The Promise of Fiscal Decentralization on the Threat of Poverty Rates in Special Region

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ABSTRACT

This study aims to determine the effect of the fiscal decentralization component on poverty, directly or indirectly, through pro-poor expenditures in Special Regions of Yogyakarta. The Privileges of the Special Region of Yogyakarta mentioned what distinguishes it from the other provinces so that it is called a special region is the privilege to establish a social order that guarantees diversity and the critical role of the Sultanate and Duchy of Pakualaman in preserving culture. However, poverty in the Special Region of Yogyakarta is spread in every district. On the other side, more than two decades of efforts to address poverty have been through fiscal decentralization. During the era of fiscal decentralization, there were problems from the revenue and expenditure sides. It is a question related to the successful implementation of fiscal decentralization. This study uses path analysis with secondary data. The result of this study is that the component of local revenue can play a role in poverty reduction directly through local-own source revenue. The indirectly effect shows that poverty alleviation can also be done through the role of local-own source revenue through pro-poor expenditure instruments.

Keywords: Poverty Rates, Fiscal Decentralization, Special Region of Yogyakarta
INTRODUCTION

Poverty is one of the identical problems that occur in developing countries, such as Indonesia. Poverty can be defined as a condition of inability to meet daily needs, so they feel a lack of welfare (Zuhdiyaty & Kaluge, 2017). In the social democratic paradigm, the problem of poverty is seen as structural. Poverty occurs due to inequality in obtaining services, such as education and health. Therefore, the solution to poverty is optimizing the role of each institution with social programs, in line with the role of the government of the Constitution of the Republic of Indonesia 1945, which mandates the obligation of the state to care for poor and abandoned children. If not immediately addressed, poverty can affect household welfare, not getting a decent job because it cannot meet the required quality standards, and the loss of various rights that should be felt (Mualifah, 2019).

Poverty has become one of the main problems every region faces at the provincial and district levels. Based on data from the Central Bureau of Statistics (BPS) until 2021, most of the highest percentage of poor people is still dominated by provinces outside Java. However, one of the provinces in Java Island ranked 12th as the province with the highest percentage of poor people in Indonesia is the Special Region of Yogyakarta (DIY), with an average value for the last five years of 12.064%. On the other side, Yogyakarta is one of Indonesia's provinces that have revenue privileges. Based on Law 13 of 2012 concerning the Privileges of the Special Region of Yogyakarta mentioned, what distinguishes it from the other provinces so that it is called a special region is the privilege to establish a social order that guarantees diversity and the critical role of the Sultanate and Duchy of Pakualaman in preserving culture. However, poverty in the Special Region of Yogyakarta is spread in every district, which includes (i) Kulon Progo, (ii) Gunung Kidul, (iii) Bantul, (iv) Sleman, and (v) Yogyakarta City. The data on the percentage of poor people released by BPS shows a reasonably high percentage difference among districts/cities in the Special Region of Yogyakarta. Although, the causes of poverty in districts/cities are complex problems that can be influenced by various factors and are sustainable (Melati & Burhany, 2021).

More than two decades of efforts to address poverty have been through the role of decentralization in terms of finance, called fiscal decentralization. Decentralization is the transfer of responsibility to local governments to provide public services following the community's needs (Khusaini, 2018). It is because there is an assumption that public goods provided by local governments are more efficient (Siburian, 2022). In line with Oates (1999), every preference and need of the people tends to be known by the lower and closer governments in the layers of society. The government has the authority to regulate finances through the regional budget, which includes revenues, expenditures, and financing components. It is because the budget has several functions, such as authorization, planning, supervision, allocation, distribution, and also stabilization (Syahidin, 2020).

During the era of fiscal decentralization, there were problems from the revenue side (Finuliyah & Susilo, 2023). First, the local-own source revenue component should be used to determine regional financial capability (Saraswati, 2019). Through fiscal decentralization, each region can optimize and explore revenue potential independently. However, only some districts/cities in the Special Regions of Yogyakarta can optimally collect the local-own source revenue. Second, the proportion of transfer revenue in the five districts reached more than 50% of the total revenue. The dependence of each district/city will continue until 2021. Based on the Directorate General of Fiscal Balance data (2023), Gunung Kidul is still the district with the highest dependence on transfer funds, as evidenced by the proportion of transfer revenue reaching 88%. Although when
compared to 2006, the figure has decreased by 4%. High dependence on transfer funds can impact the provision of public facilities the community needs, significantly increasing economic growth and community welfare in Special Regions of Yogyakarta, which is less than optimal. Fiscal dependence through revenue also indicates fiscal independence that has yet to be achieved by districts/cities in Special Regions of Yogyakarta.

Optimization of fiscal decentralization is not only through revenue but also through regional expenditure (Jamil et al., 2022). The allocation of local government expenditure is expected to contribute to economic development, especially poverty reduction, based on the Directorate General of Fiscal Balance data (2023), related to realizing regional expenditure based on the economic sector in each Special Region of Yogyakarta District/City. The most significant expenditure composition is still on personnel expenditures, reaching almost 50% of the total regional expenditure. Meanwhile, the average percentage of capital expenditure for public facility infrastructure is only around 15-23%. Not only based on the economic sector, but local government expenditure also covers eleven (11) main functions, from public services to social assistance. When referring to every regulation of regents and mayors in the Special Region of Yogyakarta, poverty alleviation can be done through meeting basic needs, such as (i) public services; (ii) education; (iii) health; (iv) tourism; and (v) social assistance expenditure. The average realization of regional expenditures by function from 2008-2021 can be seen that between districts/cities have different proportions, (i) Kulon Progo, Gunung Kidul, Bantul, and Yogyakarta City allocated the highest regional expenditures in education expenditures reaching 35%, 42.51%, 35.50%, and 28.30%; while (ii) Sleman District allocates the highest regional expenditure on public services at 42.26%.

Based on the government expenditure theory, when local governments have allocated social assistance, capital expenditure on infrastructure and other functions should increase public facilities and reduce poverty. However, poverty in the Special Region of Yogyakarta districts/cities is still relatively high. According to Kuncoro in Prakoso et al., (2019), the weakness of government capabilities and the institutional side can increase the possibility of poverty in an area. It is a question related to the successful implementation of fiscal decentralization regarding revenue and expenditure for more than two decades. Implementing fiscal decentralization is expected to encourage economic development in each region, such as increasing economic growth and community welfare to reduce poverty levels (Anwar, 2009). However, not all regions that implement fiscal decentralization have increased in development, one of which is due to financial management problems. Therefore, this study aims to determine the effect of the fiscal decentralization component on poverty, directly or indirectly, through pro-poor expenditures in Special Regions of Yogyakarta.

LITERATURE REVIEW

Fiscal Decentralization and the Poverty
The theory of fiscal federalism explains more than just the division of power between central-regional governments. However, this theory explains the relationship related to the implementation of fiscal decentralization with the welfare received by the community (Haryanto, 2019). Meanwhile, on the other hand, the implementation of fiscal federalism theory assumes that the success of fiscal decentralization is due to the assumption that government conditions are in optimal conditions, in line with Oates in Ewetan et al., (2020). In the implementation of fiscal decentralization, the greater the ability of regional finance to explore sources of revenue, the more significant the contribution of Local governments in making expenditures and financing (Rusman, 2018). According to Solkin (2018), government expenditure is an endogenous variable related to economic development. There are several views regarding government
expenditure, namely optimists and pessimists. For the pessimistic view, government expenditure needs to be limited to maintain higher economic growth than growth in government expenditure. Meanwhile, optimistic views believe that the increase in economic expenditure will be directly proportional to efforts to increase economic growth (Purnomo et al., 2023).

Government expenditure can be affected by several factors, among others. (i) Increased need for public facilities, (ii) Increased provision of facilities and services (supply), (iii) Ongoing services and facilities still need to be classified as efficient. Therefore, government expenditure can increase according to the needs and priorities of each region. Musgrave and Rostow's theory are also known as the development model related to the development of government expenditure. There is a relationship between expenditures made by the government and the stages of development, namely the early, middle, and advanced stages. In the early stages, the expenditure made by the government is quite significant to fund investments to provide public facilities, such as education, health, to transportation. In the middle stage, the government is still investing to increase economic growth, but the private sector has been involved. At an advanced stage, government expenditures are allocated to social activities to improve old-age welfare and deliver public health services.

Expenditures carried out by local governments can be classified into two types, namely based on economy and function. Based on the Ministry of Finance, regional expenditures based on the economy include (i) personnel expenditures, (ii) capital expenditures, and other types of expenditures. Meanwhile, regional expenditures by function include 11 functions, including instruments used for pro-poor expenditures. The types of expenditures carried out to overcome poverty, among others: (i) expenditures on education functions; (ii) health; (iii) economic; (iv) public works and housing; and (vi) social assistance expenditures (Bandiyono, 2018). Through the role of pro-poor expenditures, it is hoped that it can become a tool to overcome poverty. The fundamental theories related to poverty used in this study refer to the theory of the vicious cycle of poverty, expressed by Ragnar Nurkse. Based on the vicious circle theory shows that poverty can affect each other so that poverty will always remain in every country (Faulana et al., 2021). Variables in the vicious circle theory, consisting of low levels of demand, low productivity, low per capita revenue, savings and investments, are still relatively low. These variables influence each other to encourage poverty.
Based on previous research conducted by Sillas in Syamsul (2020), fiscal decentralization can affect poverty alleviation efforts in Kenya. Previous research on the Local government budget component also showed that Local-own source revenue negatively affected poverty (Fitriyanti & Handayani, 2021). Fiscal decentralization has been implemented by every region in Java, including Central Java. Research conducted by Sasana (2009) related to The Role of Fiscal Decentralization on Economic Performance in Districts/Cities of Central Java Province shows that fiscal decentralization has a macroeconomic and social effect that shows better conditions. It is reflected in the increase in economic growth, but poverty-related problems still need to be resolved. The results of this study can show different results in each region in Indonesia, according to the object of research used.

The effect of fiscal decentralization through local-own source revenue indicators on poverty was also examined by Wibowo & Oktivalerina (2022), entitled Analysis of the Impact of Fiscal Decentralization Policy on Reducing Poverty Rate in Districts/Municipalities: A Case Study of Indonesia in 2010-2018. In this study, using the object of research, as many as 476 districts/cities in Indonesia are then classified into the Western Region of Indonesia (KBI) and the Eastern Region of Indonesia (KTI) so that it can be concluded the differences in the conditions of the implementation of fiscal decentralization on the conditions of each cluster. The results of research related to fiscal decentralization of poverty conditions in each district in Indonesia show three essential findings, (i) the research results using all districts/cities and KBI show that fiscal decentralization can reduce poverty rates, (ii) the study did not show significant results in KTI due to variations in regional conditions, and (iii) poverty conditions at the district/city level in Indonesia can be reduced by supporting factors, such as the availability of facilities and infrastructure for poverty reduction activity programs.

There is an effect on poverty in the components of transfer revenue, such as general allocation funds, special allocation funds, revenue sharing funds, and special funds. Gumelar & Khairina (2021) showed that each component of transfer revenue, namely general allocation funds, special allocation funds, and revenue sharing funds, negatively affects poverty in Central Sulawesi. It is because transfer revenue is one of the revenues that aims to fund programs and activities in each region. Fiscal decentralization not only
directly affects poverty but can also have an indirect effect (Siburian, 2022). There are indications that other intervening variables can affect the implementation of fiscal decentralization. This study uses an intervening variable approach, namely a pro-poor expenditures instrument determined based on the regulation related to poverty reduction efforts. The first pro-poor expenditure instrument is public service expenditure. Expenditure based on the function of public services is one of the tools used to overcome poverty, including in procuring goods and services. In line with expenditure based on other functions, such as education and health, welfare is improved by meeting basic needs (Widodo, 2011). Meanwhile, tourism expenditure encourages other sectors, such as the MSME sector, which tends to be close to the community (Zainu et al., 2021). Another pro-poor expenditure instrument is social assistance expenditure, which is focused on providing community (Bandiyono, 2018). Social assistance expenditures concentrate on the poor people and the social welfare problems in Indonesia.

**RESEARCH METHOD**

This study uses path analysis with the secondary data, a developmental analysis of multiple linear regression, to analyze the relationship between direct and indirect effects (Sarwono, 2011). There are several stages of analysis in this study. First, regression analysis directly determines the effect of independent variables (local-own source revenue, general allocation fund, and special allocation fund) on the dependent variable (poverty). Second, regression analysis to determine the effect of independent variables (local-own source revenue, general allocation fund, and special allocation fund) on the dependent variable (poverty) through each intervening variable, namely (i) public service; (ii) health; (iii) tourism; (iv) education; (v) social assistance expenditure. The following is a substructure in this study that has not been transformed into a natural logarithm (Ln).

**Figure 2. Variables Framework**

Substructure 1. Directly explains the effect of Local-own source revenue, general allocation fund and special allocation fund on poverty.

\[
Pov_{it} = \alpha_1 \text{Local}_{it} + \varepsilon_{i1t} \quad (1)
\]

\[
Pov_{it} = \alpha_2 \text{General}_{it} + \varepsilon_{i2t} \quad (2)
\]

\[
Pov_{it} = \alpha_3 \text{Special}_{it} + \varepsilon_{i3t} \quad (3)
\]
Substructure 2. Describes the effect of local-own source revenue, general allocation fund, and special allocation fund on poverty through pro poor expenditures.

\[
Pov_i = (\alpha_1 \text{Local}_i \times \alpha_1 \text{Public}_i) + \varepsilon_{it1}
\]

\[
Pov_i = (\alpha_2 \text{General}_i \times \alpha_2 \text{Public}_i) + \varepsilon_{it2}
\]

\[
Pov_i = (\alpha_3 \text{Special}_i \times \alpha_3 \text{Public}_i) + \varepsilon_{it3}
\]

\[
Pov_i = (\alpha_1 \text{Local}_i \times \alpha_1 \text{Health}_i) + \varepsilon_{it1}
\]

\[
Pov_i = (\alpha_2 \text{General}_i \times \alpha_2 \text{Health}_i) + \varepsilon_{it2}
\]

\[
Pov_i = (\alpha_3 \text{Special}_i \times \alpha_3 \text{Health}_i) + \varepsilon_{it3}
\]

\[
Pov_i = (\alpha_1 \text{Local}_i \times \alpha_1 \text{Tourism}_i) + \varepsilon_{it1}
\]

\[
Pov_i = (\alpha_2 \text{General}_i \times \alpha_2 \text{Tourism}_i) + \varepsilon_{it2}
\]

\[
Pov_i = (\alpha_3 \text{Special}_i \times \alpha_3 \text{Tourism}_i) + \varepsilon_{it3}
\]

\[
Pov_i = (\alpha_1 \text{Local}_i \times \alpha_1 \text{Education}_i) + \varepsilon_{it1}
\]

\[
Pov_i = (\alpha_2 \text{General}_i \times \alpha_2 \text{Education}_i) + \varepsilon_{it2}
\]

\[
Pov_i = (\alpha_3 \text{Special}_i \times \alpha_3 \text{Education}_i) + \varepsilon_{it3}
\]

\[
Pov_i = (\alpha_1 \text{Local}_i \times \alpha_1 \text{Social}_i) + \varepsilon_{it1}
\]

\[
Pov_i = (\alpha_2 \text{General}_i \times \alpha_2 \text{Social}_i) + \varepsilon_{it2}
\]

\[
Pov_i = (\alpha_3 \text{Special}_i \times \alpha_3 \text{Social}_i) + \varepsilon_{it3}
\]

RESULTS

The characteristics of poverty conditions in the Special Regions of Yogyakarta can be known through relative positions. Based on Figure 3, regarding the relative position of poverty rates in the district/city, it can be seen that Kulon Progo District has the highest percentage, which averages 20.49%. Then, Gunung Kidul District by 19.28% and Bantul District by 15.13%. The three districts are above the average percentage of poor people at the provincial level. It differs from Sleman District and Yogyakarta City, which are below the provincial poverty line. The percentage of poor people in the Sleman District is 9.05%, and Yogyakarta City has the lowest percentage of poor people at only 8.26% on average from 2010-2021.

**Figure 3.** Relative Position of Poverty Rates by District/City in Special Region of Yogyakarta
Human Resources Development, especially for Provincial Poverty Reduction Coordination Teams and District/City Poverty Reduction Teams. The regulation has explained the purpose of poverty reduction as systemic, planned, and synergistic policies and programs of the government and Local governments to overcome poverty and improve people's welfare. Furthermore, it also explained the purpose of the poverty reduction program.

Poverty reduction policies consist of strategies and programs. The explanation of poverty reduction strategies has been stated in (17), namely, (i) reducing the expenditure burden of people experiencing poverty, (2) increasing the capacity and revenue of people experiencing poverty, (3) developing and ensuring the sustainability of micro and small enterprises, and (4) synergizing poverty reduction policies and programs. Meanwhile, the purpose of poverty reduction programs has been stated in 18, such as (i) integrated social assistance and social security programs, (ii) community empowerment programs and strengthening micro and small enterprises, (iii) other programs that can directly or indirectly improve economic activities and the welfare of people experiencing poverty. Poverty alleviation efforts in Special Regions of Yogyakarta have subsequently been regulated in Regional Regulation 11 of 2019 concerning Poverty Reduction. Based on (7), it has been explained that Local governments are responsible for (i) seeking the fulfilment of the rights of people experiencing poverty, (ii) formulating poverty reduction policies and programs, (iii) developing and seeking program integration, (iv) building partnerships with various parties, and (v) supervising, controlling, and evaluating the implementation of policies, strategies, and programs. However, as a form of sustainability of these regional regulations, until now, the formation of poverty reduction strategies is still being pursued by Local governments at the provincial to district/city levels. Furthermore, poverty alleviation in Special Regions of Yogyakarta has been listed in long-term and medium-term planning documents.

Model testing conducted through path analysis aims to determine the direct effect and the indirect effect of the independent variable on the dependent variable through the intervening variables. This study uses the best Common Effect Model (CEM). In addition, some assumptions must be met in path analysis, namely normality. In this study, the data showed normal distribution through residuals. The following is a more detailed explanation of the results of estimating direct and indirect effects. The results of the path analysis estimation in substructure one aim to determine the direct effect. In this substructure, determine the effect of independent variables, (i) Local-own source revenue, (ii) general allocation fund, and (iii) special allocation fund, on poverty-dependent variables. Based on Table 1 and Figure 4, the estimation results show that only local-own source revenue (Local) significantly affects poverty. In more detail, the estimated results can be known, (i) local-own source revenue (Local) has a coefficient of -0.8188686 with a probability of 0.000 (<0.05). Thus, local-own source revenue (Local) has a negative and statistically significant effect on poverty directly; (ii) the general allocation fund variable (general) has a coefficient of 0.0099156 with a prob of 0.869 (>0.05). Thus, the general allocation fund (General) has no statistical effect on poverty; (iii) the special allocation fund variable (Special) also shows no statistical effect on poverty because the prob value shows 0.358 (>0.05).
Table 1. Direct Effect Estimation Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Probability</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local - Pov</td>
<td>-0.8188686</td>
<td>0.000</td>
<td>H0 is Rejected**</td>
</tr>
<tr>
<td>General - Pov</td>
<td>0.0099156</td>
<td>0.869</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Special - Pov</td>
<td>0.0552774</td>
<td>0.358</td>
<td>H0 is Accepted</td>
</tr>
</tbody>
</table>

Source: Stata (Proceed), 2023

** 0.05

The results of the path analysis estimation in substructure 2 show an indirect effect. In this substructure 2, there are (i) independent variables, namely Local-own source revenue (Local), general allocation fund (General), and special allocation fund (Special); (ii) intervening variables, namely public service expenditure (Public), health expenditure (Health), tourism expenditure (Tourism), education expenditure (Education), and social assistance expenditure (Social); (iii) the dependent variable, poverty (Pov). In Table 2 and Figure 4, we can see the results of the estimation of indirect effects.
### Table 2. Indirect Effect Estimation Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Probability</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local – Public - Pov</td>
<td>-0.204285</td>
<td>0.015</td>
<td>H0 is Rejected **</td>
</tr>
<tr>
<td>General – Public - Pov</td>
<td>0.0276927</td>
<td>0.690</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Special – Public - Pov</td>
<td>0.0558027</td>
<td>0.426</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Local – Health - Pov</td>
<td>-0.1155798</td>
<td>0.096</td>
<td>H0 is Rejected *</td>
</tr>
<tr>
<td>General – Health - Pov</td>
<td>0.0727499</td>
<td>0.136</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Special – Health - Pov</td>
<td>-0.075862</td>
<td>0.130</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Local – Tourism - Pov</td>
<td>-0.1887802</td>
<td>0.016</td>
<td>H0 is Rejected **</td>
</tr>
<tr>
<td>General – Tourism - Pov</td>
<td>0.0752004</td>
<td>0.228</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Special – Tourism - Pov</td>
<td>0.0259382</td>
<td>0.661</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Local – Education - Pov</td>
<td>0.096184</td>
<td>0.000</td>
<td>H0 is Rejected **</td>
</tr>
<tr>
<td>General – Education - Pov</td>
<td>-0.02136</td>
<td>0.034</td>
<td>H0 is Rejected *</td>
</tr>
<tr>
<td>Special – Education - Pov</td>
<td>0.011344</td>
<td>0.264</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Local – Social - Pov</td>
<td>-0.0848204</td>
<td>0.147</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>General – Social - Pov</td>
<td>0.0880001</td>
<td>0.137</td>
<td>H0 is Accepted</td>
</tr>
<tr>
<td>Special – Social - Pov</td>
<td>0.1033684</td>
<td>0.095</td>
<td>H0 is Rejected *</td>
</tr>
</tbody>
</table>

*Source: Stata (Proceed), 2023*

** 0.05, * 0.1

Based on the table, it can be seen that there are five different intervening variables. In the first intervening variable, namely public service expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through public service expenditure (Public) has a coefficient of -0.204285 and a prob of 0.015 (<0.05). Thus, Local-own source revenue has a negative and statistically significant effect on poverty through public service expenditure variables with a significance level of 0.05; (ii) the general allocation fund variable (General) to poverty (Pov) through public service expenditure (Public) has a coefficient of 0.0276927 and a prob of 0.690 (> 0.05). Thus, the general allocation fund does not statistically affect poverty through public service expenditure; It is equal to (iii) the special allocation fund
variable (Special) to poverty (Pov) through public service expenditure (Public) has a coefficient of 0.0558027 with a prob of 0.426 (>0.05). The variable special allocation fund does not statistically affect poverty through public service expenditure.

The second intervening variable is health expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through health expenditure (Health) has a coefficient of -0.1155798 and prob 0.096. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of health expenditure with a significance level of 0.1; (ii) the general allocation fund variable (General) to poverty (Pov) through health expenditure (Health) has a coefficient of 0.0727499 and a prob of 0.136 (>0.1). Thus, the general allocation fund variable has no statistical effect on poverty through health expenditure; it is equal to (iii) the special allocation fund variable (Special) to poverty (Pov) through health expenditure (Health) has a coefficient of -0.075862 with a probability of 0.130 (>0.1). The variable special allocation fund has no statistical effect on poverty through health expenditure, with a significance level of 0.05 or 0.1.

The third intervening variable is tourism expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through tourism expenditure (Tourism) has a coefficient of -0.1887802 and a prob of 0.016. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of tourism expenditure with a significance level of 0.05; (ii) the general allocation fund variable (General) to poverty (Pov) through tourism expenditure (Tourism) has a coefficient of -0.0752004 and a prob of 0.228 (>0.1). Thus, the general allocation fund variable has no statistical effect on poverty through tourism expenditure; it is equal to (iii) the special allocation fund variable (Special) to poverty (Pov) through tourism expenditure (Tourism) has a coefficient of 0.0259382 with a probability of 0.661 (>0.1). The variable special allocation fund does not statistically affect poverty through tourism expenditure.

The fourth intervening variable is education expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through education expenditure (Education) has a coefficient of 0.096184 and a prob of 0.000. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of education expenditure with a significance level of 0.05; (ii) the general allocation fund variable (General) to poverty (Pov) through education expenditure (Education) has a coefficient of -0.02136 and a prob of 0.034 (<0.05). Thus, the general allocation fund variable has a statistical effect on poverty through tourism expenditure with a significance level of 0.5; It is in contrast to (iii) the special allocation fund variable (Special) to poverty (Pov) through education expenditure (Education) has a coefficient of 0.011344 with a probability of 0.264 (>0.1). The variable special allocation fund does not statistically affect poverty through education expenditure.

The fifth intervening variable is social assistance expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through social assistance expenditure (Social) has a coefficient of -0.0848204 and a prob of 0.147. Thus, local own source revenue has no statistical effect on poverty through social assistance expenditure variables; (ii) the general allocation fund variable (General) to poverty (Pov) through social assistance expenditure (Social) has a coefficient of 0.0880001 and a prob of 0.137 (>0.1). Thus, the variable general allocation fund statistically does not affect poverty through social assistance expenditure; it is in contrast to (iii) the special allocation fund variable (Special) to poverty (Pov) through social assistance expenditure (Social) has a coefficient of 0.1033684 with a prob of 0.095 (<0.1). The variable special allocation fund has a positive and statistically

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Variable (Special) to poverty (Pov) through public service expenditure (Public) has a coefficient of 0.0558027 with a prob of 0.426 (>0.05). The variable special allocation fund does not statistically affect poverty through public service expenditure.

The second intervening variable is health expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through health expenditure (Health) has a coefficient of -0.1155798 and prob 0.096. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of health expenditure with a significance level of 0.1; (ii) the general allocation fund variable (General) to poverty (Pov) through health expenditure (Health) has a coefficient of 0.0727499 and a prob of 0.136 (>0.1). Thus, the general allocation fund variable has no statistical effect on poverty through health expenditure; it is equal to (iii) the special allocation fund variable (Special) to poverty (Pov) through health expenditure (Health) has a coefficient of -0.075862 with a probability of 0.130 (>0.1). The variable special allocation fund has no statistical effect on poverty through health expenditure, with a significance level of 0.05 or 0.1.

The third intervening variable is tourism expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through tourism expenditure (Tourism) has a coefficient of -0.1887802 and a prob of 0.016. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of tourism expenditure with a significance level of 0.05; (ii) the general allocation fund variable (General) to poverty (Pov) through tourism expenditure (Tourism) has a coefficient of -0.0752004 and a prob of 0.228 (>0.1). Thus, the general allocation fund variable has no statistical effect on poverty through tourism expenditure; it is equal to (iii) the special allocation fund variable (Special) to poverty (Pov) through tourism expenditure (Tourism) has a coefficient of 0.0259382 with a probability of 0.661 (>0.1). The variable special allocation fund does not statistically affect poverty through tourism expenditure.

The fourth intervening variable is education expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through education expenditure (Education) has a coefficient of 0.096184 and a prob of 0.000. Thus, local-own source revenue has a negative and statistically significant effect on poverty through the variable of education expenditure with a significance level of 0.05; (ii) the general allocation fund variable (General) to poverty (Pov) through education expenditure (Education) has a coefficient of -0.02136 and a prob of 0.034 (<0.05). Thus, the general allocation fund variable has a statistical effect on poverty through tourism expenditure with a significance level of 0.5; It is in contrast to (iii) the special allocation fund variable (Special) to poverty (Pov) through education expenditure (Education) has a coefficient of 0.011344 with a probability of 0.264 (>0.1). The variable special allocation fund does not statistically affect poverty through education expenditure.

The fifth intervening variable is social assistance expenditure. The results of the indirect effect estimation show (i) the local-own source revenue variable (Local) on poverty (Pov) through social assistance expenditure (Social) has a coefficient of -0.0848204 and a prob of 0.147. Thus, local own source revenue has no statistical effect on poverty through social assistance expenditure variables; (ii) the general allocation fund variable (General) to poverty (Pov) through social assistance expenditure (Social) has a coefficient of 0.0880001 and a prob of 0.137 (>0.1). Thus, the variable general allocation fund statistically does not affect poverty through social assistance expenditure; it is in contrast to (iii) the special allocation fund variable (Special) to poverty (Pov) through social assistance expenditure (Social) has a coefficient of 0.1033684 with a prob of 0.095 (<0.1). The variable special allocation fund has a positive and statistically
significant effect on poverty through social assistance expenditure with a significance level of 0.1.

Furthermore, the total direct and indirect effects show the independent variables of regional revenue components that significantly affect poverty through the pro-poor expenditure instrument. There are three total dominant variable effects, namely (i) local-own source revenue variables on poverty through education expenditure, (ii) the variable of local-own source revenue to poverty through public service expenditure, and the variable of local-own source revenue to poverty through tourism expenditure.

**DISCUSSION**

Based on the study results, it can be seen that in the regional revenue component, only local-own source revenue negatively and significantly affects poverty in Special Regions of Yogyakarta. Meanwhile, transfer revenue components such as general and special allocation funds did not significantly affect poverty. It is in line with several previous studies that have discussed the variable of fiscal decentralization on the revenue side against poverty in Special Regions of Yogyakarta and other regions in Indonesia, which have a high percentage of poor people, especially provinces in Java. Furthermore, the results of this study prove that Local-own source revenue collected by local governments has been optimized to reduce poverty in Special Regions of Yogyakarta directly. Each component of local-own source revenue is collected based on different regulations with the division of authority between provinces to districts/cities. Suppose local-own source revenue has a negative and significant effect on poverty. In that case, the higher the realization of the local-own source revenue, the lower the poverty rate. This result is in line with previous research conducted by Astuti et al., (2021) to determine the effect of local-own source revenue, general allocation fund, and special allocation fund on poverty rates in Java Island by dividing four provinces as case studies, namely West Java, Central Java, East Java, and the Special Region of Yogyakarta. Case studies in Special
Regions of Yogyakarta prove that local-own source revenue partially affects poverty reduction. Local-own source revenue is the primary source that can be allocated to achieve regional development, including poverty reduction. Not only local-own source revenue research conducted by Astuti et al., (2021) with Special Regions of Yogyakarta case studies also shows that poverty reduction can be done through the role of special allocation funds as transfer revenue. Meanwhile, the general allocation fund must show its effect on poverty in Special Regions of Yogyakarta.

The regional revenue component not only directly affects poverty, but there is also an indirect effect through expenditure. According to Kawa in Suwandi & Tahar (2015), on the revenue side, especially local-own source revenue can be allocated to fund public needs. However, according to Holtz-Eakin in Suwandi & Tahar (2015), every region needs transfer revenue support as a source of revenue to carry out regional expenditures. Thus, each component of regional revenue received, in terms of local-own source and transfer revenue, can be optimally allocated to expenditure. Furthermore, government expenditure can affect regional economic development indicators, including reducing poverty levels (Handayani et al., 2022). It aligns with previous research, proving that government expenditure variables negatively and significantly affected poverty in Special Regions of Yogyakarta districts/cities from 2007 to 2014 (Sari, 2018).

On the pro-poor expenditures side, the first related to public service expenditure is the fulfilment of community food and the development of communication and technology. On the other hand, fulfilling food needs has also been carried out through digitalization efforts, such as those developed in Sleman District (E. T. Wibowo, 2020). Previous research conducted in Central Java Province also showed that the percentage of technology use, in general, can negatively and significantly affect the number of poor people (Dewi et al., 2023). The second component of pro-poor expenditures is health expenditure. Improving health services through local government expenditure can reduce poverty rates in Special Regions of Yogyakarta (Alexandi & Tinambunan, 2019). It can increase the surrounding community's awareness about the importance of healthy living and provide more comprehensive access to health facilities. The third component of pro-poor expenditures is tourism expenditure. Local governments continue to develop the concept of community-based tourism that can affect poverty in urban and rural areas. However, this study is different from the results of research in Kulon Progo, which proves that the local-own source revenue of the tourism sector has no effect on poverty after the construction of Yogyakarta International Airport (Lucitania & Rahayu, 2023).

Meanwhile, the following pro-poor expenditures are education and social assistance expenditures. Previous research stated that the central and regional governments must synergize to improve sustainable education programs in terms of the quality and quantity of community education (Alexandi & Tinambunan, 2019). According to Sari (2018), education quality improvement programs can be carried out by increasing community access to high schools or equivalent, providing a forum for vocational education to go to the job market, providing education subsidies for the poor, monitoring and evaluation to ensure that the program targets are suitable. Based on the results and discussion described, this study has limitations. First, it has yet to decipher the allocation of local-own source revenues, general allocation funds, and special allocation funds used for poverty reduction. There is no access to financial statements related to local-own source revenue, general allocation fund, and special allocation fund. Second, the estimation of results only considers the differences in districts/cities once the period, so the path analysis uses the Common Effect Model (CEM).
CONCLUSION

This study aims to determine (i) the direct effect of local-own source revenue and the component of transfer revenue on poverty, and (ii) the indirect effect of local-own source revenue and transfer revenue on poverty through pro-poor expenditure instruments. Based on the results of the research and discussion that has been described, it can be concluded as follows. The component of local revenue in the regional budget in special region of Yogyakarta that can play a role in poverty reduction directly is through local-own source revenue. Although in quantity, local own source revenue in special region of Yogyakarta tends to be lower when compared to transfer income, utilization, or quality is more focused on overcoming poverty. Poverty alleviation can also be done through the role of local-own source revenue through pro-poor expenditure instruments, such as public service expenditures, health expenditures, tourism expenditures, and education expenditures. On the other hand, transfer revenues such as the general allocation funds also affect poverty reduction through education expenditures.

While this study offers valuable insights into the relationship between the studied variables and poverty levels in the Special Region of Yogyakarta, there are notable limitations that warrant consideration. Establishing a direct causal link between these variables and poverty may prove challenging, given the intricate web of contextual factors that may influence the phenomenon. Factors such as local culture, geography, and social dynamics potentially hold significant sway over poverty rates, yet their quantification and complete integration into the analytical framework present difficulties.

Hence, future investigations could delve deeper, possibly incorporating qualitative approaches and conducting comparative analyses with other regions, to gain a more nuanced understanding of how these contextual elements contribute to shaping poverty levels within this specific area.

REFERENCES


