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When Fiscal Space Fails to Reduce Poverty

Governance Filters and Regional Fiscal Capacity in West Nusa Tenggara Province, 2019–2023

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Abstract: This study examines the mismatch between rising regional fiscal capacity and poverty reduction in West Nusa Tenggara (NTB) Province, 2019–2023. It responds to a puzzle: NTB's Regional Fiscal Capacity Index rose sharply, especially in 2022–2023, while poverty declined only marginally and fluctuated. The research uses a qualitative approach with an instrumental case study design, supported by quantitative data on fiscal capacity and poverty trends. Data were collected through in-depth interviews, focus group discussions, and document analysis of regional budgets, development plans, performance reports, and official statistics, then analyzed thematically to identify the mechanisms linking fiscal space to social outcomes. Trustworthiness was ensured through source and method triangulation, member checking, audit trails, and cross-source verification. The findings indicate that rising fiscal capacity has not effectively driven poverty reduction because it is constrained by three governance filters: institutional fragmentation across regional government agencies, the dominance of short-term charitable programs, and weaknesses in data systems and beneficiary targeting. Fiscal capacity is therefore a necessary but not sufficient condition for anti-poverty policy success. The study's contribution lies in developing a fiscal capacity–governance filter–social outcome framework that explains why budgetary capacity fails to convert into welfare gains, extending the fiscal decentralization literature by positioning governance as a mediating mechanism rather than an administrative variable. Policy implications include strengthening the Regional Poverty Reduction Coordination Team, integrating beneficiary databases, adopting outcome-based budgeting, promoting evidence-based evaluation, and improving cross-agency coordination so that fiscal decentralization can work more effectively for poor communities in NTB.

Keywords: fiscal capacity; poverty; governance; governance filter; West Nusa Tenggara.

1. Introduction

Over the past few decades, many countries have sought to deliver local services and reduce poverty through expanded fiscal decentralization. The underlying logic is that additional fiscal resources for local governments will enable them to design programs that meet local needs. In practice, however, this has not produced large reductions in poverty, and many countries have found that increased fiscal resources do not automatically translate into greater social benefits. Recent data from the Badan Pusat Statistik [Statistics Indonesia] (BPS, 2026) show that, as of September 2025, 8.25% of the population—some 23.36 million people—were living in poverty. Although this marks a decline from the most recent March report, poverty remains higher among rural residents (10.72%) than urban residents (6.60%). At the same time, substantial fiscal capacity exists at the regional level: an assessment of the 2025 regional budgets shows that total revenue across provinces, regencies, and cities reached Rp1,200 trillion (88.35% of the total) and total expenditure reached Rp1,082 trillion (75.43% of the total) (Direktorat Jenderal Perimbangan Keuangan [Directorate General of Fiscal Balance; 2025]. This suggests that the most pressing challenge in fiscal decentralization is not the size of the budget, but how effectively that budget is converted into social services, social protection, and poverty-reduction initiatives (Arham et al., 2024; Odusola, 2017; Risdiyanto et al., 2023; Yusuf & Pratysto, 2025).

Recent empirical evidence shows that poverty remains linked to institutional performance, resource availability, management capacity, and the allocation of pro-poor public spending. According to Digdowiseiso (2012), cross-country analysis in several developing countries indicates that fiscal decentralization is more effective in reducing poverty when paired with institutional policies and practices that are responsive, accountable, and capable of converting available fiscal space into efficient public services. In the post-pandemic period, tighter fiscal policy has given both central and local governments more room to be selective in designing social interventions. Fiscal independence can therefore serve as a useful metric for evaluating social policy, consistent with the need to manage spending on poverty-reduction programs (Fathurrahman, 2026; Indrawati et al., 2024).

Fiscal decentralization gives local governments room to pursue policy innovation, strengthen *Pendapatan Asli Daerah* [regional own-source revenue] (PAD), and design public spending that better matches local needs. This expanded autonomy, however, has not been fully matched by gains in fiscal independence or by faster poverty reduction. At the national level, data from the Direktorat Jenderal Perimbangan Keuangan (2025) show that the structure of regional revenue is still dominated by central government transfers: under the 2026 *Anggaran Pendapatan dan Belanja Daerah* [regional revenue and expenditure budget] (APBD), *Transfer ke Daerah dan Dana Desa* [Transfers to the Regions and Village Funds] stood at Rp698.73 trillion, far exceeding PAD at Rp429.19 trillion. This indicates that decentralization has not yet substantially reduced regional governments' fiscal dependence on the center.

This contradiction is also evident in West Nusa Tenggara (NTB). In the 2024 realization of NTB's APBD, PAD reached Rp3.29 trillion, while central government transfers remained slightly higher, at Rp3.32 trillion. This means that although NTB's PAD capacity has grown relatively well, its fiscal structure still reflects dependence on transfers. Meanwhile, NTB's poverty rate stood at 11.38 percent, or 637.18 thousand people, in September 2025—higher than the national rate of 8.25 percent. Compared with Central Java's 9.39 percent, NTB still faces a heavier poverty burden; but compared with East Nusa Tenggara's 17.50 percent, NTB's position is relatively

better within the region. This comparison underscores that the core issue is not simply the availability of budget funds, but how effectively a region converts fiscal capacity into consistent poverty reduction.

This research is therefore grounded in the tension between the normative goals of fiscal decentralization and the empirical realities on the ground. On one hand, rising PAD and transfers give local governments greater fiscal capacity; on the other, dependence on transfers, limited spending flexibility, weak program design, overlapping assistance schemes, and poor targeting remain obstacles to poverty reduction. Findings from Halawa et al. (2025), Nugroho et al. (2021), Nursini and Tawakkal (2019), Rahman and Altin (2023), and Suryahadi et al. (2020) reinforce the argument that the effectiveness of anti-poverty policy depends not only on the size of regional revenue, but also on planning capacity, implementation consistency, and the targeting accuracy of social spending. This study therefore matters for explaining why rising regional fiscal capacity has not always produced a commensurate decline in poverty, particularly in NTB—a province with growing fiscal capacity that nonetheless still faces above-average national poverty. The state of the art in Indonesian poverty-reduction research from 2019 to 2025 shows a shift in attention from budget size alone toward targeting accuracy, program integration, and implementation quality on the ground (Nursini & Tawakkal, 2019; Tohari et al., 2019). This shift matters because poverty is not only a matter of insufficient funding, but also of how precisely the state reaches those who genuinely need protection (Alatas et al., 2012). Research on Indonesia's integrated targeting systems shows that the quality of the underlying database and cross-program coordination can improve targeting accuracy, particularly when social assistance programs are designed to complement rather than duplicate one another (Tohari et al., 2019). This is consistent with the experimental study by Alatas et al. (2012), which found that beneficiary-targeting methods have direct consequences for aid accuracy and social acceptance.

Theoretically, this study is built on three interlocking layers of explanation—grand theory, middle-range theory, and applied theory—as the basis for its conceptual contribution (Besley & Persson, 2009; Oates, 1999). At the grand-theory layer, fiscal decentralization and fiscal federalism theory explain that delegating fiscal authority to local governments opens up fiscal space for policy that is more responsive to local preferences and needs (Oates, 1999; Tiebout, 1956). At the middle-range-theory layer, state-capacity and institutional-quality theory explain that fiscal space is effective only when the state has the fiscal, administrative, legal, and organizational capacity to convert resources into public services that citizens can trust (Besley & Persson, 2009; Digdowiseiso, 2022). At the applied-theory layer, this study proposes a policy-mediation framework termed the governance filter: an analytical mechanism explaining how fiscal capacity passes through governance, targeting accuracy, program coordination, implementation accountability, and outcome-based evaluation before producing a poverty outcome (Tohari et al., 2019; World Bank, 2003). In this sense, the governance filter is not intended as a relabeling of the long route of accountability in the World Development Report 2004 or of the input–process–outcome chain; rather, it is a more specific operationalization for reading the success or failure of converting regional fiscal capacity into poverty reduction at the level of local policy implementation (Lewis, 2017; World Bank, 2003).

Governance can also be understood as a moderating variable—a factor that strengthens or weakens the relationship between fiscal capacity and poverty reduction (Lewis, 2017; Olken, 2007). The good-governance perspective holds that transparency, accountability, responsiveness, and institutional effectiveness

determine whether public policy genuinely reaches the poor or is instead blocked by program fragmentation and weak oversight (Olken, 2007; Putra et al., 2020). The contribution of this study therefore lies in showing that the effectiveness of fiscal decentralization cannot be adequately explained by the size of PAD, transfers, or regional spending alone, but must be read through the quality of governance operating between budgets and development outcomes (Lewis, 2017; Nursini & Tawakkal, 2019). This position enriches earlier work by positioning good governance and institutional capacity as analytical mechanisms for understanding why regions with rising fiscal capacity have not always been able to reduce poverty to a commensurate degree (Rahmawati et al., 2024; Tohari et al., 2019).

As fiscal capacity and autonomy serve as one form of fiscal space for local governments, the central government sets boundaries on that space; in defining its framework and formula, the Ministry of Finance classifies regional fiscal capacity through its regional fiscal capacity map (Kementerian Keuangan RI, 2024) to position financing for regional services and programs. In the government's open-data reporting, this capacity is presented as the Indeks Kapasitas Fiskal Daerah [Regional Fiscal Capacity Index] (IKFD) and, for classification purposes, expressed numerically to represent and quantify regional fiscal capacity. More simply put, the IKFD is not merely a technical figure; more conceptually, it indicates and measures a region's "fiscal space"—the extent to which a region can finance its development priorities without transfers, particularly for poverty-reduction programs and activities that require consistent, sustained financing and design adjustments (Satu Data Indonesia, 2025).

The study site, NTB, displays dynamics that are both empirically testable and open to contextual interpretation. With respect to poverty, BPS Provinsi Nusa Tenggara Barat (2019, 2020, 2021, 2022, 2023) recorded a poverty rate of 14.56% in 2019, falling to 13.97% in 2020, rising to 14.14% in 2021, falling to 13.68% in 2022, and finally rising slightly to 13.85% in 2023. These figures show a non-linear trend: there was improvement after 2019 and 2021, but a small reversal in 2023. At the same time, the research data documents show NTB's IKFD value at 0.395 (2019), 0.318 (2020), and 0.408 (2021), before rising sharply to 1.465 (2022) and 1.375 (2023), with the IKFD category remaining "low" throughout (IKFD data are drawn from the research documents; the fiscal capacity classification follows the Direktorat Jenderal Perimbangan Keuangan/Minister of Finance regulatory framework). This combination of patterns raises an important question: why did the gains in fiscal capacity reflected in the 2022–2023 surge in IKFD not translate into a correspondingly consistent decline in poverty in 2023? Prior literature has tended to explain the relationship between fiscal decentralization and poverty in aggregate terms, but has so far been limited in explaining the mechanisms through which fiscal capacity is converted into social impact at the level of policy implementation.

In theory, fiscal decentralization and fiscal federalism theory can explain the basic relationship between fiscal independence and poverty. More independent regions should, in principle, have greater flexibility and incentive to improve basic services, social provision, and productive programs for poverty alleviation. Other research, however, points the other way: institutional and managerial quality determine whether fiscal space genuinely translates into better social outcomes (Digdowiseiso, 2022). Targeting, program integration, and beneficiary-data governance are administrative, managerial, and technical constraints that affect pro-poor spending (Tohari et al., 2019). Cross-regional impacts identified by the government across all poverty segments in a given area shape, and are in turn shaped by, the model and combination of interventions used (social assistance,

village funds, loans, and the like), with regional structure determining the magnitude of the resulting impact. Priambodo and Djirimu (2024) explain that reading IKFD and poverty figures must be done in the context of program management. In this respect, it would clearly be preferable for new funding or increased fiscal capacity to be directed toward the right programs, using accurate data, and supported by better coordination structures across regions.

Three prominent research gaps emerge from the evaluation of research published between 2019 and 2025. First, many studies analyzing fiscal decentralization, regional revenue and expenditure, and poverty operate at the national level (district, city, or cross-country panels), but few focus specifically on IKFD trends as a measure of fiscal capacity and their relationship to poverty dynamics at the more specific, “grounded” provincial policy level (Nursini & Tawakkal, 2019). Second, research specifically on poverty in Indonesia remains very limited, and where it exists, it is usually framed in terms of decentralization (Nugroho et al., 2021). Third, studies on regional policy tend to be limited to identifying poverty levels or fiscal performance; they fall short of developing these findings into a programmatic policy agenda that spells out obstacles, opportunities, and improvements for implementation (Priambodo & Djirimu, 2024).

Most research on fiscal decentralization takes a linear approach to the correlation between regional fiscal capacity and poverty, working from the premise that the more funding available to local government, the more people can be helped out of poverty (Anggraeni et al., 2022; Phyu & Gonfa, 2025; Wang et al., 2023). While such theorizing can be useful for framing the issue of what fiscal capacity actually is, other approaches point to a paradox: in some regions, an increase in available funding has no effect on the social indicators that matter to communities. The problem is that fiscal capacity is not an end in itself; the real objective is converting that capacity into well-designed programs, accurate target identification, well-coordinated implementation, and sound outcome evaluation. The relationship between fiscal capacity and social outcomes remains largely unexplored in the literature.

Building on these gaps, this study positions the IKFD not merely as an indicator of fiscal capacity, but as a starting point for tracing what we term a policy-mediation mechanism. This framework starts from the assumption that a rise in IKFD does not act directly on poverty reduction, but instead passes first through a series of institutional and implementation filters—chiefly governance quality, targeting accuracy, and cross-sector program coordination. In this framework, fiscal capacity is understood as a precondition, not the sole determinant. The poverty outcome is shaped largely by local governments’ ability to convert fiscal space into integrated, well-targeted, results-oriented interventions. This study therefore shifts the focus from asking how large a region’s fiscal capacity is to asking through what mechanism that fiscal capacity succeeds or fails in producing poverty reduction.

This study seeks to build a conceptual model—fiscal capacity → governance filter → social outcome—to capture the complexity of the relationship between fiscal capacity and poverty at the regional level. This model has scholarly value in offering a better working theory for the contradictory phenomenon observed in NTB between 2019 and 2023, where a striking rise in the IKFD was not matched by a commensurate decline in poverty. Accordingly, this article does not treat this simply as a regional policy framework, but instead offers an analytical framework explaining how rising fiscal capacity does not always lead to social change. In particular, this framework calls for more practical policy evaluation by positioning governance,

targeting, and coordination as intervening variables in the relationship between public spending and poverty reduction, in order to assess spending efficiency.

This model affirms that the relationship between fiscal decentralization and poverty is not linear, but is instead mediated by institutional mechanisms and policy implementation. The principal contribution of this study is to shift the focus from the sheer scale of fiscal capacity to how that capacity is converted into social outcomes through governance, targeting accuracy, and program coordination. By integrating the fiscal (IKFD), institutional (governance), and policy-implementation dimensions, this framework offers a more operational analytical foundation for understanding the effectiveness of public spending, while also serving as a basis for regional policy evaluation, improved outcome-based budgeting design, and the strengthening of an integrated, data-driven poverty-reduction system. Accordingly, this study pursues two objectives: (1) to analyze the mismatch between IKFD and poverty in NTB, and (2) to identify the policy-mediation mechanism that explains this phenomenon.

2. Methods

This study uses a qualitative approach with an instrumental case study design (Stake, 1995), positioned as qualitative research with quantitative support. This approach was chosen to gain an in-depth understanding of the paradox of a rising IKFD that was not followed by a significant decline in poverty in NTB. A constructivist paradigm (Guba & Lincoln, 1994) is used to trace how different actors interpret and experience the relationship between fiscal policy and poverty in real-world context. The quantitative data—IKFD panel data and poverty indicators—are not used to test statistical causal relationships or correlations, but instead serve as empirical context and an analytical entry point for uncovering the policy mechanisms at work in the field. The research was conducted in NTB from June to August 2025, covering policy data from 2019 to 2023.

The three-month duration (June–August 2025) is admittedly compressed for a multi-stakeholder, province-level study, but it remains defensible because the research uses a focused policy-study design rather than long-term ethnography. Saturation was achieved through the purposive selection of key informants, parallel data collection and analysis, triangulation of interviews with policy documents, the construction of a saturation matrix, limited member checking, and an audit trail covering the entire analytical process. Data adequacy was therefore judged by the recurrence of themes and the absence of new substantive information, rather than by the length of fieldwork alone.

Data were collected using three main techniques. First, semi-structured in-depth interviews lasting 60–90 minutes per session, involving fiscal and social-policy stakeholders at the regional level. The interview guide was developed from the fiscal decentralization literature and an initial reading of the IKFD and poverty data, using a purposive sampling technique. Second, Focus Group Discussions (FGDs) comprising three groups: (1) an FGD with regional agency officials (6–8 participants), (2) an FGD with low-income community members (8–10 participants, homogeneous), and (3) a multi-stakeholder FGD (6–8 participants including academics, NGO representatives, and community representatives), each lasting approximately 120 minutes. Third, document analysis, covering NTB's Rencana Pembangunan Jangka Menengah Daerah [Regional Medium-Term Development Plan] (RPJMD) for 2018–2023 and 2024–2029, the APBD for 2019–2023, the Governor's Laporan Keuangan Pemerintah Daerah [Regional Government Financial Report], regional revenue regulations, BPS statistical publications, and the Ministry

of Finance’s fiscal performance reports. Media documents were also used to enrich policy context. IKFD was operationalized through indicators of PAD, transfer funds, total regional revenue, regional expenditure, social expenditure, and the fiscal independence ratio; governance was assessed through the quality of budget planning, coordination across regional agencies, transparency, accountability, targeting accuracy, the integration of beneficiary data, and implementation consistency; and poverty was measured through the poverty rate, the number of people in poverty, the poverty depth and severity indices, and community experience in accessing assistance and basic services.

Data analysis used thematic analysis (Braun & Clarke, 2006; Clarke & Braun, 2017), proceeding through coding, theme grouping, and interpretation of meaning to identify the patterns of policy mechanism that explain the relationship between fiscal capacity and the poverty outcome.

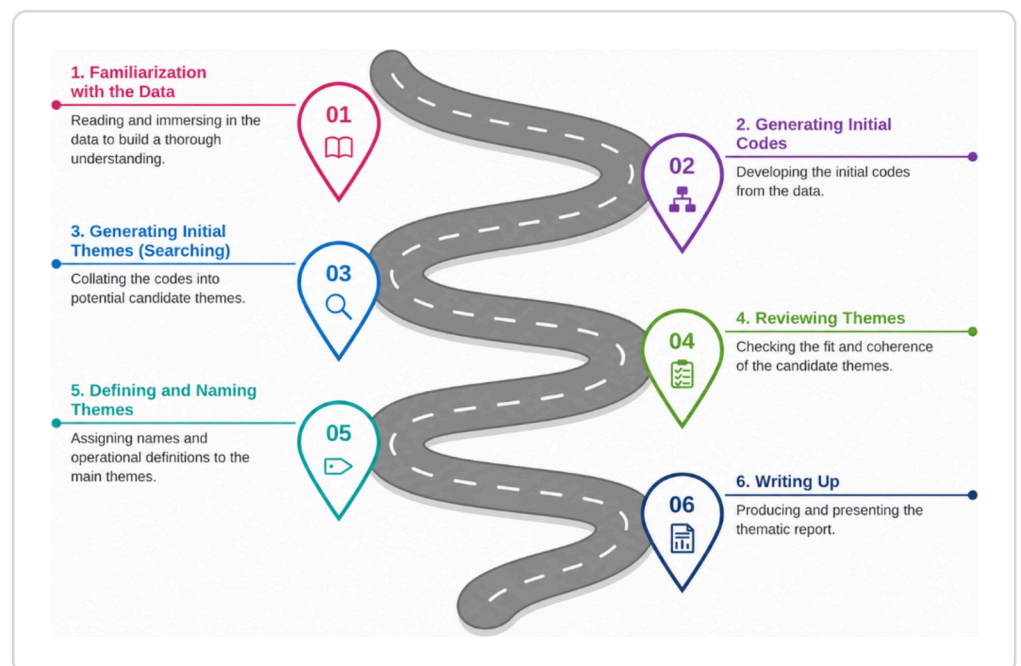


Figure 1. The Thematic Analysis Process

Source: Adapted from Braun and Clarke (2006), Creswell and Creswell (2018), and Miles et al. (2014). The process is iterative; researchers may revisit an earlier stage to deepen their understanding and confirm the validity of the resulting themes.

To safeguard the validity and credibility of the findings, this study applies multiple layers of triangulation: source triangulation (comparing data from officials, communities, academics, and documents), method triangulation (interviews, FGDs, and document analysis), analyst triangulation (discussing findings with other researchers), and theory triangulation (relating findings to the fiscal decentralization and poverty literature). This approach ensures that the resulting findings are not intended to establish statistical causal relationships, but rather to explain in depth the policy-mediation mechanism linking fiscal capacity to social outcomes.

To ensure data trustworthiness, this study draws on Lincoln and Guba’s (1985) trustworthiness framework, comprising credibility, transferability, dependability, and confirmability. Credibility was maintained through triangulation of data sources, cross-checking of interview results against policy documents, and member checking of key-finding summaries with key informants. Transferability was strengthened by providing a contextual description of NTB, regional fiscal dynamics, and poverty conditions during the study period. Dependability was maintained through an audit

trail recording the data-collection process, coding stages, analytical memos, and any changes in analytical decisions over the course of the study. Confirmability was strengthened by ensuring that every analytical theme was grounded in empirical data—whether interview excerpts, policy documents, or the researchers’ own analytical notes. Where more than one coder was involved in the coding process, inter-coder agreement was also used to compare coding consistency and to resolve differing interpretations openly.

3. Results and Discussion

Based on secondary data from the Ministry of Finance and NTB’s APBD documents, NTB’s IKFD shows a fluctuating pattern with a significant surge in 2022–2023, as shown in Figure 2.

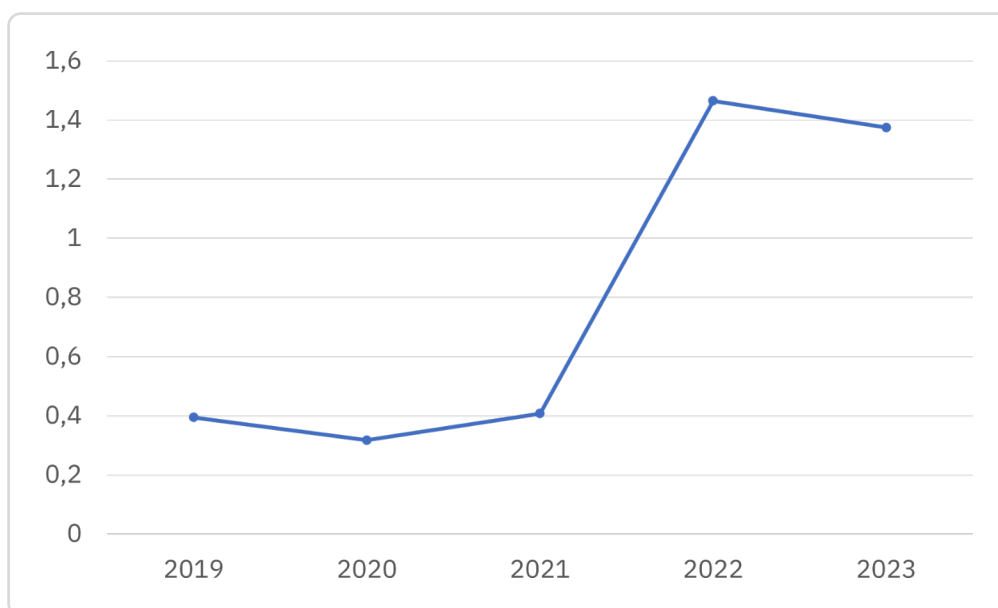


Figure 2. Trend in IKFD Values, West Nusa Tenggara Province, 2019–2023

Source: Peraturan Menteri Keuangan [Minister of Finance Regulation], 2019–2023, data processed.

The data show that NTB’s IKFD increased significantly in 2022–2023, while the decline in poverty remained slow and fluctuating. This pattern indicates a mismatch between fiscal capacity and social outcomes. Within this study’s framework, however, this mismatch is not read simply as a failure of fiscal capacity, but as evidence that the policy-mediation mechanism is not working optimally.

Analysis of APBD documents reveals that the sharp rise in IKFD in 2022 was driven mainly by: (1) a 45.2% increase in PAD from the tourism and user-fee sectors; (2) special central government transfers for post-pandemic COVID-19 recovery; and (3) adjustments to natural-resource revenue-sharing funds under Regulation of the Minister of Finance of the Republic of Indonesia No. 129/PMK.07/2021 and Decree of the Minister of Energy and Mineral Resources of the Republic of Indonesia No. 214 K/82/MEM/2020. Although IKFD rose nominally into the medium category (on a 1.0–2.0 scale), FGD findings indicate that this rise does not necessarily reflect fiscal space that is flexible, stable, and readily convertible into effective poverty-reduction programs. On the social-outcome side, BPS NTB data show that poverty has indeed moved non-linearly: the poverty rate stood at 14.56% in March 2019 and 13.85% in March 2023, a decline of 0.71 percentage points over the period. Spatial disparities are also worth noting: in March 2023, BPS Provinsi Nusa Tenggara Barat (2019, 2023) recorded urban poverty at 13.76% and rural poverty at 13.95%; although the

gap is not especially wide, this pattern still indicates that the decline in poverty has not been stable and still requires stronger governance, program targeting, cross-sector coordination, and benefit-based evaluation for low-income groups, as shown in Figure 3.

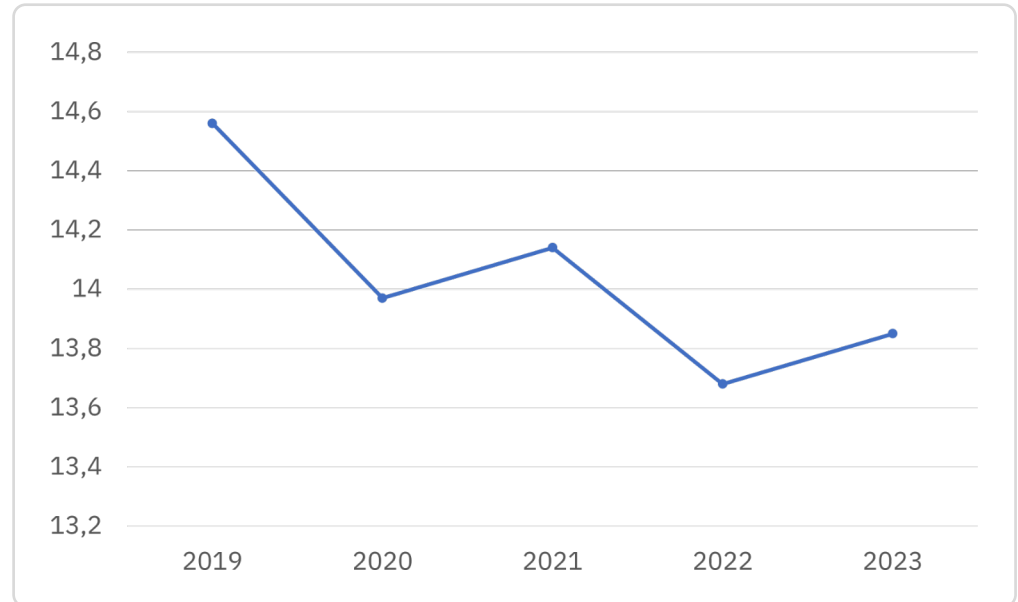


Figure 3. Percentage of People Living in Poverty, West Nusa Tenggara Province, 2019–2023

Source: Badan Pusat Statistik [Statistics Indonesia] (BPS), 2019–2023, data processed.

Analysis of secondary data reveals an interesting dynamic between fiscal capacity and the poverty rate in NTB during 2019–2023. The IKFD value rose significantly from 0.40 in 2019 to 1.38 in 2023, with the highest surge in 2022 at 1.465. On the other hand, however, the poverty rate fell only from 14.56% to 13.85%, following a fluctuating pattern that rose to 14.15% in 2021 before falling again. This disparity between rising fiscal capacity and a slow decline in poverty indicates the presence of mediating factors that call for qualitative examination, as shown in Figure 4.



Figure 4. Factors Contributing to Poverty in West Nusa Tenggara Province (Fishbone Diagram Approach)

Source: Adapted from Ishikawa (1986), OECD (2018), Badan Perencanaan Pembangunan Nasional [Ministry of National Development Planning] (2020), and World Bank (2021). This fishbone diagram illustrates the root causes of poverty in West Nusa Tenggara Province based on an analysis of fiscal capacity, institutions, economic and structural conditions, and human and social capital.

According to interviews with regional officials, the rise in IKFD in 2022–2023 was due more to incidental, external policy factors than to sustained growth in fiscal capacity. Informant 1 stated:

Our IKFD increase in 2022 came mostly from special central government transfers and adjustments to natural-resource revenue-sharing, not from organic growth in PAD.

Self-reliant, sustainable fiscal capacity is not yet fully reflected in this rise in the fiscal summary figures, as the following statement illustrates:

If it weren't for those factors, we'd probably still be at the same level as in previous years.

Meanwhile, poverty-reduction programs at the community level are still seen as a patchwork that fails to address root causes.

We received food packages and cash assistance, but it's gone within days. What we need isn't consumable aid, but lasting access to farmland and capital for our businesses. (Statement from Informant 2)

This perception suggests a gap between communities' actual needs and program design; current programs are more curative than preventive or transformative.

One important finding from the multi-stakeholder FGD was program fragmentation and overlap. Informant 3 stated:

There are at least 20 poverty-reduction programs run by various regional agencies, but coordination and beneficiary-data integration are very weak. As a result, we see duplicated assistance on one hand, and gaps in coverage on the other.

In addition, the APBD document analysis shows that the budget for poverty programs is allocated across various spending lines without clear synergy, reducing overall effectiveness.

Factors related to governance and community participation are also significant obstacles. Although *musrenbang* [village/community development planning forum] sessions have been held, field findings show that communities can participate only at the proposal stage, without being involved in technical planning or evaluation, consistent with the statement of Informant 4:

The planning process is still very top-down. The community is asked to listen, but isn't involved in decision-making.

As a result, programs often fail to meet needs on the ground. Program success indicators focus more on physical outputs than on social outcomes, according to a review of the RPJMD and Laporan Keuangan Pemerintah Daerah documents. Several informants acknowledged bureaucratic problems in program planning and evaluation. Informant 5 acknowledged:

We struggle to develop measurable outcome indicators for poverty programs. Often we focus only on budget absorption rather than the impact felt by communities. Limited training and support systems make these technical constraints worse. Ultimately, this affects the quality of program planning and implementation.

Beyond revealing differences across several aspects, analysis of data from multiple sources shows that there is no strong, direct relationship between rising IKFD and declining poverty. For example, official government reports state that 80% of poverty programs run on target, yet only around 40% genuinely benefit communities. This is consistent with the statement of Informant 6, who took part in the triangulation process:

Looking at the fiscal documents, yes, there's an increase. But on the ground, that increase hasn't automatically translated into lower poverty. The programs exist, the budget exists, but effectiveness still depends on targeting accuracy, coordination across regional agencies, and the continuity of implementation.

Overall, the findings show that the rise in IKFD in NTB has not yet been able to drive a faster decline in poverty, for several important reasons: (1) the rise in IKFD is not sustainable and depends on external factors; (2) the design of poverty programs is fragmented and not transformative; (3) governance remains insufficiently participatory and accountable; and (4) bureaucratic capacity is limited. These findings show that poverty reduction requires not only increased fiscal capacity, but also systemic improvements in policy governance and program design that are more inclusive and grounded in community needs.

The finding on the fragmentation of poverty-reduction programs in NTB reflects not only weak technical coordination, but also an institutional fragmentation embedded in the design of regional bureaucracy. Each regional agency operates under a sectoral mandate with separate performance indicators, so there is no structural incentive to build cross-sector integration. In the context of decentralization, this is not an anomaly but a consequence of an institutional design that promotes unit autonomy without a correspondingly strong coordination mechanism, which ultimately increases policy fragmentation and reduces the effectiveness of public intervention (Bardhan, 2002).

The dominance of charitable, short-term programs also points to a distortion in the policy incentive system. Consumable assistance is easier to design, implement, and account for within an annual budget cycle, and it produces effects that are visible quickly. This makes it more attractive in bureaucratic and political terms than transformative programs, which require more time and carry greater uncertainty of outcome. The literature shows that policy actors tend to favor interventions with short-term, politically claimable results, even though these are less effective in the long run (Besley & Persson, 2011).

Weaknesses in program targeting and data integration point to limitations in state capacity, particularly in data management and policy learning. The use of different databases across regional agencies leads to duplicated assistance and the exclusion of eligible beneficiaries, ultimately reducing the effectiveness of social spending. Earlier studies confirm that the quality of information systems and data integration is

a key factor in the success of social-protection programs in developing countries, because it determines targeting accuracy and the efficiency of aid distribution (Hanna & Olken, 2018). In NTB's case, the absence of a strong feedback mechanism also leads to repeated targeting errors without systemic correction.

Accordingly, the rise in IKFD is positioned as an analytical entry point rather than a direct determinant of changes in poverty. This is consistent with the view that fiscal capacity merely provides space, while its effectiveness is determined by how that space is converted into policies and programs with real impact (Baskaran et al., 2016).

The findings show that the rise in IKFD in NTB does not automatically produce a decline in poverty, because the policy-mediation mechanism is not working optimally. This mismatch is explained by three main governance filters: (1) institutional fragmentation, which leaves poverty programs scattered across regional agencies without adequate integration, so their effects do not accumulate; (2) policy incentive distortion, which drives the dominance of short-term charitable programs over transformative interventions; and (3) weaknesses in data systems and targeting, which lead to duplication and exclusion of beneficiaries and reduce the effectiveness of social spending. These three factors indicate that the core problem lies not in fiscal capacity itself, but in the policy-conversion mechanism linking fiscal capacity to social outcomes. Governance, accordingly, acts as the determining factor in explaining whether a rise in IKFD can be translated into a decline in poverty.

These findings indicate that the failure to convert fiscal capacity into poverty reduction should be understood as a systemic failure rooted in institutional design and the structure of policy incentives. Program fragmentation, for instance, is not merely a result of weak coordination, but a consequence of a sectoral bureaucratic structure that provides no mechanism for cross-agency integration. In this context, governance functions as the mediating mechanism that determines whether fiscal capacity can be translated into effective social outcomes. This is consistent with findings that institutional quality is a primary determinant of the success of fiscal decentralization in improving welfare (Baskaran et al., 2016).

This study provides a strong theoretical context for the discussion of fiscal decentralization and inclusive development, having found a misalignment between rising IKFD and declining poverty in NTB from 2019 to 2023. Empirical research suggests that the success of fiscal decentralization in improving welfare depends mainly on local institutional capacity and governance quality rather than on the sheer amount of fiscal money (Baskaran et al., 2016). This is confirmed by the phenomenon of an IKFD surge without an accelerated decline in poverty in NTB. The rise in fiscal capacity, driven by external and incidental factors, has not been matched by systemic improvements in pro-poor budget planning and execution. Similar studies elsewhere in Indonesia have likewise found that fiscal transfers without strengthened accountability can sustain, or even worsen, inequality. Furthermore, the dominance of the charitable approach can be explained through a political-economy perspective on public policy, in which policy decisions are shaped not only by technocratic rationality but also by political and bureaucratic incentives. Short-term assistance programs more easily generate political legitimacy and satisfy short-term accountability demands, making them more likely to be prioritized over transformative empowerment programs. Empirical studies in Indonesia show that social-protection programs often face a trade-off between long-term effectiveness and short-term political pressure.

Meanwhile, weaknesses in targeting and data integration reinforce the argument that implementation capacity and information systems are key to determining the effectiveness of social policy. Without an integrated data system and an outcome-based evaluation mechanism, local governments find it difficult to ensure that interventions genuinely reach their target groups and produce lasting impact. Studies in the Indonesian context likewise confirm that the quality of targeting and program integration strongly determines the success of poverty reduction (Fathurrahman, 2025; Tohari et al., 2019). The policy-mediation model proposed in this study therefore holds that fiscal capacity will only be effective if supported by governance capable of correcting policy incentives, strengthening coordination, and fully integrating data systems (Fathurrahman et al., 2024).

One finding of this study is the dominance of a charitable approach—services, assistance, or social action grounded in compassion (charity) intended to relieve others’ suffering directly and quickly—alongside the fragmentation of poverty-reduction programs. This points to an inability to design integrated, evidence-based interventions. Criticism of a purely monetary approach to poverty, which neglects its structural and multidimensional aspects, emerged from accounts by low-income community members who criticized assistance as consumable and short-term (Byskov, 2018). In addition, overlap among programs across regional agencies reflects a lack of institutional coordination and information systems—a common problem in national studies of social-program effectiveness. As a result, the rise in fiscal resources has not been effectively allocated to transformative interventions that build capability and access to productive assets. This falls short of the *graduation approach*, which has been shown to be effective across multiple countries (Banerjee et al., 2015).

In addition, because participatory governance—reflected in musrenbang sessions widely seen as merely formal—remains weak, fiscal policy is difficult to connect to communities’ actual needs. This finding is consistent with research by Fathurrahman and Fitri (2024) and Widianingsih and Morrell (2021), who found that participation in development planning in Indonesia is often symbolic and dominated by elites, leaving it unable to meet the aspirations of marginalized groups. The absence of meaningful space for low-income communities in budget decision-making results in program designs that are not context-sensitive and may be poorly targeted. Shifting fiscal policy from mere spending toward well-targeted social investment therefore requires greater transparency and a deepening of inclusive participation mechanisms (Fox, 2016).

Policy failure is compounded by limited bureaucratic capacity, particularly in developing outcome indicators and impact evaluations. This obstacle is confirmed by Kurniawan and Khoiri (2022), who found that the evidence-based planning capacity of Indonesian local governments remains low. The bureaucracy’s focus on budget absorption as the primary performance indicator reflects an incentive distortion that disregards the principle of value for money. As a result, poverty programs lack a clear intervention logic—a *theory of change*—and an adequate monitoring and evaluation system, making it difficult to measure their contribution to sustained poverty reduction (Rogers, 2014).

The failure of the social accountability system is shown by the gap between community perceptions of program benefits and official performance reports. Evaluations of national social-assistance programs reveal a systemic mismatch between administrative data and conditions on the ground (Suryahadi et al., 2020). Because feedback mechanisms are weak, government loses repeated opportunities

to learn from and improve its programs. Addressing this information gap and improving policy responsiveness therefore requires strengthening social auditing and community-based accountability systems (Grandvoinet et al., 2017).

The synthesis of findings shows that the rise in IKFD in NTB has not yet become a lever for social transformation, being constrained by three layers of problems: (1) technical-operational (program fragmentation, limited capacity); (2) institutional (weak coordination, low accountability); and (3) political (symbolic participation, short-term political priorities). This complexity calls for a holistic, systemic policy approach. The recommendation to integrate programs and redirect allocations toward an empowerment approach is consistent with global evidence showing that *cash-plus* programs—cash assistance combined with training and mentoring—are more effective at creating a lasting pathway out of poverty (Hidrobo et al., 2018).

Conceptually, these findings affirm that the relationship between fiscal capacity and poverty is not linear, but depends on mediating mechanisms operating within the policy system. In this framework, fiscal capacity merely provides potential resources, while the realization of impact is determined by governance quality, the structure of policy incentives, and implementation and program-integration capacity. An approach that emphasizes only the growth of fiscal capacity, without attention to its conversion mechanism, therefore risks producing an “illusion of fiscal performance” without substantive social change. This perspective enriches the fiscal decentralization literature by positioning governance as a mediating pathway that links fiscal inputs to development outcomes, while affirming that the effectiveness of public policy is ultimately determined by how institutions manage the complexity of implementation at the local level.

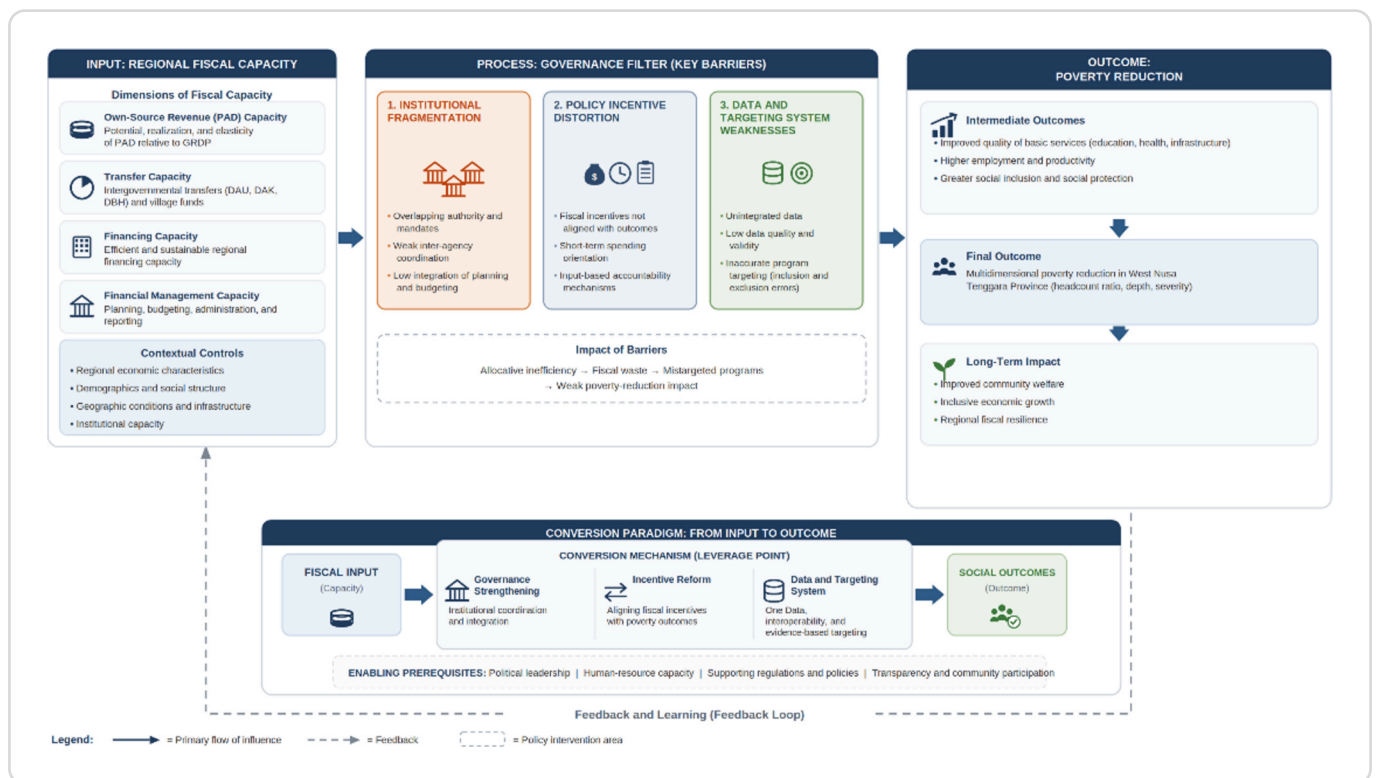


Figure 5. Conceptual Framework: Fiscal Capacity and Poverty in West Nusa Tenggara Province (Governance-Incentive-System-Targeting Approach)

Source: Adapted from Mardiasmo (2021), Badan Perencanaan Pembangunan Nasional [Ministry of National Development Planning] (2020), World Bank (2021), and related literature.

Figure 5 is presented to conceptually explain why a rise in regional fiscal capacity does not automatically produce a decline in poverty. Rather than a linear relationship, this study points to a mediating process operating through governance mechanisms that determine whether budgets can genuinely be converted into social impact. By positioning fiscal capacity as the input and poverty as the outcome, the figure highlights the crucial role of the governance filter as the key point in policy success or failure. This illustration underscores that the core issue lies not in the availability of budget funds, but in how the policy system processes and channels those resources effectively.

Figure 5 illustrates that the core problem in poverty reduction in NTB lies not in the availability of fiscal capacity (the budget), but in the failure of the process that converts that budget into real social impact. On the left, fiscal capacity as an input is shown to already be available and flowing into the system. However, that flow does not directly produce the outcome of declining poverty—indicating that the relationship between budgets and community welfare is neither automatic nor linear. In the middle, three layers of governance filter are shown as the main obstacles: institutional fragmentation, policy incentive distortion, and weaknesses in data systems and targeting. These three factors function like a machine that processes the budget but instead produces leakage, inefficiency, and mistargeting. As a result, the outcome shown on the right is an insignificant decline in poverty. The figure also affirms a new paradigm in which policy focus should shift from simply how large the budget is to how the policy-conversion mechanism works, so that fiscal input genuinely produces tangible social impact.

Following from this discussion, the forthcoming policy agenda must shift from simply increasing fiscal capacity toward building a policy environment that supports spending effectiveness. This includes: (1) reforming planning and budgeting systems to be results- and evidence-based; (2) strengthening integrated, interoperable data systems to ensure accurate targeting and prevent duplication; (3) implementing meaningful mechanisms for social participation and accountability; and (4) investing in the sustained development of bureaucratic capacity. Only a method that addresses all of these dimensions together can turn fiscal capacity into a genuine instrument for inclusive, equitable development.

4. Conclusion

The principal finding of this study is that the rise in regional fiscal capacity in West Nusa Tenggara (NTB) Province has not automatically produced a significant decline in poverty. The rise in the Indeks Kapasitas Fiskal Daerah [Regional Fiscal Capacity Index] (IKFD) during 2022–2023 does reflect an expansion of regional fiscal space, but the decline in poverty has remained slow, fluctuating, and disproportionate to that rise in capacity. The IKFD is therefore best understood as an indicator of available fiscal space, not as a guarantee of social development success. This mismatch is explained chiefly by weaknesses in the governance mechanisms that link budgets to development outcomes—including fragmentation of programs across regional agencies, the dominance of short-term charitable programs, and weaknesses in data and beneficiary targeting.

This study's academic implication is the need to read the relationship between fiscal capacity and poverty as non-linear. Fiscal capacity is an important precondition, but its effect on poverty reduction is strongly determined by governance quality, institutional coordination, and the accuracy of program design. This study therefore offers the fiscal capacity → governance filter → social outcome

framework as a way of understanding why regions with growing fiscal space do not necessarily produce a tangible improvement in welfare. In practical terms, these findings affirm that the core problem in poverty reduction in NTB is not simply a shortage of budget funds, but the still-suboptimal ability of local government to convert that budget into interventions that are well-targeted, measurable, and directly felt by low-income groups.

This study has several limitations. First, it focuses on a single province and a single observation period, so the findings are not intended to be statistically generalized to all regions in Indonesia. Second, the qualitative approach used is oriented toward understanding mechanisms, meaning, and policy processes, rather than quantitatively measuring the magnitude of causal effects between variables. Third, the analysis still relies on available secondary fiscal data and policy documents, so the quality of interpretation is strongly shaped by the completeness, consistency, and openness of official data. Fourth, this study has not quantified how strong the mediating mechanisms of governance, targeting, coordination, and implementation are in explaining the relationship between fiscal capacity and poverty reduction. Fifth, the use of key informants drawn from policymaking circles carries a potential elite-informant bias, although this was minimized through document triangulation and cross-source comparison. Future research is therefore encouraged to develop cross-provincial comparative studies, using mixed-methods designs with mediation testing or Qualitative Comparative Analysis, to extend the time frame through a longitudinal design beyond 2023, and to conduct quasi-experimental impact evaluations of specific poverty-reduction programs, so that the relationship among fiscal capacity, policy governance, and social outcomes can be explained more robustly, measurably, and contextually.

The first policy recommendation is to strengthen the institutional mechanism for poverty reduction in NTB by revitalizing the Tim Koordinasi Penanggulangan Kemiskinan Daerah [Regional Poverty Reduction Coordination Team] (TKPKD) as the integration point for planning, budgeting, implementation, and evaluation across regional agencies. TKPKD should not function merely as an administrative coordination forum; it needs an operational mandate to lock in shared outcome indicators within the 2024–2029 Rencana Pembangunan Jangka Menengah Daerah [Regional Medium-Term Development Plan] (RPJMD), the annual Rencana Kerja Pemerintah Daerah [Regional Government Work Plan], each regional agency's own work plan, and other regional budgeting documents. These shared indicators should cover the decline in the poverty rate, the decline in extreme poverty, improved access for low-income households to education, health care, sanitation, and social protection, and the strengthening of productive economic activity. The Badan Perencanaan Pembangunan Daerah [Regional Development Planning Agency] (Bappeda) should serve as the lead coordinator, supported by the Badan Pengelolaan Keuangan dan Aset Daerah [Regional Financial and Asset Management Agency] on budget integration, the Dinas Sosial [Social Affairs Office] on managing beneficiary targeting, the Dinas Pemberdayaan Masyarakat, Pemerintahan Desa, Kependudukan dan Pencatatan Sipil [Office of Community and Village Government Empowerment, Population, and Civil Registration] (DPMPD & Dukcapil) on consolidating village-level programs, and technical regional agencies such as the Dinas Kesehatan [Health Office], Dinas Pendidikan [Education Office], Dinas Tenaga Kerja [Manpower Office], Dinas Koperasi dan Usaha Kecil Menengah [Office of Cooperatives and Small and Medium Enterprises] (Diskop UKM), and Dinas Pariwisata [Tourism Office] on sectoral program delivery. In the short term, local government needs to develop a cross-agency poverty-program integration matrix

containing each program's name, location, target group, budget, outcome indicators, and responsible agency. In the medium term, this matrix should become the basis for budget decision-making, so that poverty programs are no longer scattered as stand-alone sectoral activities, but connected within a single, measurable regional intervention framework.

The second recommendation is to build a single, interoperable, up-to-date NTB poverty-targeting database that can serve as the basis for program targeting. Local government needs to integrate the Data Terpadu Kesejahteraan Sosial [Integrated Social Welfare Data] (DTKS), the Sistem Informasi Kesejahteraan Sosial – Next Generation [Next-Generation Social Welfare Information System] (SIKS-NG), the Data Pensasaran Percepatan Penghapusan Kemiskinan Ekstrem [Targeting Data for the Acceleration of Extreme Poverty Elimination] (P3KE), population data, village/sub-district data, and sectoral data from regional agencies relating to education, health, housing, employment, micro, small, and medium enterprises, agriculture, tourism, and local levies. This integration matters because it allows local government not only to know which households are poor, but also to understand the type of vulnerability they face, their sources of livelihood, their spatial location, and which programs they have or have not yet received. The Dinas Sosial can serve as the lead custodian of targeting data, Bappeda can coordinate the use of data in planning, the Dinas Komunikasi, Informatika dan Statistik [Communication, Informatics, and Statistics Office] can develop system interoperability, while regency/city, village, and sub-district governments are responsible for updating field-level data. A beneficiary feedback mechanism should also be established through complaint channels, community verification, and village/sub-district deliberation forums, so residents can report inclusion errors, exclusion errors, or changes in socioeconomic circumstances. In the short term, success indicators include the establishment of an integrated targeting database and the availability of a map of low-income households by location and vulnerability type. In the medium term, success can be measured by a reduction in overlapping program recipients, improved targeting accuracy, and the use of this integrated data in preparing the annual Rencana Kerja Pemerintah Daerah and in budgeting for priority programs.

The third recommendation is to reform poverty budgeting, shifting its orientation from budget absorption toward value for money and a theory of change for each program. The NTB provincial government should select two to three priority programs as pilot projects—for example, social protection for low-income households, village-based productive economic empowerment, and improved access to basic services in poverty pockets. Each pilot program should be built around a clear chain of change: budget input, activities, outputs, intermediate outcomes, and the final outcome of reduced poverty. The Badan Pengelolaan Keuangan dan Aset Daerah and Bappeda should ensure that budgeting assesses not only spending realization, but also cost efficiency, targeting accuracy, output quality, and the benefits received by low-income residents. Implementing agencies must develop measurable performance indicators, such as the number of low-income households moving up an income class, the percentage of beneficiaries who gain employment or additional income, improved access to adequate sanitation, increased social-insurance enrollment, or reduced spending burdens among low-income groups. In the short term, local government needs to develop outcome-based budgeting guidelines and select its pilot programs. In the medium term, the results of the pilot evaluations should be used to improve APBD allocation, discontinue ineffective programs, scale up programs shown to have impact, and strengthen evidence-based evaluation through regular TKPKD reporting. Through

this sequence, the recommendations of this study do not stop at a call for coordination, but move toward institutional design, data, budgets, accountable parties, and success indicators that can be executed specifically within the NTB context.

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