

The Effect of Fiscal Decentralization on Poverty Alleviation in Districts/Cities of Lampung Province in 2019–2024

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Abstract

Nearly every developing country, including Indonesia, struggles with poverty. To address this issue, the government has established budgetary measures aimed at improving the effectiveness and independence of regional development. The objective of this research is to examine how fiscal decentralization affects poverty alleviation in districts and cities in Lampung Province from 2019 to 2024. The poverty rate serves as the dependent variable, while the independent variables consist of Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), and Regional Expenditure. Based on the results of the Chow and Hausman tests, the analytical approach employed is panel data regression using the Fixed Effect Model (FEM). The findings indicate that while the Revenue Sharing Fund (DBH) does not have a significant impact on poverty alleviation, PAD, DAU, DAK, and regional government expenditure significantly influence poverty reduction. With a coefficient of determination of 96.5%, all independent variables simultaneously have a significant impact on poverty alleviation. **This study contributes to the empirical literature** on fiscal decentralization by providing evidence on the effectiveness of regional fiscal instruments in reducing poverty at the district/city level in Lampung Province during the 2019–2024 period.

Keywords: Fiscal Decentralization, Poverty, and Lampung

JEL Classifications: J61 and I11

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Introduction

Poverty remains a persistent problem in Indonesia's economic development. Despite continued economic growth, the welfare gap remains evident in various regions. This situation demonstrates that economic growth remains low and is not fully reaching all

levels of society. Putra et al. (2023) explained that poverty is not only limited to low income but also related to limited opportunities for people to access education, health facilities, and employment. Panggabean et al. (2022) emphasized that poverty is an indicator that reflects the level of welfare of a region and is also a major obstacle to inclusive economic growth. Regions with high poverty rates tend to face development stagnation due to low purchasing power and limited regional fiscal capacity. This condition shows that poverty not only indicates individual economic inadequacy but also the weakness of the regional economic structure in providing employment and access to productive resources.

Poverty does not just reflect low-income levels but is also reflected in the nutritional conditions of the community. According to BPS (2023), the poverty line in Indonesia is determined based on an individual's ability to meet energy consumption needs of 2,100 kilocalories per capita per day, which reflects the fulfillment of minimum nutrition as a basic need for life. In line with this, World Health Organization (2024) emphasizes that poverty increases the risk of malnutrition and makes poor communities more vulnerable to malnutrition, which results in low productivity and quality of life.

On the other hand, the World Bank (2022) asserts that poverty is a major obstacle to human development because it results in low productivity and widens social inequality. Poverty also has a domino effect on other problems, such as increasing numbers of people not absorbed in the labor market, low human resource capabilities, and limited public access to public services. This view aligns with the United Nations Development Programme (2022), which explains that poverty and inequality remain major obstacles to human development because they hinder people from accessing adequate education, health services, and economic opportunities.

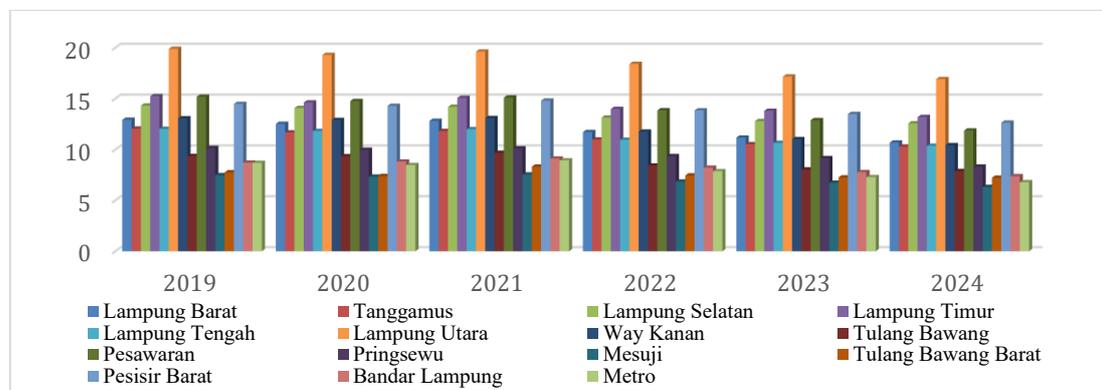


Figure 1. Poverty Levels in Regencies/Cities in Lampung Province in 2019-2024

Figure 1 shows a downward trend in the poverty rate in Lampung Province from 2019 to 2024. At the beginning of the period, in 2019, the percentage of poor people in most districts/cities remained quite high, ranging from 7% to 20%. The area with the highest poverty rate was recorded in North Lampung Regency, while the lowest was in Mesuji Regency. Over time, improvements began to be seen in 2022 and 2023, with almost all regions experiencing a decline in the percentage of poor people. This condition indicates that economic activity is returning to normal after the impact of the COVID-19 pandemic. Then, in 2024, the decline in poverty became more pronounced, with the average poverty rate ranging from 6% to 16%, indicating a fairly stable

economic recovery at the regional level. This decline was also influenced by the role of local governments in continuously promoting economic empowerment programs, increasing employment opportunities, and providing social assistance to vulnerable groups. However, regional disparities remain evident, particularly between areas with urban economic structures like Bandar Lampung and Metro, which have lower poverty rates, compared to rural areas like North Lampung and Pesisir Barat. Overall, this trend demonstrates positive progress in poverty alleviation efforts in Lampung Province over the past six years.

Efforts to reduce poverty in the regions are closely linked to the implementation of fiscal decentralization, where the authority for independent financial management is delegated to regional governments in accordance with Law Number 33 of 2004 concerning Fiscal Balance between the Central Government and Regional Governments, which serves as the basis for implementing fiscal decentralization. Through this policy, regions have the space to identify community needs, develop development programs tailored to regional socioeconomic conditions, and allocate budgets more effectively. Research in several regions shows that when regional governments can utilize fiscal authority to strengthen basic services, open economic opportunities, and encourage productive community activities, poverty reduction efforts can be more effective (Fitriyanti & Handayani, 2020; Putra et al., 2023; Sembiring et al., 2024). Thus, fiscal decentralization is not merely a matter of budget allocation, but a strategic instrument for regions to optimize community welfare through development management that is increasingly aligned with real needs on the ground.

With the implementation of fiscal decentralization, regions are given the authority to manage development funding sources more independently according to local characteristics and needs. In this context, Regional Original Revenue (PAD) plays a crucial role because it reflects a region's ability to mobilize the growing economic potential within its community. Putra et al. (2023) explain that when PAD increases, regions gain greater scope to finance programs that support community activities, such as improving business facilities and fostering local economic actors, thereby improving the socio-economic conditions of the community. On the other hand, the General Allocation Fund (DAU) serves as fiscal support from the central government to ensure that basic services remain equitable across the region. Sembiring et al. (2024) indicate that the DAU is largely allocated to maintaining the sustainability of education and health services, which are essential foundations for improving the quality of daily life. Thus, PAD and DAU complement each other as sources of funding that help regions strengthen the social and economic conditions of their communities according to local needs.

In addition to PAD (Regional Original Revenue) and DAU (General Allocation Fund), the presence of DBH (Regional Revenue Sharing Fund) provides an opportunity for regions to reclaim some of the economic benefits from activities taking place within their territory. Putra et al. (2023) explain that DBH serves as a fiscal basis for regions to strengthen the development of facilities that support community economic activities, such as improving road access, markets, and supporting facilities for the distribution of goods. These infrastructure improvements facilitate communities in running businesses and expand trade networks, enabling local economic life to move more dynamically. When regions require support in specific sectors, DAK becomes an instrument directed at strengthening services directly related

to community needs. Fitriyanti and Handayani (2020) show that DAK is widely used to improve education and health facilities, providing communities with more adequate access to services to carry out their social and economic activities. These facility improvements provide a more supportive environment for families in meeting their daily needs. Regional government spending policies then become the implementation stage of all available fiscal capacity. Putra et al. (2023) emphasized that when spending is directed toward activities that directly impact people's lives, such as strengthening the local economy and providing public facilities, the socio-economic environment becomes more conducive. With well-planned expenditure management, regions can create a supportive environment for communities in conducting economic activities and improving their daily welfare. However, most previous studies have examined the impact of fiscal transfers or government expenditure separately and often focused on broader national or provincial levels, without comprehensively analyzing the simultaneous effect of various fiscal instruments at the district/city level. In addition, empirical findings remain inconsistent regarding whether fiscal transfers and regional spending effectively reduce poverty, particularly in regions with varying fiscal capacities.

Therefore, this study aims to analyze the influence of Regional Original Income (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), and Regional Government Expenditure (BPD) on poverty alleviation efforts in districts/cities in Lampung Province during the 2019–2024 period. By examining these fiscal variables simultaneously at the district/city level, this research seeks to fill the gap in the literature concerning the combined and region-specific effects of fiscal decentralization instruments on poverty reduction outcomes.

Literature Review

Poverty Theory

Poverty is a multidimensional economic and social challenge. This condition is not solely a matter of low income, but also limited access to adequate education, health care, and employment opportunities. According to Badan Pusat Statistik (2022), poverty occurs when an individual or household is unable to meet basic food and non-food needs. In the context of regional development, poverty often arises from low productivity and unequal income distribution, thus requiring a theoretical understanding that can explain its root causes as a basis for formulating effective public policies.

Attoma and Matteucci (2024) explain that the Alkire–Foster approach views poverty as a multidimensional phenomenon, so that a person can experience deprivation in various essential domains of life, not just income. Through a counting approach, this method calculates how many dimensions of experience deprivation there are to determine whether a person is poor. This approach is able to capture social reality more accurately than simply a monetary poverty line. The UNDP then adopted this framework in its Human Development Report (2010–2023) to measure human well-being globally. For example, a person may have an income above the poverty line, but if they do not have access to clean water, adequate education, or safe housing, they are still classified as multidimensionally poor. Research by Dotter and Stephan (2017) expands this theory by adding contextual factors such as gender inequality, culture, and geographic location in the MPI assessment. Thus, the multidimensional

poverty theory is not only a statistical measurement tool but also a normative framework for designing more humane and inclusive development policies.

Calnitsky (2018) emphasizes that poverty cannot be explained solely by individual factors such as low education or laziness, but primarily by unequal social and economic structures. In this sociological perspective, poverty arises from the unequal distribution of resources, power, and economic opportunities. Certain social groups gain structural advantages that maintain their superior positions, while others are trapped in conditions lacking social mobility. In developing countries like Indonesia, this theory highlights the importance of structural reforms, such as equitable investment across regions, strengthening the informal sector, and economic redistribution policies. Structural poverty is also evident in rural-urban inequality and low access to education in underdeveloped areas.

The Poverty Cycle Theory explains that each aspect contributes to a recurring cycle of cause and effect, making poverty an interconnected and challenging condition. According to Ragnar Nurkse, low productivity, income, savings, and investment all contribute to poverty in developing countries. Low income also makes it difficult for people to save and invest, leading to low productivity and poverty reduction. Agatha and Uliansyah (2021) stated that public spending in productive sectors such as health and education has not been able to significantly increase community output due to the inadequate financial capacity of local governments. Therefore, to end the cycle of poverty sustainably, fiscal policies aimed at increasing public investment and human resource development are needed.

Decentralization Theory

Fiscal decentralization is believed to increase the effectiveness and efficiency of public service delivery by delegating authority to regional governments to formulate more specific policies tailored to regional needs. Furthermore, increased authority encourages responsiveness, strengthens accountability, and improves standards of regional expenditure management through community-based policy innovation. Furthermore, appropriate delegation of fiscal functions can enhance intergovernmental collaboration and encourage sustainable regional development (OECD, 2019).

Bartolini et al. (2016) argues that decentralization can be a double-edged sword: on the one hand, it increases local participation and policy innovation, but on the other, it has the potential to widen inter-regional disparities. When regions with strong fiscal capacity are able to maximize regional revenues through a broader tax base, while other regions with weaker economic capacity continue to rely on central transfers, inequality arises. The OECD highlights that if fiscal equalization procedures are not implemented, this capacity gap can exacerbate inter-regional disparities. Therefore, in Indonesia, intergovernmental grants, including programs such as the General Allocation Fund (DAU) and Special Allocation Fund (DAK), are important instruments for reducing inter-regional disparities and ensuring the enforcement of public service standards.

According to Law Number 33 of 2004, decentralization is the transfer of authority from the central government to regional governments in order to formulate and implement government policies in the Unitary State of the Republic of Indonesia. Conversely, OECD (2019) explains that financial decentralization encourages the development of spending functions, revenue collection authorities, and

intergovernmental transfer mechanisms as a means of distributing finances from the private sector to the public sector.

Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments and Government Regulation No. 12 of 2019 concerning Regional Financial Management provide the legal basis for Regional Original Revenue (PAD), namely revenue derived from regional economic potential and imposed in accordance with regional regulations. Regional fiscal autonomy is reflected in the size of PAD; the greater a region's PAD contribution, the greater its financial independence from the central government. In line with this, Fitriyanti and Handayani (2020) and Panggabean et al. (2022) describe PAD as a key indicator of regional fiscal capacity in supporting regional development and socio-economic improvement.

Based on Law No. 33 of 2004, the General Allocation Fund (DAU) is a block grant budget disbursement from the central government to regional governments. Its primary objective is to minimize financial disparities between regions by ensuring adequate regional capacity to carry out public services and government duties. The DAU can be used in various ways, depending on the region's top priorities. Panggabean et al. (2022) explain that DAU forms part of the fiscal balancing mechanism between central and regional governments within the decentralization framework.

Based on Law No. 33 of 2004 and Law No. 1 of 2022, the central government distributes Regional Revenue Sharing (DBH) to regions based on tax revenues and revenues from natural resource management. Within the framework of fiscal decentralization, DBH is part of the balancing fund mechanism aimed at strengthening regional fiscal capacity and reducing disparities between regions. Previous research also places DBH as an important component of intergovernmental fiscal transfers in analyzing regional inequality and development outcomes (Nany et al., 2022). Although DBH increases regional fiscal capacity, how well it is planned and utilized will determine how much impact it has on community welfare.

DAK is a specific grant fund transfer to support national development priorities while also financing certain activities under regional authority. Unlike DAU, the use of DAK is strictly regulated by the central government. Fitriyanti and Handayani (2020) and Panggabean et al. (2022) note that DAK is commonly associated with sectoral financing, particularly infrastructure and public service provision within the decentralization system.

Regional Government Expenditure comprises all official regional expenditures as regulated in Government Regulation No. 12 of 2019. Capital expenditure is directed towards the development of public facilities and infrastructure to improve the quality of basic services and encourage improvements in public welfare, including supporting poverty reduction. Rasu et al. (2019) emphasize that regional spending patterns and fiscal management are closely related to regional socio-economic conditions, reflecting the implementation dimension of fiscal decentralization.

Based on fiscal decentralization theory and public finance principles, PAD, DAU, DAK, DBH, and regional expenditure are fiscal instruments that expand regional fiscal capacity and improve public service delivery. When managed efficiently and accountably, these instruments are expected to reduce poverty through enhanced infrastructure, improved human capital, expanded employment opportunities, and strengthened social protection mechanisms.

Research Methods

This study employed a quantitative approach using secondary data in the form of panel data, namely time series (observation period 2019–2024) and cross-section (15 districts/cities in Lampung Province) (Winarno, 2017). The quantitative method was chosen because it is able to provide more objective measurements of economic phenomena and analyse relationships between variables based on empirical data. This is in line with the view Rexhepi et al. (2023) which emphasizes that a quantitative approach is needed to test hypotheses and draw conclusions that can be generalized through statistical analysis. This study analysed the dependent variable in the form of Poverty Level, while the independent variables used include Regional Original Income (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), and Regional Government Expenditure.

Poverty data were obtained from publications by the Central Statistics Agency (BPS), while data related to regional fiscal conditions were obtained from the Directorate General of Fiscal Balance (DJPK). This study covered regencies/cities in Lampung Province from 2019 to 2024. The equation model used is explained as follows:

$$Y_{it} = \beta_0 + \beta_1 \ln PAD_{it} + \beta_2 \ln DAU_{it} + \beta_3 \ln DAK_{it} + \beta_4 \ln DBH_{it} + \beta_5 \ln BPD_{it} + \varepsilon_{it}$$

where

Y	= poverty level
PAD	= regional original income
DAU	= general allocation fund
DAK	= special allocation fund
DBH	= revenue sharing fund
BPD	= regional government expenditure
ln	= variable log model
β_0	= constant
ε	= error term
i	= cross section
t	= time series

This model was applied to examine the influence of regional fiscal variables on poverty levels in each district or city. The use of panel data can make estimation more efficient and reduce errors that typically occur in time series and cross-regional analyses. This aligns with the explanation Astuti et al. (2020) that panel data is generally more informative, offers greater variability, and improves estimation efficiency. Three methods were used for estimation: the Random Effects Model (REM), the Fixed Effects Model (FEM), and the Common Effects Model (CEM). The t-test was used to examine the partial influence of each independent variable on the dependent variable after selecting an appropriate model based on the results of the Chow and Hausman tests. The simultaneous influence of all independent variables on the dependent variable was confirmed using the F-test. The model's ability to explain differences in poverty levels was evaluated using the coefficient of determination (R^2). The Eviews 13 software program, which is based on panel data analysis processes, was used for all analysis procedures.

Results and Discussion

Results of Model Selection Method Analysis

Before estimating the research model, the appropriate panel data regression strategy must be selected by considering three types of models: the Random Effects Model (REM), the Fixed Effects Model (FEM), and the Common Effects Model (CEM). The following table displays the results of selecting the most appropriate regression model:

Table 1. Model Selection Results

	Model Selection	Prob.	Conclusion
Chow Test			
Cross-section F	FEM atau CEM	0.0000	FEM (P < 0.05)
Cross-section Chi-square		0.0000	
Hausman Test			
Cross-section Random	FEM atau REM	0.0013	FEM (P < 0.05)

The Fixed Effects Model (FEM) was determined to be the most appropriate model in this study based on the regression model test results in Table 1. Therefore, the Lagrange Multiplier test was not necessary for this analysis. The next step was to test the classical assumptions. The data used in this study were normally distributed according to the normality test, allowing the regression analysis to proceed.

The Fixed Effects Model (FEM), shown in Table 2, is the panel data regression analysis model applied, according to the findings of the Chow and Hausman test.

Table 2. Results of Panel Regression Analysis with Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	55.49846	10.39725	5.337800	0.0001
PAD	-1.814996	0.608052	-2.984937	0.0098
DAU	-4.687967	1.718430	-2.728053	0.0163
DAK	-1.066550	0.359494	-2.966809	0.0102
DBH	-0.475615	0.382914	-1.242094	0.2346
BPD	0.331444	0.123081	2.692898	0.0175

Based on the results of the regression test, it can be concluded that the equation:

$$Y_{it} = 16.21579 - 1.814996nPAD_{it} - 4.687967nDAU_{it} - 1.066550lnDAK_{it} - 0.475615lnDBH_{it} + 0.331444lnBPD_{it}$$

According to the results of the regression analysis in Table 2, the magnitude of the regression constant has a value of 55.49846. This indicates that the poverty rate is predicted to be 55.49846 if all dependent variables are zero. The coefficient of the PAD variable is -1.814996 with a probability of (0.0098 < α = 0.05), showing that the variable has a negative effect on poverty alleviation. The DAU variable is -4.687967 with a probability of (0.0163 < α = 0.05), showing that the DAU variable coefficient has a negative effect on poverty alleviation. The coefficient of the DAK variable is -1.066550 with a probability of (0.0102 < α = 0.05), showing that the DAK variable has a negative effect on poverty alleviation. The coefficient of the DBH variable is -

0.47615 with a probability of ($0.2346 > \alpha = 0.05$), showing that the variable has no effect on poverty alleviation. And the coefficient of the BPD variable is 0.331444 with a probability of ($0.0175 < \alpha = 0.05$), indicating that the variable has a positive effect on poverty alleviation with the assumption of *ceteris paribus*. This shows that poverty alleviation is influenced by factors such as PAD, DAU, DAK, and BPD.

Hypothesis Testing Results

t-test

To assess whether each independent variable significantly influences the dependent variable, a t-test was used. This also served to confirm the validity of the hypothesis proposed in the study. The estimation results using the t-statistic are shown in Table 3.

Table 3. Hypothesis Testing

Variable	t_{ratio}	Critical Value	Prob	α	Criteria	Decision
PAD (X1)	-2.984937	-1.988	0.0098	0,025	Significant	Reject H_0
DAU (X2)	-2.728053	-1.988	0.0163	0,025	Significant	Reject H_0
DAK (X3)	-2.966809	-1.988	0.0102	0,025	Significant	Reject H_0
DBH (X4)	-1.242094	-1.988	0.2346	0,025	Not Significant	Fail to reject H_0
BPD (X5)	2.692898	1.988	0.0175	0,025	Significant	Reject H_0
R-squared	0.965396		Durbin-Watson stat		1.489830	
F-statistic	102.7828		Prob (F-statistic)		0.000000	

With a significance level of $\alpha = 5\%$, $n = 90$, and $k = 5$, then $df = n-k (90- 5) = 85$, the critical value for the 2-way test is 1.988 or -1.988. Based on Table 3, the conclusions of the hypothesis testing for each variable can be formulated as follows:

The Influence of PAD on Poverty Alleviation in Districts/Cities of Lampung Province

The PAD variable shows a t_{ratio} value of -2.984937 with a significance level of $0.0098 < 0.05$. Since the $t_{ratio} (-2.984937) < \text{critical value} (-1.988)$, H_0 rejected. Thus, it is concluded that the PAD variable has a significantly negative effect on poverty alleviation in the regencies/cities of Lampung Province, 2019-2024.

The Influence of DAU on Poverty Alleviation in Districts/Cities of Lampung Province

The DAU variable shows a t_{ratio} value of -2.728053 with a significance level of $0,0163 < 0,05$. Because the $t_{ratio} (-2. 728053) < \text{critical value} (-1.988)$, then H_0 is rejected. Thus, it is concluded that the DAU variable has a significantly negative effect on poverty alleviation in the regencies/cities of Lampung Province 2019-2024.

The Influence of DAK on Poverty Alleviation in Districts/Cities of Lampung Province

The DAK variable shows a t_{ratio} of -2.966809 with a significance level of $0.0102 < 0.05$. Because the $t_{ratio} (-2. 966809) < \text{critical value} (-1.988)$, then H_0 is rejected. It is concluded that the special allocation fund variable has a significantly negative effect on poverty alleviation in the districts/cities of Lampung Province, 2019-2024.

The Influence of DBH on Poverty Alleviation in Districts/Cities of Lampung Province

The DBH variable shows a t_{ratio} of -1.242094 with a significance level of 0,2346 > 0,05. Since the t_{ratio} (-1.242094) > critical value (-1.988), H_0 is failed to be rejected. Thus, it can be concluded that the revenue sharing fund variable does not have a significant effect on poverty alleviation in the districts/cities of Lampung Province, 2019-2024.

The Influence of BPD on Poverty Alleviation in Districts/Cities of Lampung Province

The BPD variable shows t_{ratio} of 2.692898 with a significance level of 0.075 < 0.05. Since the t_{ratio} (2.692898) < critical value (1.988), H_0 is rejected. Based on the results, local government funds have a significant positive effect on poverty alleviation in the regencies/cities of Lampung Province, 2019-2024.

F-Test

The F-test aims to determine whether all independent variables simultaneously have a significant effect on the dependent variable. This test is conducted by comparing the calculated $F_{statistic}$ with the critical value as a basis for decision-making. The results of this joint hypothesis test are presented in Table 3. The significance level is shown in Table 3. With a significance level of $\alpha = 5\%$ with $df_1 = k-1$ ($5-1 = 3$), $df_2 = n-k-1$ ($90-5-1 = 84$), the critical value is 2.480.

Based on Table 3, the value obtained is $F_{statistic}$ value 102.7828 with probability values 0.000. Because $F_{statistic}$ (102.7828) > critical value (2.480), then H_0 is rejected. This indicates that the variables PAD, DAU, DAK, DBH, and regional government spending have a significant influence simultaneously on poverty alleviation in the regencies/cities of Lampung Province in 2019-2024.

The degree to which the dependent variable is explained by the independent variables, expressed as a percentage, is known as the coefficient of determination. Table 3 shows that PAD, DAU, DBH, DAK, and local government spending account for 96.5% of the variation in poverty alleviation rates in districts/cities in Lampung Province (R^2 value of 0.965396), with the remaining 3.5% explained by factors outside this study.

Discussion*The Influence of Regional Original Income on Poverty Alleviation in Districts/Cities of Lampung Province*

The results of this study indicate that Regional Original Revenue (PAD) significantly impacted poverty alleviation in districts/cities in Lampung Province during the 2019–2024 period. This finding indicates that increasing regional fiscal capacity sourced from internal revenue can expand the fiscal space of local governments to finance development programs that directly impact community welfare. Theoretically, fiscal decentralization increases the efficiency of resource allocation because local governments have better information about local community needs. Within this framework, PAD reflects the level of regional fiscal independence. The greater the PAD contribution to total regional revenue, the greater the local government's ability

to design responsive, adaptive, and targeted development policies to improve the quality of public services.

Within the framework of economic growth, increased PAD enables local governments to finance productive expenditures such as infrastructure development, human resource development, and community economic empowerment, which can create a multiplier effect in the regional economy. This public investment boosts productivity, expands employment opportunities, and increases community incomes, thereby reducing poverty. From a public finance perspective, regional revenue capacity also reflects improved fiscal governance, which has implications for the effectiveness of spending in promoting inclusive growth. Empirically, these findings are consistent with those of Putra et al. (2023) that found that PAD significantly influences poverty reduction at the provincial level in Indonesia. Similar results were also demonstrated by Fitriyanti and Handayani (2020) in Central Java Province and Kadafi and Murtala (2020) in Aceh Province, which demonstrates that increasing PAD can strengthen regional fiscal capacity, thereby reducing poverty levels. Panggabean et al. (2022) confirms that PAD contributes positively to regional economic growth, which will accelerate poverty alleviation efforts. Theoretically, PAD illustrates the capability of local governments to maximize local economic potential to finance development and improve community welfare. Regions with high PAD capacity have superior fiscal flexibility to implement productive development programs, such as infrastructure development, community economic empowerment, and improving public services. This study confirms that strengthening PAD in Lampung Province plays a crucial role in supporting regional fiscal independence and the effectiveness of poverty alleviation policies, because the higher the capability of local governments in managing local revenue sources, the greater the opportunity to encourage comprehensive economic growth, expand employment opportunities, and reduce poverty levels sustainably in the Lampung region.

The Influence of General Allocation Funds on Poverty Alleviation in Districts/Cities of Lampung Province

This study shows that the General Allocation Fund (DAU) significantly impacted poverty alleviation in districts/cities in Lampung Province from 2019 to 2024. This finding is consistent with research Putra et al. (2023) which explains that DAU makes an important contribution to reducing poverty levels in Indonesia, and is supported by research Fitriyanti and Handayani (2020) and Kadafi and Murtala (2020) which explains that increasing fiscal transfers from the central government strengthens regional financial capacity to finance development that impacts public welfare. This study's findings confirm that increasing the General Allocation Fund (DAU) in Lampung Province plays a significant role in expanding regional fiscal space and increasing the effectiveness of poverty alleviation policies. This aligns with the results of the study. Panggabean et al. (2022) which found that the General Allocation Fund (DAU) can drive regional economic growth, which has implications for poverty reduction.

From a theoretical perspective, these findings can be explained by the fiscal decentralization theory proposed by Wallace E. Oates, which argues that intergovernmental transfers enhance allocative efficiency by enabling local governments to better tailor public spending to local needs. In addition, within the

framework of endogenous economic growth theory developed by Paul Romer, increased public investment in infrastructure, education, and health can generate long-term growth effects that ultimately contribute to poverty reduction. Therefore, as the DAU allocation is received and managed productively, the capacity of local governments to fund public sectors, including infrastructure development, education, and health services, increases, which can improve welfare and reduce poverty levels in Lampung Province.

The Influence of Special Allocation Funds on Poverty Alleviation in Districts/Cities of Lampung Province

The results of this study demonstrate that the Special Allocation Fund (DAK) significantly impacted poverty alleviation in districts/cities in Lampung Province during the 2019–2024 period. These findings support the view that the DAK plays a crucial role in funding the development of priority sectors that directly impact public welfare, which in line with the theory of intergovernmental fiscal transfers, emphasizes that specific-purpose grants can enhance allocative efficiency and reduce regional disparities when they are directed toward priority sectors that address local needs, as well as with the growth-with-equity framework, which highlights the importance of public investment in education, health, and infrastructure to promote inclusive economic growth and poverty reduction. Sembiring et al. (2024) found that the increase in DAK allocation in Lhokseumawe City had a negative and significant impact on poverty levels, because the funds were directed to strengthening basic infrastructure and social services. Meanwhile, Iskandar and Bawono (2023) explained that although DAK can reduce poverty, its effectiveness is highly dependent on the priority of its use; if it is not properly targeted, DAK has the potential to have no significant impact on living standards. Additionally, research Sinaga et al. (2023) In North Sumatra Province, the Special Allocation Fund (DAK) also indicates a negative relationship with poverty levels, highlighting the important role of fiscal transfers in promoting equitable development across regions. This study's findings confirm that the increase in DAK in Lampung Province significantly contributes to the effectiveness of poverty alleviation policies, as the allocation of these funds focuses on financing education, health, and basic infrastructure development, which can improve community welfare and optimize regional economic competitiveness.

The Influence of Revenue Sharing Funds on Poverty Alleviation in Districts/Cities of Lampung Province

The findings of this study indicate that Revenue Sharing Funds (DBH) had no significant impact on poverty alleviation in districts/cities in Lampung Province from 2019 to 2024. This finding is consistent with that of Rasu et al. (2019), which indicated that DBH had a negative but negligible impact on poverty levels in Manado City, suggesting that direct transfer payments have not significantly improved community welfare. A study by Supriyanto and Utomo (2024), which demonstrated that DBH had no significant impact on regional welfare indices in several regions in Indonesia, provides further evidence for this consistency. From a theoretical perspective, the concept of fiscal federalism suggests that intergovernmental transfers will only improve welfare if they are accompanied by efficient allocation and strong local fiscal capacity; without proper management, transfer funds may fail to generate meaningful

socio-economic outcomes. In addition, public finance theory emphasizes that the quality of expenditure is more important than the size of transfers, meaning that poorly targeted spending may weaken the potential impact of fiscal instruments on poverty reduction. This study demonstrates that the effectiveness of DBH remains limited, particularly when local governments have not allocated these transfer funds to initiatives that truly reduce poverty. This suggests that increasing DBH will not necessarily reduce poverty unless combined with efficient budget management, focused program planning, and distribution that considers the needs of low-income communities. For DBH to truly help reduce poverty in the regions, these findings highlight the importance of maximizing DBH utilization through improved spending quality, program monitoring, and more targeted policy implementation. As a result, the research results show that DBH is not yet the best fiscal instrument to encourage regional poverty reduction.

The Influence of Regional Government Spending on Poverty Alleviation in Regencies/Cities in Lampung Province

These findings explain that Regional Government Spending has a positive and significant impact on poverty alleviation in districts/cities in Lampung Province in 2019–2024, meaning that an increase in regional government expenditure is associated with an increase in poverty. This result suggests that higher public spending does not automatically lead to improved welfare outcomes. Although previous studies such as Fitriyanti and Handayani, (2020) and Putra et al. (2023), found that government expenditure contributes to poverty reduction, the findings of this study reveal a different pattern, indicating that the effectiveness and composition of spending are critical determinants of its impact.

From a theoretical perspective, Keynesian theory explains that government spending can stimulate aggregate demand through the multiplier effect, thereby increasing income and employment, and ultimately reducing poverty. However, the multiplier effect will only operate optimally if spending is directed to productive sectors with strong links to the real economy. If public spending is dominated by routine or less productive expenditures, its impact on job creation and income generation is limited. Empirically, this finding is supported by research Miar and Yunani (2020) which shows that government spending is only effective in reducing poverty if it is allocated productively and targeted. Furthermore, research Masduki et al. (2022) also confirms that the quality of local government spending, including prioritization, effectiveness, and accountability, is more crucial to its impact on poverty reduction than simply budget size. Therefore, the positive relationship found in this study may reflect inefficiencies in expenditure allocation, weak targeting of low-income groups, or delays in program implementation. These findings suggest that increased local government spending in Lampung Province has not been fully optimized, undermining the importance of improving expenditure quality, allocative efficiency, and policy effectiveness for achieving inclusive and sustainable regional development.

Conclusion

Based on the analysis conducted on the impact of fiscal decentralization on poverty reduction in districts/cities in Lampung Province for the period 2019–2024, it was

concluded that fiscal decentralization is very influential in overcoming poverty. The results of the study for each variable explain that the variables of Regional Original Income (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), and Regional Expenditure have a significant influence on poverty alleviation, while Revenue Sharing Fund (DBH) does not show a significant influence. All of these independent variables have a significant influence on poverty reduction, explaining 97.13% of the variation in poverty. This finding confirms that the better a region is in managing revenue and expenditure effectively and productively, the greater its impact in improving community welfare. Therefore, the achievement of fiscal decentralization in reducing poverty is not only controlled by the amount of funds received by the region, but also by the quality of regional financial governance, efficiency of budget allocation, and the commitment of local governments in implementing development programs that emphasize community empowerment and inclusive economic growth.

Based on the results of this study, it is recommended that local governments increase their fiscal capacity by maximizing Regional Original Revenue (PAD) and managing transfer funds more effectively, including the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Regional Revenue Sharing Fund (DBH). For fiscal decentralization plans to truly reduce poverty, budget allocation must be focused on areas that directly impact community welfare, such as health, education, basic infrastructure, and regional economic empowerment. Furthermore, improving the quality of financial governance, transparency, and accountability of local governments needs to be a priority to ensure that all allocated funds are used efficiently and on target. For a more comprehensive and in-depth analysis of factors influencing poverty, it is recommended that more variables be added to future research, such as economic growth, poverty, or the Human Development Index (HDI).

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