



The Effect of Fiscal Decentralization and Economic Growth on Poverty Reduction: A Case Study of Grobogan Regency

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Abstract. Poverty is a complex and multidimensional issue that is a major focus of the development agenda. Amidst an era of fiscal decentralisation and regional autonomy, local governments play a crucial role in formulating effective policies to serve the community and resolve issues at the local level, including poverty alleviation. This study aims to analyse the influence of Local Own-Source Revenue (PAD), Regional Transfers (TKD), Capital Expenditure, and Economic Growth on efforts to reduce poverty rates in Grobogan Regency. This study uses a quantitative approach with multiple linear regression analysis, utilising secondary data from 2015 to 2024 processed using STATA version 19 software. The results show that simultaneously, the variables of PAD, TKD, Capital Expenditure, and Economic Growth have a significant effect on reducing poverty rates. However, partial testing found that only the TKD variable had a significant effect on reducing poverty rates. Meanwhile, the PAD, Capital Expenditure, and Economic Growth variables did not show a statistically significant effect. These findings imply that it is necessary to strengthen regional fiscal capacity through the optimisation of PAD to reduce dependence on transfers from the central government, as well as to design capital expenditure allocations and economic growth strategies that are more inclusive and favourable to the poor.

Keywords: Capital Expenditure; Economic Growth; Local Own-Source Revenue; Poverty Alleviation; Regional Transfers

1. INTRODUCTION

Poverty is a fundamental and multidimensional issue that consistently occupies a central position in the development agenda at the global, national, and regional levels. The urgency of poverty alleviation is explicitly manifested in the framework of the Sustainable Development Goals, specifically the first pillar, No Poverty. In Indonesia, poverty reduction programs are part of the 2025-2029 Medium-Term Development Plan (*Rencana Pembangunan Jangka Panjang*, abbreviated as RPJM).

Conceptually, poverty is defined as the inability of an individual or group of individuals to fulfill their basic rights with dignity (Todaro & Smith, 2009). This includes a broad spectrum, ranging from insufficient fulfillment of food, clothing, and shelter needs, to lack of access to adequate health and education services, sanitation and clean water, as well as limitations in obtaining employment and participating in social and political life. The root causes of poverty are complex and interrelated, covering various dimensions. From a macro-structural perspective, poverty often stems from unequal patterns of resource ownership and income distribution, unfair economic systems, and the uneven impact of globalization, which creates polarization between the winners and the marginalized (Rosyadi, 2017). Furthermore, at the individual and social capacity level, low levels of education and skills are a major barrier for individuals to compete in the labor market, while certain cultural and social factors can perpetuate poverty from one generation to the next (Sinurat, 2023).

The impact of poverty creates a vicious cycle that is difficult to break (Todaro & Smith, 2009). This condition triggers a series of interrelated social problems that reinforce each other. High economic pressure often drives an increase in crime rates as a form of survival strategy, while limited access to adequate health care and nutrition leads to a high prevalence of health problems among the poor (Todaro & Smith, 2009).

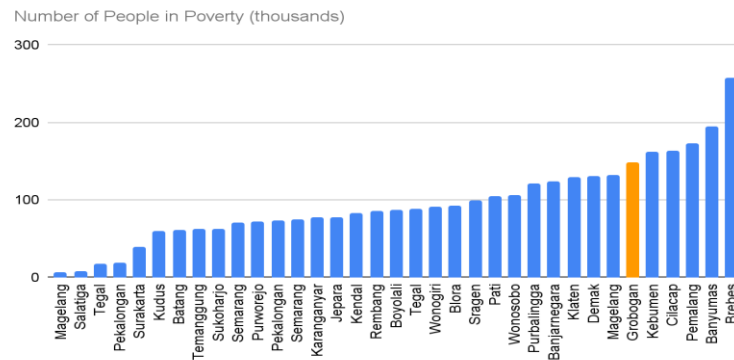


Figure 1. Number of People in Poverty in Central Java Province by District/City

Source: BPS, Processed (2025)

On a regional scale, Central Java Province has historically been one of the regions with quite complex poverty challenges. According to data from Statistics Indonesia (2025), the number of poor people in Central Java Province reached 3.36 million as of March 2025. This figure places Central Java as the third province with the highest number of poor people at the national level. Furthermore, Grobogan Regency, as one of the locations in Central Java Province that has advantages in the agricultural sector, also experiences the same problem. This regency ranked fifth with the highest number of poor people in Central Java in 2024 (BPS, 2025).

Addressing poverty cannot be done in isolation from other issues that are explicitly related to poverty, such as economic growth, government policy, and other sectors. In other words, the steps taken must be based on a cross-sectoral and cross-stakeholder approach that is integrated, coordinated, and comprehensive. In line with the mandate of UU No. 1 of 2022 concerning Central and Regional Financial Relations and UU No. 23 of 2014 concerning Regional Government, fiscal decentralization policy has become the main approach to support poverty reduction in the regions. This policy gives local governments autonomy to manage their own affairs, including poverty alleviation. However, this autonomy will not function optimally without the support of strong fiscal decentralization. This is where Regional Transfers (TKD) play a central role as the main instrument to ensure that local governments have sufficient financial resources. Through various components, such as DAU, DAK, DBH,

and Village Funds, local governments can increase their fiscal capacity to be translated into programs and activities that directly touch the pockets of poor communities in their regions. This includes the allocation of capital expenditure.

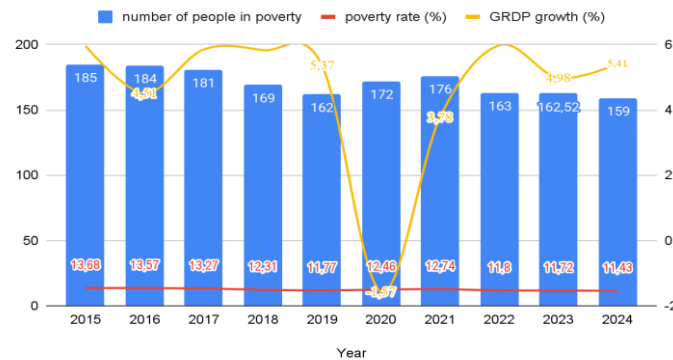


Figure 2. GRDP Growth Rate and Poverty Rate in Grobogan Regency

Source: BPS, Processed (2025)

Furthermore, economic theory states that high economic growth indicates a large amount of output and higher productivity, which ultimately leads to a decline in poverty rates (Revallion, 2020). However, historical data from the Grobogan Regency Central Statistics Agency (2019-2024) shows that although economic growth has fluctuated and tended to increase after COVID-19, its impact on poverty alleviation has not always been in line with existing theory. During the period of highest economic growth of 5.98% in 2022, there was actually an increase in the poverty rate to 12.74%, the highest level in the last six years. The fundamental problem faced by Grobogan Regency includes the ineffectiveness of fiscal policy transmission in creating inclusive growth. Although the average economic growth for the 2019-2024 period reached 3.99%, the decline in poverty was only marginal, from 11.43% (2019) to 11.77% (2024). This phenomenon indicates a missing link between regional fiscal instruments, such as PAD, TKD, and Capital Expenditure, and poverty alleviation, where economic growth has been unable to reach and empower the poor.

This study comprehensively integrates the four key variables, namely Local Own-Source Revenue (PAD), Regional Transfers (TKD), Capital Expenditure, and Economic Growth, into a single comprehensive analysis model. This differs from the research by Meida & Susilo (2024), which analyzed PAD, Capital Expenditure, and Economic Growth without including TKD, as well as the research by Nany et al. (2022), which focused on transfer components without integrating them with economic growth. This study also fills a gap in the literature in terms of location and temporal context by focusing specifically on Grobogan Regency in the current period (2015-2024), which includes the post-COVID-19 pandemic

recovery phase. This approach provides a more current and contextual perspective compared to the research by Ibrahim et al. (2024), which focuses on Aceh with different fiscal characteristics, as well as previous studies in Central Java that used the pre-pandemic period. Therefore, this study offers a number of novelties, namely the use of actual data with a focus on Grobogan Regency and a robust research model.

Based on this background, this study aims to empirically analyze the effect of PAD, TKD, Capital Expenditure, and Economic Growth on poverty levels in Grobogan Regency. This analysis was conducted to identify the determining factors that have a significant effect on poverty levels. This study provides a number of contributions. Theoretically, this study serves as an empirical study and adds to the scientific knowledge. Practically, this study is expected to be taken into consideration in formulating evidence-based policies in poverty alleviation in Grobogan Regency.

The theory of fiscal decentralization developed by Oates (1972) in “Fiscal Federalism” forms the main basis for this study. This theory states that local governments have better information about the preferences and needs of local communities than central governments, and are therefore considered more efficient in providing public goods and services (decentralization theorem). In the context of this study, fiscal decentralization gives Grobogan Regency the authority to manage fiscal resources through PAD and TKD, and allocate them through capital expenditure for public services that have an impact on poverty alleviation.

The development of this theory by Bird & Smart (2012) emphasizes the importance of an effective intergovernmental transfer system design. They argue that fiscal transfers should be designed not only to minimize vertical and horizontal fiscal disparities, but also to create appropriate incentives for local governments to increase their own revenues and use funds efficiently. This theory is particularly relevant for analyzing why TKD has a more significant influence than PAD in the context of Grobogan Regency.

PAD is a reflection of regional fiscal independence in financing government administration and development. According to Mardiasmo (2019), optimal PAD enables local governments to design development programs that are more suited to specific local conditions. Research by Bismaputra (2025) in several districts in Bali found that PAD has a significant effect on poverty reduction when directed towards pro-poor spending. However, a study by Saputra et al. (2023) shows that in the regions, PAD has not contributed optimally to poverty reduction due to a narrow local tax base and high dependence on central government transfers.

Capital expenditure represents local government investment in physical infrastructure that is expected to increase economic productivity and community welfare. The endogenous

growth theory developed by Barro (1990) emphasizes the importance of public investment as a driver of long-term growth. A recent empirical study by Widodo (2020) confirms that the effectiveness of capital expenditure is highly dependent on the accuracy of its targets and the quality of its absorption. They found that new capital expenditure significantly reduces poverty when directed at infrastructure that directly touches sectors where the poor are active, such as agriculture and MSMEs.

Economic growth is a macroeconomic indicator that measures the increase in the economic output of a region. The trickle-down effect theory assumes that the benefits of economic growth will automatically flow to all levels of society. However, contemporary empirical evidence casts doubt on the effectiveness of this mechanism. Ravallion (2020) shows that economic growth is only effective in reducing poverty when it is inclusive and accompanied by adequate redistributive policies. A study by Firdaus et al. (2021) in the Indonesian context reveals that the elasticity of poverty to growth tends to decline, indicating that the pattern of growth is becoming less inclusive.

The development of the multidimensional poverty concept by Alkire and Foster (2011) complements the analysis in this study. This theory helps explain why fiscal policy interventions may have different effectiveness across poverty dimensions. This approach shifts the paradigm from purely monetary measures of poverty to recognizing that poverty encompasses various forms of deprivation, including health, education, and living standards. This concept is highly relevant to the context of Grobogan Regency, where fiscal interventions through PAD, TKD, and capital expenditure are expected to simultaneously address various dimensions of poverty.

2. RESEARCH METHOD

This study applies an inferential quantitative research approach. The data used is secondary data in the form of time series from 2015 to 2024. The data collection techniques used were documentation and literature study. Capital expenditure data was obtained from the Grobogan Regency Government Financial Report, while data on the realization of Regional Transfers (TKD) and Local Own-Source Revenue (PAD) was obtained from the SIKD website of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance. Meanwhile, data on economic growth and poverty rates was obtained from the Grobogan Regency BPS.

The data analysis technique adopted quantitative research with multiple linear regression analysis. This approach was chosen because it can calculate the effect of independent variables on dependent variables (Sugiyono, 2010). In the context of this study,

the multiple linear regression model can show how TKD, capital expenditure, PAD, and economic growth affect poverty rates in Grobogan Regency. Furthermore, the study analyzes the dependent variable, namely the poverty rate, with the independent variables, namely Regional Transfer Funds (TKD), Local Own-Source Revenue (PAD), capital expenditure, and economic growth rate. Thus, a multiple linear regression equation is obtained, which is described in the following model:

$$Poverty = \beta_0 + \beta_1TKD + \beta_2PAD + \beta_3Belmodal + \beta_4lnperPDRB + \varepsilon$$

Description:

Poverty = Number of people in poverty

TKD = Regional transfer

PAD = Local own-source revenue

Belmodal = Capital expenditure

lnperPDRB = GRDP growth rate

β_0 = Constants

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficient

ε = error

3. RESULTS AND DISCUSSION

Descriptive Analysis

Table 1. Descriptive Statistics Table of Research Variables

Variable	Mean	Std.dev.	Min	Max
Poverty	171.352	9.744921	159	185
TKD	1.83e+12	1.97e+11	1.53e+12	2.20e+12
PAD	3.82e+11	7.75e+10	2.73e+11	5.19e+11
Belmodal	4.05e+11	9.98e+10	2.90e+11	6.03e+11
lnperPDRB	4.61	2.284518	-1.57	5.98

Source: Processed by the author (2025)

Table 1 presents a descriptive analysis of the research variables from 2015 to 2024. The poverty variable as the dependent variable has an average value of 171,352 with a data range moving from a minimum value of 159 thousand to a maximum of 185 thousand and a standard deviation of 9.7 thousand people. Unlike the dependent variable, the independent variables have diverse characteristics, particularly financial variables such as TKD, PAD, and capital expenditure. The TKD variable has an average value of IDR 1.83 trillion, capital expenditure has an average of IDR 405 billion, and PAD has an average of IDR 382 billion. Meanwhile, the standard deviation of these three variables shows diverse variations. For example, the TKD variable has a large spread of Rp197 billion, while the capital expenditure variable has a narrower spread with a value of Rp77 billion. Finally, the GRDP growth rate shows an average growth of 4.61. This variable has a fairly wide data distribution with a value range of -1.57 to 5.98 and a standard deviation of 2.28. The negative growth rate was obtained from 2020 due

to COVID-19. At that time, a lockdown policy was implemented on a national scale, which had an impact on the decline in economic activity, such as production and consumption, which led to a decline in the growth rate of the GRDP of Grobogan Regency.

Classical Assumption Test

Multicollinearity Test

Table 2. Multicollinearity Test Results

Variable	VIF	1/VIF
TKD	2.19	0.457513
PAD	1.86	0.538767
Belmodal	1.47	0.680366
lnperPDRB	1.14	0.880137
Mean VIF	1.66	

Source: Processed by the author (2025)

The table above presents the results of testing for multicollinearity using the Variance Inflation Factor (VIF) value. The VIF test is used to assess the level of correlation between one variable and other variables, whereby if the VIF value is higher than the rule of thumb ($VIF > 5$), this indicates a strong correlation between variables. In this model, it was found that the average VIF of all independent variables was 1.66. Since this value is lower than the general limit of 5, it can be concluded that there are no significant multicollinearity issues in this research model.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

(H ₀)	chi2(1)	Prob>chi2
Constant variance	0.35	0.5513

Source: Processed by the author (2025)

The table above shows the results of testing for heteroscedasticity. Classical assumption testing for heteroscedasticity was conducted to ensure that the regression model had constant residual variance (homoscedasticity). Using the Breusch-Pagan test, a Chi-Square probability value of 0.5513 was obtained. Because this probability value is greater than the significance level $\alpha=0.05$ ($0.5513 > 0.05$), the null hypothesis stating that there is no heteroscedasticity cannot be rejected. Thus, it can be concluded that the regression model used in this study is free from heteroscedasticity, so that the assumption of homoscedasticity is fulfilled.

Normality Test

Table 4. Saphiro-Wilk Test Results

Variable	W	V	z	Prob>z
resid	0.94133	0.862	-0.243	0.59599

Source: Processed by the author (2025)

The table above shows the results of testing for normality in the sample data distribution. Normality testing was conducted as part of classical assumption testing to ensure that the model residual values are normally distributed. This test used the Shapiro-Wilk method for model analysis. Based on the results in Table 4, a significance value of 0.59599 was obtained. This value is greater than the significance level $\alpha=0.05$, so the null hypothesis (H_0) stating that the residual data is normally distributed cannot be rejected. Thus, it can be concluded that this regression model meets the normality assumption.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Variable	z	Prob>z
resid	-0.67	0.5

Source: Processed by the author (2025)

The table above shows the test results for detecting autocorrelation problems, considering that the data used is time series data. The test uses the Run test method. The null hypothesis (H_0) in this test is that there is no autocorrelation between residuals. Based on the data processing results in Table 5, a significance value of 0.5 was obtained. This value is greater than the significance level $\alpha=0.05$, so the null hypothesis (H_0) stating that there is no autocorrelation cannot be rejected. Thus, it can be concluded that there is no autocorrelation problem in this model.

Multiple Linear Regression Results

Based on the results of multiple linear regression using STATA SE19 tools, the following output was generated:

Table 6. Multiple Linear Regression Results

Variable	Coefficient	Std. error.	t	P> t	[95% conf. interval]
TKD	-4.99E-11	1.25E-11	-4.01	0.016	-8.45E-11
PAD	5.48E-12	2.95E-11	0.19	0.862	-7.64E-11
Belmodal	-1.56E-11	2.07E-11	-0.75	0.495	-7.32E-11
lnperPDRB	-17.71845	12.1452	-1.46	0.218	-51.43893
_cons	296.1252	28.16024	10.52	0	217.9398
R ²	0.8839				
F-statistic	7.62				
F-statistic (Prob)	0.0373				

Source: Processed by the author (2025)

From the table above, the relationship between TKD, PAD, capital expenditure, and growth rate to poverty rates can be formulated with the following equation:

$$Poverty = 296.1252 - 4.99 \times 10^{-11}TKD + 5.48 \times 10^{-12}PAD - 1.56 \times 10^{-11}Belmodal - 17.71845lnperPDRB + \varepsilon$$

Testing the Coefficient of Determination (R²)

The coefficient of determination test can be reviewed using the R² value listed in Table 6. Based on the calculation results, an R² value of 0.8839 was obtained. This means that the independent variables (PAD, TKD, capital expenditure, and growth rate) were able to explain 88.39% of the effect on the dependent variable (poverty rate). Meanwhile, the remaining 11.51% is explained by other variables outside the research model.

Simultaneous Test (F Test)

Simultaneous tests can be performed by comparing F-statistics or F-statistics probability levels. The null hypothesis (H₀) in this test is that all independent variables simultaneously or collectively affect the dependent variable. Based on the data analysis results in Table 6, the F-statistic value obtained is 7.62 and the significance value is 0.0373. This means that all independent variables (PAD, TKD, capital expenditure, and growth rate) simultaneously affect the dependent variable (poverty rate).

Partial Test (T-test)

Partial tests can be conducted by examining the significance of each independent variable. The null hypothesis (H₀) in this test is that the independent variables partially affect the dependent variable. Based on the data analysis results in Table 6, it can be seen that only the TKD variable has a significant effect on reducing poverty rates in Grobogan Regency because it has a significance value lower than α ($0.016 < 0.05$). Meanwhile, other variables, such as PAD, capital expenditure, and economic growth, are proven to have no significant effect because they have a significance value greater than α ($\text{sig} > 0.05$).

Discussion

The Effect of Transfers to Regions on Poverty

The regression test results show that Regional Transfer (TKD) is the only variable that has a negative and statistically significant effect on poverty rates in Grobogan Regency, with a coefficient value of 4.99×10^{-11} and a p-value of 0.016 (< 0.05). This means that every additional Rp1 trillion in TKD will reduce the number of poor people in Grobogan Regency by 49.9 thousand. This finding confirms that transfer funds from the central government are the most effective fiscal instrument in efforts to reduce poverty rates in Grobogan Regency.

This finding is in line with the results of previous studies (Gumelar, 2021; Priyono et al., 2024; Nany et al., 2022). The significance of TKD is basically driven by its components, which have a direct transmission mechanism to the poor. Nationally, TKD covers various fiscal instruments, such as the Special Allocation Fund (DAK), Village Fund (DD), and General Allocation Fund (DAU). DAK Fisik, for example, is often allocated for the development of

basic infrastructure such as health and education facilities in remote areas, which directly improves access to public services for the poor (Kurniawati et al., 2024). Meanwhile, the Village Fund has a very significant impact in promoting local economic development (Abdullah, 2021). Cash-intensive programs financed by the Village Fund provide direct income for previously unemployed people, while the development of village infrastructure such as roads and irrigation increases local economic productivity. The effectiveness of the Village Fund in reducing poverty has been proven by various previous studies (Kuncoro et al., 2024; Sigit & Kosasih, 2020; Fitriana & Qibthiyyah, 2021). Therefore, to maintain the effectiveness of TKD in reducing poverty rates, it is necessary to allocate TKDD in a targeted manner with components that are pro-poor.

The Effect of Local Own-Source Revenue on Poverty

In contrast to TKD, Local Own-Source Revenue (PAD) shows a statistically insignificant effect on poverty with a p-value of 0.862 (>0.05). This finding indicates that fiscal independence through PAD in Grobogan Regency has not been fully translated into a tangible reduction in poverty. Furthermore, the positive PAD coefficient also raises questions about the direction of PAD allocation policies, which may actually increase poverty rates, even though the effect is not significant.

There are reasons why this insignificance occurs. First, the scale problem shows a very large disparity between the amount of TKD and PAD (Table 1). The average TKD received by Grobogan Regency is IDR 1.83 trillion per year, while the average PAD is only IDR 382 billion. This condition indicates the high dependence of the region on central transfers. On the other hand, the region's fiscal capacity is threatened by budget efficiency policies and a reduction in TKD in the 2026 state budget. Second, there is the issue of budget and revenue allocation, which may be caused by the fact that the revenue collected is not strategically allocated to programs that directly target pockets of poverty. Research in several regions shows that the effectiveness of PAD in reducing poverty is highly dependent on pro-poor budgeting (Anggreani et al., 2023; Reta et al., 2022). If PAD allocations are mostly absorbed by bureaucratic spending or projects that do not directly touch the poor, then the impact on poverty will be minimal (Anggreani et al., 2023). This causes the trickle-down effect to fail, or the absence of a downstream effect from economic activity to the community as a whole.

The Effect of Capital Expenditure on Poverty

Based on the calculation results, capital expenditure does not have a statistically significant effect on poverty (p-value=0.495 >0.05). This finding indicates that capital expenditure in Grobogan Regency has not been fully successful in reaching the poor. These

results are in line with the research by Amami & Asmara (2022), Demak et al. (2020), and Zakiyah et al. (2024). However, the negative capital expenditure coefficient implies the potential for capital expenditure to have an impact on reducing poverty rates.

Capital expenditure is theoretically a government investment in physical infrastructure that is expected to increase economic productivity and long-term welfare. However, the effectiveness of capital expenditure is highly dependent on the accuracy of the targets and the quality of budget absorption (Widodo, 2020). Therefore, efforts to increase the significance of capital expenditure in reducing poverty must be directed at infrastructure that supports the productivity and accessibility of the poor. For example, highway projects, farming, irrigation, village markets, or sanitation and clean water.

The Effect of Economic Growth on Poverty

Based on the results of the partial test, it shows that the GDP growth rate does not have a statistically significant effect on poverty ($p\text{-value}=0.218>0.05$). This finding is in line with the research by Putri et al. (2023), Ningsih & Andiny (2018), and Kusuma & Iskandar (2022). The negative coefficient on the economic growth variable explains that economic growth has the potential to reduce poverty rates. This means that when the GRDP rate increases, there will be a decrease in poverty rates in Grobogan Regency. This shows that the direction of economic policy in encouraging GRDP growth in Grobogan Regency is basically on the right track, but needs to be strengthened with more specific policy interventions.

This phenomenon can be explained in more depth through the lens of Kuznets Curve Theory. Simon Kuznets (2019) put forward a hypothesis stating that in the early stages of economic development, there will be an increase in income inequality, which is often correlated with additional poverty. However, over time, this inequality will eventually decline in more mature stages of development. Therefore, policies that support inclusive economic growth are needed so that economic benefits can trickle down to reach the most vulnerable segments of society.

4. CONCLUSION

Based on the results and discussion, it can be concluded that Regional Transfers, Local Own-Source Revenue, Capital Expenditure, and Economic Growth simultaneously have a significant effect in reducing poverty rates in Grobogan Regency. However, partially, only the Regional Transfers variable has a significant effect in reducing poverty rates in Grobogan Regency. The statistically strong negative effect shows that transfer funds from the central government through the DAU, DAK, DBH, and Village Fund components have a transmission

mechanism that directly affects the poor. On the other hand, the pillars of fiscal and local economic independence, namely PAD, Capital Expenditure, and GRDP Growth Rate, have not been able to have a significant impact on poverty reduction. These findings confirm that there is a dependence on central government transfer funds, which are currently an important instrument in poverty alleviation efforts in Grobogan Regency.

In line with the conclusions outlined above, several strategic policy recommendations are proposed for the Grobogan Regency government. First, the effective use of Transfers to Regions (TKD) and capital expenditure must be optimized by prioritizing pro-poor spending components that directly address the needs of vulnerable populations. Second, the monitoring and evaluation mechanisms related to budget planning and implementation should be strengthened to ensure transparency, accountability, and better alignment with development goals. Third, efforts to intensify and diversify local revenue streams must be enhanced to increase fiscal independence and reduce reliance on central government transfers. Fourth, it is essential to formulate strategic policies that promote inclusive economic growth, ensuring that marginalized communities actively participate in and benefit from regional development. Furthermore, future research should incorporate qualitative approaches, including direct field observations, to assess how fiscal instruments either succeed or fail in reaching and empowering the poor in Grobogan Regency. This would provide a deeper understanding of the practical barriers and enabling factors that shape the real-world impact of regional public finance.

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