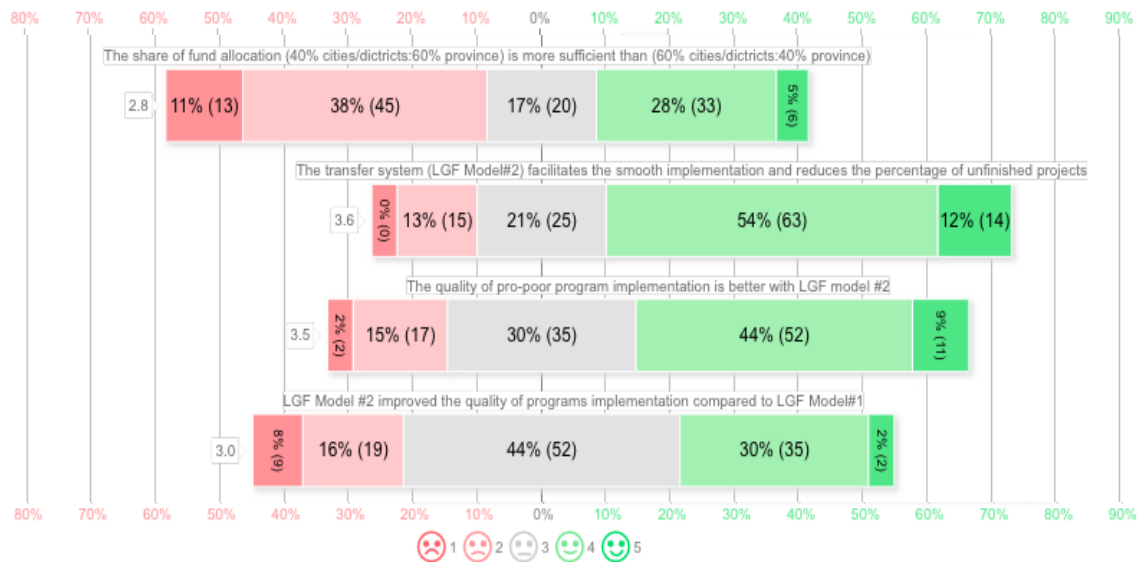
Implementation Phase

The next finding rested within the frame of the program execution phase. As can be seen from Chart 3, the questions regarding the share of funding allocation between provincial and districts/cities were asked to the respondents; the score for the sufficient share of funding allocation for districts/cities was lower (32 percent agree), with 49 percent disagreeing and the remaining 17 percent uncertain. Regarding the quality of program implementation, the results show that 34.0 percent agreed that the quality of program implementation has improved compared to the period before 2013, however, the percentage of undecided seems to be higher (42.2 percent), while 23. percent disagreed.

In the early stages of the implementation, regional development and poverty reduction through special autonomy funding have been less effective and caused a less significant impact on poverty. One of the reasons is the delay in drafting the Master Plan for special autonomy fund implementation, it is critical to provide policy direction and targets, as well as proper allocation policy, but the master plan was completed in 2015, or seven years after the special autonomy was implemented. The current master plan provides a general overview of regional development, problems, potential, and development strategies for each sector. However, this paper lacks a clear direction for accelerating poverty reduction, such as providing criteria or standards for pro-poor activities.

As shown in Chart 3, 49 percent of respondents disagree (with a mean of 2.8) that the share of fund allocation of 40% for the city/district and 60% for the province is sufficient. Changes in the allocation of the distribution of special autonomy funds between district/city and provinces in FG model#2 do not meet the financing needs of the district/city. According to the respondents, district/city governments require large budgets to address development challenges and poverty. so, they asked for the proper budget size from the special autonomy fund. Meanwhile, respondents who stated that the portion of the district/city's budget was adequate, asserted the share of funding allocation is proportional given that the provincial government needs to fund several major development and poverty alleviation programs that target the entire community and require large portions of funds, such as the Aceh Health Insurance (JKA) program which they feel has been able to ease the burden on household expenditure.

Chart 3. Provincial-local fiscal transfers and pro-poor program implementation



Regarding the introduction of the transfer system under FG model#2, as shown in Chart 3, about 66 percent of respondents agree that the fiscal transfer arrangement resulted in a smooth implementation and reduced the number of unfinished projects. At this point of research, we can see the mean value for this parameter is 3.6 which exhibits that the district/city government prefers to execute the budget themselves rather than do it through a ceiling basis.

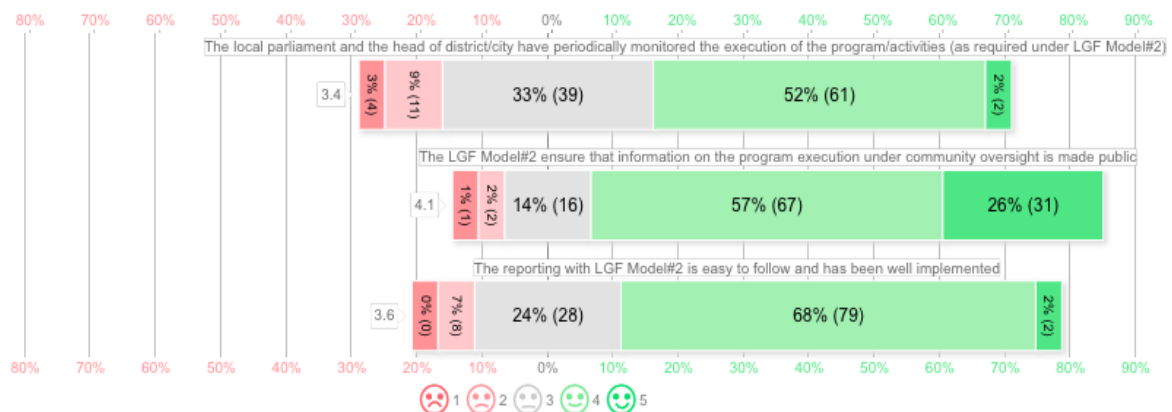
We asked whether the implementation of pro-poor programs was better with FG model#2, and the results show that 50 percent of respondents agree (with a mean of 3.5). While 17 percent disagree and the remaining 30 percent are uncertain. Respondents who agreed that program implementation was better with FG model#2 stated that a direct transfer of funding to districts/cities made it easier to implement programs. Moreover, the planning and design of a program had been done carefully, with the anticipated quick changes that might happen in the district/city. In addition, the pro-poor programs can be implemented immediately without going via a lengthy chain. The provincial government oversees more programs and activities than districts/cities, with FG model#2, the province's workload in managing pro-programs funded by special autonomy was reduced when the transfer mechanism was adopted.

To make a comparison of FG model#2 and FG model#1, we asked participants about their perception of the quality of program implementation with FG model#2. As shown in Chart 3, 32 percent show their agreement with that statement with a mean of 3.0. The remaining 24 percent and 44 percent disagree and are undecided, respectively. The respondents who gave negative feedback revealed that there are still weaknesses in pro-poor program implementation, such as the occurrence of overlapping between provincial and district/city governments.

Monitoring phase

We further desired to establish whether the Aceh Government and 23 districts/cities comply with monitoring provisions under FG model#2, such as the monitoring by the executive and legislative, and openness for the public for community oversight, among others. From the research findings presented in Chart 4, more than half of the total respondents (54 percent) agree that local governments comply with the monitoring provision that requires the local parliament and the heads of district/city to conduct regular monitoring of the program execution. On the other hand, 12 percent disagreed, while 33 percent were undecided. Lastly, to ascertain if the local governments are willing to be transparent to the public for community oversight, The respondents were asked if the local government is required to ensure that information on the program execution is open to the public for community oversight. The results presented in Chart 4 show that 85 percent of the respondents gave positive feedback (with a mean of 4.1) that it is necessary to ensure that information is made open to the public, while only 3.0 percent disagreed, and 13 percent were undecided.

Chart 4. Monitoring, public oversight, and reporting



Next, we asked whether the reporting with FG model#2 was easy to follow and has been well implemented. The chart above shows that there were 70 percent of

respondents showed their agreement, 7 percent of respondents showed their disagreement, and 24 percent of respondents showed neutral. So, the highest is “agree”, which means that most respondents show the reporting process under FG model#2 was made easy to follow and implement. Respondents in favor of FG model#2 said the rule for supervision and monitoring can detect a manner that any deviations from the quality specification of a program. Under FG model#2, the heads of district/city are fully responsible for supervising the governance of special autonomy funds within their jurisdiction area. At the local level, the supervisory board consists of the head of the district/city and local parliament. According to most respondents, they have carried out their duties periodically during the implementation of programs and activities.

CONCLUSION

This study addresses a research gap related to the role of decentralized fiscal governance in poverty reduction in Aceh, a Special Autonomous Province of Indonesia. Aceh’s Special Autonomy plays a crucial role in improving fiscal governance, it is an important instrument for building a more inclusive development and reducing poverty rate. When decision-making power is decentralized, the Aceh government and cities/districts have full control over the special autonomy fund for local development and poverty reduction, they can tailor their spending to the specific needs of the local citizens and make the spending better suited to their unique challenges

In this paper, we first assessed the features of fiscal governance of Aceh’s special autonomy fund from 2008 to 2022. We then distinguished them into two models: FG model#1 and FG model#2. Lastly, we evaluated the extent to which models of governance of special autonomy funds have been effective in the quest for reducing poverty. The results revealed that Fiscal Governance Model #2, which gives more authority to district/city governments, has improved the management of the special autonomy fund, although the Aceh government faces challenges that require specific instruments for accelerating poverty reduction. FG model #2 is considered more accommodating of the people’s needs and creates breakthroughs for pro-poor programs and activities. This is demonstrated by the increased number of realized pro-poor programs and activities (development packages) in recent years compared to FG model#1. Overall, the quest for poverty reduction using FG model#2 resulted in increased synergy and coherence in province-districts/cities intergovernmental fiscal relations.

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