

ABSTRACT

This study aims to analyze the effect of local government expenditure on poverty rates across regencies and municipalities in Sumatra during the 2017–2024 period. This study uses panel data consisting of 154 regencies and municipalities over eight years, resulting in 1,232 observations. The dependent variable is the poverty rate, while the main independent variable is local government expenditure. This study also includes GRDP per capita, education, open unemployment rate, and population as control variables.

The analytical method used in this study is Fixed Effect Two-Stage Least Squares (FE-2SLS), with the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) as instrumental variables. The FE-2SLS approach is applied to address potential endogeneity in the relationship between local government expenditure and poverty. The results show that local government expenditure has a positive effect on poverty rates in the main FE-2SLS estimation with province and year effects. The main estimation indicates a statistically significant effect; however, the robustness check using clustered standard errors shows that the significance level of this variable weakens. This finding suggests that the increase in local government expenditure across regencies and municipalities in Sumatra during the study period has not been fully effective in reducing poverty, although the interpretation should be made cautiously. This condition may be related to the structure of local expenditure, which remains dominated by operational spending, while the share of capital expenditure is relatively low. In addition, GRDP per capita and education have negative effects on poverty, while the open unemployment rate and population have positive effects on poverty.

Keywords: *poverty, local government expenditure, FE-2SLS, DAU, DAK, Sumatra.*