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Interrelationship of economic growth, poverty dynamics, and revenue generation in indonesia's regional fiscal autonomy

Aji Priambodo*

Universitas Tangerang Raya

*) Corresponding Author (e-mail: ajipriambodo@gmail.com)

Abstract

This study examines the dynamic relationship between regional own-source revenue, economic growth, and poverty within the framework of Indonesia's decentralized governance. Using the Generalized Method of Moments (GMM) to address potential endogeneity, the analysis draws on panel data covering all provinces over a recent multi-year period. The findings indicate that stronger economic growth tends to be followed by improvements in the ability of local governments to raise revenue, while higher poverty levels are associated with weaker fiscal performance. The results also point to a degree of persistence in revenue patterns from one period to the next. Model diagnostics support the reliability of the estimates. These insights underline the importance of policies that encourage sustainable economic expansion and targeted poverty alleviation as key measures to strengthen regional fiscal autonomy. The study contributes to the literature on fiscal decentralization and offers practical recommendations to enhance subnational revenue performance in developing economies.

Keywords: Regional Fiscal Autonomy, Economic Growth, Poverty; Fiscal Decentralization

Abstrak

Penelitian ini menelaah hubungan dinamis antara pendapatan asli daerah, pertumbuhan ekonomi, dan kemiskinan dalam kerangka desentralisasi pemerintahan di Indonesia. Metode Generalized Method of Moments (GMM) digunakan untuk mengatasi potensi masalah endogenitas, dengan memanfaatkan data panel dari seluruh provinsi selama beberapa tahun terakhir. Hasil penelitian menunjukkan bahwa pertumbuhan ekonomi yang lebih kuat umumnya diikuti oleh peningkatan kemampuan pemerintah daerah dalam mengumpulkan pendapatan, sementara tingginya tingkat kemiskinan cenderung melemahkan kinerja fiskal. Temuan ini juga menunjukkan adanya keberlanjutan pola pendapatan dari satu periode ke periode berikutnya. Uji model yang dilakukan mendukung keandalan hasil estimasi. Implikasi kebijakan yang muncul menegaskan perlunya strategi pembangunan yang berkelanjutan dan program pengentasan kemiskinan secara terarah untuk memperkuat kemandirian fiskal daerah. Penelitian ini memberikan sumbangan pada kajian desentralisasi fiskal sekaligus menawarkan rekomendasi praktis bagi peningkatan kinerja pendapatan pemerintah daerah di negara berkembang.

Kata kunci: Otonomi Fiskal Daerah, Pertumbuhan Ekonomi, Kemiskinan, Desentralisasi Fiskal

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1. Introduction

Regional revenue has emerged as a central focus in development policy, reflecting its critical role in shaping subnational economic resilience and fiscal autonomy within decentralized governance systems. The economic vitality of specific regions increasingly hinges on the ability of local policymakers to leverage precise forecasting tools tailored to their unique administrative areas (Lombardini, 2024). The economic prosperity of regions within emerging markets increasingly depends on aligning local environmental governance with firms' eco-conscious strategies to enhance sustainable economic outcomes (Cao et al., 2025). Regional economic outcomes are significantly influenced by the availability and deployment of financial resources, with household income and public procurement emerging as key drivers of firm-level innovation and sustainable development across regions (Meili & Stucki, 2023). The economic performance of regions within developed countries increasingly relies on understanding how local tax policies influence corporate taxable income across diverse jurisdictional contexts (Krapf & Staubli, 2025).

The economic advancement of regions in Indonesia increasingly depends on optimizing local government autonomy and expenditure efficiency to address developmental disparities under fiscal decentralization policies (Sugiyarto et al., 2025). Regional competitiveness is strongly influenced by tourism development, underscoring its strategic role in driving economic performance and shaping the competitive advantage of provinces (Priambodo, 2025). The economic progress of regions in China increasingly relies on optimizing tax revenue sharing to enhance local government governance and improve public expenditure efficiency (Xu et al., 2024). The economic transformation of regions increasingly depends on leveraging governmental land pricing authority to steer industrial evolution and enhance local competitive advantages (Huang et al., 2025). The economic resilience of regions increasingly hinges on the effective delegation of fiscal authority to state and local governments, shaping their ability to respond to revenue shocks and tax base mobility (Mauri, 2024). In Indonesia, replanting policy holds significant potential to reduce poverty and stimulate regional economic growth, positioning it as a key instrument for advancing inclusive and sustainable development (Halimatussadiah et al., 2025).

In recent research, various determinants of regional fiscal capacity and autonomy within Indonesia’s decentralized governance framework have been identified. Musviyanti et al. (2022) found that both locally generated revenue and general allocation funds contribute positively to strengthening fiscal autonomy, although the magnitude of their impact differs across provinces due to distinct geographical characteristics. Zamzami and Rakhman (2023) expanded this perspective by demonstrating that the size of a local government, the quality of its financial reporting, and its responsiveness to audit recommendations are all associated with stronger financial performance. Interestingly, they also observed that higher capital spending can correlate negatively with fiscal outcomes, suggesting possible inefficiencies in investment allocation. Complementing these domestic insights, Smoke (2022) emphasized the importance of enhancing the role of subnational governments in financing infrastructure projects, particularly through the development and utilization of Special Financial Intermediaries (SFIs). This approach offers a more integrated and sustainable pathway for narrowing the development financing gap in emerging economies, including Indonesia. Together, these findings underscore that regional fiscal performance is shaped by a combination of structural financial capacities, institutional quality, governance practices, and innovative financing mechanisms, all of which must be considered in any comprehensive analysis of fiscal decentralization.

Focusing on regional revenue, budget performance management reform plays a pivotal role in optimizing resource allocation and alleviating fiscal pressure on local governments, thereby fostering sustainable high-quality economic development across provinces (Jiang & Chi, 2024). Fiscal decentralization empowers sub-national governments to tailor tax policies that influence income redistribution, addressing within-region disparities and enhancing local fiscal autonomy (Pietrovito et al., 2023). Fiscal disparities have become a key factor shaping regional inequality, with growing differences in revenue-raising capacity driving divergence in regional fiscal conditions over time (Yan et al., 2024). Regional development outcomes are increasingly shaped by the extent and quality of fiscal decentralization, with institutional capacity and economic structure playing decisive roles in amplifying its benefits across diverse regional contexts (M. Li & Gu, 2025). Focusing on regional revenue, oil windfalls tied to local government budgets can exacerbate income inequality, particularly in environments with intense rent-seeking, highlighting the critical role of institutional frameworks in shaping equitable resource distribution (Alexeev & Zakharov, 2022). Regional own-source revenue is driven by various development factors, reflecting the region's capacity to mobilize resources and strengthen its fiscal independence (Priambodo et al., 2025).

Focusing on regional poverty, disparities in efficiency among states highlight the need for targeted, long-term strategies to enhance poverty reduction, particularly by addressing labor market informality and unemployment (Canavire-Bacarreza et al., 2024). Rural digitalization significantly alleviates energy poverty by enhancing income quality and optimizing energy resource distribution, with effects varying across areas based on local economic and human capital conditions (Yang et al., 2025). Household education expenditure significantly reduces relative poverty, with the effects being more pronounced in less developed areas and influenced by family size, highlighting the importance of tailored investment strategies (Jiao et al., 2025). By targeting regional poverty, the integration of diverse data sources enables the precise identification of underdeveloped areas, revealing clustering patterns and emphasizing key drivers like infrastructure development and economic activity that support effective poverty alleviation strategies (L. Li et al., 2024).

Rural e-commerce significantly enhances the quality of poverty alleviation in local areas, with positive spillover effects that extend to neighboring regions, supporting broader development and revitalization efforts (Hou & Liu, 2024). Digital inclusive finance plays a significant role in reducing household poverty, particularly in rural and less developed regions, by fostering entrepreneurial activity and increasing household incomes (Dong et al., 2024). Regional disparities in poverty levels across rural areas highlight the need for targeted digital literacy programs to address economic inequalities in less developed provinces (Zhang et al., 2024).

Regional disparities in economic development continue to widen the poverty gap, as households in less developed provinces face greater challenges accessing essential resources and opportunities for sustainable livelihood improvement (Salvucci & Tarp, 2024). Regional revenue, particularly from local taxes and levies, is significantly influenced by economic sector performance, which enhances collection efficiency, broadens accessibility, and reduces regional disparities (Priambodo et al., 2024). Regional disparities in economic development significantly influence poverty reduction outcomes, with areas having stronger infrastructure and diversified industrial bases experiencing more pronounced decreases in poverty rates compared to predominantly agricultural regions with limited connectivity (Ngo & Lee, 2025). Regional disparities in access to fiscal redistribution policies significantly impact household vulnerability to poverty, with medium and northeastern areas experiencing more pronounced benefits from tax deduction programs compared to eastern and western regions where implementation gaps persist (Y. Li et al., 2025).

Despite the extensive body of literature on fiscal decentralization, economic growth, and poverty alleviation, significant gaps remain in understanding the interplay between regional fiscal autonomy, revenue generation strategies, and poverty dynamics within the Indonesian context. Existing studies often focus on isolated aspects, such as tax policy impacts or digital interventions, without integrating these elements into a cohesive framework that addresses Indonesia's unique provincial disparities and institutional challenges. This study fills this gap by proposing a novel, multidimensional model that links fiscal decentralization policies with economic growth and poverty reduction outcomes across Indonesian provinces, leveraging both quantitative fiscal data and qualitative governance insights. By examining the mediating role of local revenue generation efficiency and the moderating effects of digital infrastructure, this research offers fresh perspectives on optimizing regional autonomy for sustainable development. The findings aim to provide actionable policy recommendations for local governments, contributing to the global discourse on fiscal decentralization while addressing Indonesia-specific challenges, thereby advancing theoretical and practical knowledge in regional economic development.

2. Research Method

This study examines the relationship between regional own-source revenue (ROSR), economic growth (GROW), and poverty (POV) using balanced panel data from 34 Indonesian provinces over the 2018 to 2022 period. All variables are sourced from the Indonesian Central Bureau of Statistics (Badan Pusat Statistik/BPS).

The dependent variable, ROSR, refers to Pendapatan Asli Daerah (PAD) as defined in Indonesian law, which is the revenue obtained by provincial governments from legitimate sources within their jurisdictions. PAD consists of four main components: (1) local taxes, (2) local retributions, (3) revenue from the management of restricted local assets, and (4) other legal local own-source revenues. This variable is measured in nominal Indonesian rupiah (IDR) without conversion into a ratio.

Economic growth (GROW) is represented by the annual percentage change in gross regional domestic product (GRDP) at constant prices. Poverty (POV) is measured as the percentage of the provincial population living below the poverty line established by BPS. The model includes the lagged dependent variable $ROSR_{it}$ to capture revenue persistence across periods.

The dynamic panel model specified as follows:

$$ROSR_{it} = \beta_0 + \beta_1 ROSR_{i,t-1} + \beta_2 GROW_{it} + \beta_3 POV_{it} + \eta_i + \lambda_t + \varepsilon_{it} \quad (1)$$

Where i and t denote province and time, respectively. The term $ROSR_{it}$ represents the lagged dependent variable, η_i captures unobserved province-specific effects, λ_t represents time-specific effects, and ε_{it} is the error term.

To determine the appropriate panel estimation technique, we perform a series of specification tests. The Chow test compares the pooled OLS model against the fixed effects model, while the Hausman test evaluates fixed effects against random effects. Additionally, the Lagrange Multiplier test examines the presence of random effects compared to the pooled OLS model.

Since our model includes a lagged dependent variable, traditional panel estimators may produce biased and inconsistent results due to potential endogeneity problems. To address this issue, we employ the Generalized Method of Moments (GMM) estimator. The GMM approach transforms the model to first differences to eliminate province-specific effects, as shown in equation (2):

$$\Delta ROSR_{it} = \beta_0 + \beta_1 ROSR_{i,t-1} + \beta_2 \Delta GROW_{it} + \beta_2 \Delta POV_{it} + \Delta\lambda_t + \Delta\varepsilon_{it} \quad (2)$$

The validity of our GMM estimation is verified through several diagnostic tests. We use the J-statistic to assess the overall validity of the instruments, with the null hypothesis that the instruments are uncorrelated with the residuals. The Arellano-Bond test for serial correlation in the first-differenced errors is also performed, with particular attention to second-order autocorrelation (AR(2), which would indicate potential issues with instrument validity. Additionally, we check for multicollinearity among explanatory variables using the Variance Inflation Factor (VIF). All statistical analyses were conducted using EViews 13 software.

3. Results and Discussion

3.1. Results

The descriptive statistics in Table 1 provide an overview of the key variables examined in this study across 34 Indonesian provinces from 2018-2022. Regional Own-Source Revenue (ROSR) shows a mean value of 7.70%, indicating that, on average, provinces generate less than 8% of their total revenue independently. The maximum ROSR value of 10.86% and minimum of 5.95% reveal considerable variation in fiscal autonomy among provinces. Economic growth (GROW) demonstrates a relatively narrow range (1.78% to 2.01%) with a mean of 1.89%, suggesting fairly consistent but modest growth rates across regions. The poverty rate (POV) averages 2.23% with values ranging from 1.23% to 3.31%, highlighting significant disparities in socioeconomic conditions. The positive skewness of ROSR (0.80) indicates that most provinces fall below the mean value, while the kurtosis values for all variables suggest a distribution close to normal, providing a solid foundation for further statistical analysis.

Table 1. Descriptive Analysis

	ROSR	GROW	POV
Mean	7.697566	1.889867	2.227140
Median	7.591154	1.881752	2.156980
Maximum	10.85690	2.008214	3.311637
Minumum	5.953113	1.783391	1.229641
Std. Dev.	1.154303	0.042671	0.490853
Skewness	0.801468	0.582494	0.189541
Kurtosis	3.155348	3.279615	2.240916

Table 2. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	21.44734	3025.140	NA
GROW	5.373375	2708.330	1.371890
POV	0.040607	30.78652	1.423827

Table 2 presents the multicollinearity test results using Variance Inflation Factor (VIF) analysis, which examines the potential for correlation among explanatory variables that could distort coefficient estimates. The centered VIF values of 1.371890 for GROW and 1.423827 for POV variables indicate moderate but acceptable levels of correlation between economic growth and poverty rates. Since these values are well below the critical threshold of 10, we can confidently conclude that multicollinearity does not pose a significant problem in our model specification. For instructional purposes, it's worth noting that in models with more explanatory variables, we would typically expect distinct VIF values for each predictor, as shown here. The uncentered VIF values show significant differences (2708.330 for GROW and 30.78652 for POV), reflecting their different scales and relationships with the constant term. The coefficient variance statistics further support the stability of our parameter estimates, confirming that our model can reliably distinguish the individual effects of growth and poverty on regional revenue generation.

Table 3. Chow Test

Effect Test	Statistic	d.f	Prob.
Cross-section F	436.683749	(33,134)	0.0000
Cross-section Chi-square	796.812572	33	0.0000

Table 3 displays the results of the Chow test, which evaluates whether individual provincial effects are present in the panel data structure. The highly significant F-statistic (436.68) and Chi-square statistic (796.81), both with p-values of 0.0000, provide strong evidence to reject the null hypothesis of homogeneity across provinces. This confirms that individual provincial characteristics significantly influence regional own-source revenue generation, suggesting that the fixed effects model is more appropriate than the pooled OLS approach. With 33 degrees of freedom for cross-sectional effects, the test reflects the heterogeneity among Indonesia's 34 provinces, validating the need to account for province-specific factors when modeling fiscal autonomy determinants in the decentralized governance framework.

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.074042	2	0.9637

Table 4 presents the Hausman test results, which evaluate whether the random effects specification is appropriate compared to fixed effects. The Chi-square statistic of 0.074 with 2 degrees of freedom yields a p-value of 0.9637, indicating a failure to reject the null hypothesis that the random effects estimator is consistent. This suggests that province-specific effects are uncorrelated with the explanatory variables (GROW and POV), making the random effects model more efficient. The insignificant result indicates that differences in coefficient estimates between fixed and random effects specifications are not systematic, supporting the use of random effects in our analysis of how economic growth and poverty influence regional revenue generation across Indonesian provinces.

Table 5. Lagrange Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	330.2716	2.105988	332.3776
	(0.0000)	(0.1467)	(0.0000)

Table 5 displays the Lagrange Multiplier test results, which examine the presence of random effects in the panel data structure. The Breusch-Pagan statistic for cross-section effects is highly significant at 330.27 (p=0.0000), strongly confirming the presence of province-specific random effects. Conversely, the time effects test statistic of 2.11 is not significant (p=0.1467), indicating that time-specific random effects are not substantial in our data. The combined test for both dimensions yields a significant statistic of 332.38 (p=0.0000), primarily driven by cross-sectional heterogeneity. These results further validate the selection of a random effects specification over the pooled OLS model, emphasizing the importance of accounting for unobserved provincial characteristics when analyzing the determinants of regional own-source revenue in Indonesia's decentralized fiscal framework.

Table 6. t Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.873617	2.608964	-1.484734	0.1471
GROW	6.760964	1.213504	5.571437	0.0000
POV	-0.541564	0.255075	-2.123155	0.0413

Table 6 presents the regression results using the static random effects model, revealing significant relationships between the explanatory variables and regional own-source revenue. Economic growth (GROW) demonstrates a strong positive impact on revenue generation with a coefficient of 6.76 (p<0.0001), indicating that a one percentage point increase in growth is associated with a 6.76 percentage point increase in regional revenue. Conversely, poverty (POV) exhibits a significant negative effect with a coefficient of -0.54 (p=0.0413), indicating that higher poverty rates constrain fiscal capacity. The constant term (C) shows a negative value of -3.87, though it is not statistically significant (p=0.1471). These findings align with theoretical expectations that economic expansion enhances revenue potential while socioeconomic vulnerabilities impede fiscal autonomy, providing preliminary insights before addressing potential endogeneity through dynamic panel estimation.

Table 7. GMM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROSR(-1)	0.330538	0.151498	2.181800	0.0363
GROW	9.858776	2.157943	4.568598	0.0001
POV	-1.087095	0.473695	-2.294928	0.0282

Table 7 presents the Generalized Method of Moments (GMM) estimation results, which address potential endogeneity concerns in the dynamic panel model. The lagged dependent variable (ROSR(-1)) exhibits a positive and significant coefficient of 0.33 (p=0.0363), confirming persistence in revenue generation patterns and validating the dynamic specification. Economic growth shows a substantially stronger positive effect in this model with a coefficient of 9.86 (p=0.0001), nearly 50% higher than in the static model, suggesting that controlling for endogeneity reveals a more pronounced growth-revenue relationship. Similarly, poverty demonstrates a more substantial negative impact with a coefficient of -1.09 (p=0.0282), approximately twice the magnitude observed in the static model. These robust results highlight the critical importance of sustainable economic development and poverty reduction for enhancing regional fiscal autonomy in Indonesia's decentralized governance framework.

Table 8. AR Test

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	-0.347674	-0.148955	0.428433	0.7281
AR(2)	-1.090248	-0.189647	0.174412	0.2766

Table 8 presents the Arellano-Bond test results for serial correlation in the differenced residuals from the GMM estimation. The first-order autocorrelation test (AR(1)) yields a non-significant m-statistic of -0.35 (p=0.7281), while the second-order test (AR(2)) shows a similarly non-significant m-statistic of -1.09 (p=0.2766). These results are crucial for validating the GMM model specification, as they confirm the absence of significant serial correlation in the error terms. The rho values of -0.15 for AR(1) and -0.19 for AR(2), along with their respective standard errors, further support this conclusion. The non-rejection of the null hypothesis of no autocorrelation, particularly at the second order, is essential for ensuring the consistency of the GMM estimator and the validity of the instruments used in the dynamic panel analysis, thereby strengthening the reliability of our empirical findings on fiscal autonomy determinants.

The empirical analysis reveals significant relationships between regional fiscal autonomy, economic growth, and poverty across Indonesian provinces during 2018-2022. Our diagnostic tests confirm the appropriateness of a dynamic panel specification, with the Chow, Hausman, and Lagrange Multiplier tests validating the random effects approach for our data structure. After addressing potential endogeneity through GMM estimation, we find that economic growth substantially enhances regional own-source revenue with a coefficient of 9.86 ($p<0.001$), while poverty exerts a significant negative influence with a coefficient of -1.09 ($p<0.05$). The lagged dependent variable demonstrates a coefficient of 0.33 ($p<0.05$), indicating moderate persistence in revenue generation patterns across fiscal periods. The absence of significant autocorrelation in the Arellano-Bond test and the acceptable multicollinearity levels strengthen the robustness of our findings. These results establish a clear quantitative framework for understanding how economic development and socioeconomic conditions impact fiscal autonomy within Indonesia's decentralized governance system, providing a foundation for the detailed interpretation that follows in the discussion section.

3.2. Discussion

Economic Growth as a Catalyst for Revenue Generation

The findings of this study indicate a strong correlation between economic growth and an increase in regional own-source revenue (ROSR). This aligns with the research of Musviyanti et al. (2022), who demonstrated that local governments' capacity to collect revenue enhances as the local economy expands, particularly when tax collection and retribution systems are effectively managed. Similar conclusions have been reached by Lombardini (2024) and Pietrovito et al. (2023), who noted that a broader and more dynamic economic base affords regional governments greater fiscal space. In Indonesia, provinces with robust industrial and service sectors, as highlighted by Priambodo et al. (2025), generally exhibit a greater ability to generate revenue from diverse sources. This supports the perspective that promoting inclusive and sustainable economic growth is a crucial pathway to achieving fiscal independence within a decentralized governance framework.

Poverty as a Constraint on Fiscal Capacity

The inverse correlation between poverty and ROSR suggests that elevated poverty levels can diminish a region's fiscal capacity. Communities with higher poverty rates contribute less to tax revenue and frequently necessitate a greater proportion of public expenditure for social assistance, thereby constraining resources available for other developmental needs. These findings align with those of Canavire-Bacarreza et al. (2024) and Jiao et al. (2025), who emphasized the indirect fiscal advantages of poverty alleviation. In the context of Indonesia, provinces with elevated poverty rates often encounter structural impediments, such as inadequate infrastructure and low levels of economic diversification, as noted by Halimatussadiah et al. (2025), which further undermine their potential for revenue generation.

Revenue Persistence and Institutional Dynamics

The significance of the lagged ROSR variable suggests that revenue patterns exhibit persistence over time, indicative of the institutional continuity in fiscal management. This observation aligns with Mauri (2024), who identified that fiscal autonomy at the local level is significantly influenced by historical performance. Similarly, Jiang and Chi

(2024) emphasize that effective budget performance management contributes to maintaining fiscal stability across multiple periods. The findings imply that provinces with well-established tax administration systems and consistent fiscal strategies are more adept at revenue generation. Xu et al. (2024) further contend that governance quality plays a crucial role in determining fiscal outcomes, indicating that long-term improvements necessitate both institutional reform and sustained policy commitment.

Fiscal Decentralization Effectiveness in Practice

The empirical findings offer significant insights into the practical implications of fiscal decentralization. Pietrovito et al. (2023) contend that sub-national governments can leverage fiscal autonomy to customize tax policies for income redistribution, although the advantages are contingent upon local institutional capacity. Li and Gu (2025) underscore that the success of decentralization is associated with the capability of local governments to address economic disparities. The results of this study corroborate these perspectives, demonstrating that fiscal decentralization produces substantial outcomes only when accompanied by targeted strategies that address both economic and social constraints. The findings also align with Sugiyarto et al. (2025), who emphasized that enhancing local government autonomy necessitates systematic efforts to address developmental disparities between regions.

Regional Development Disparities and Convergence Patterns

The substantial variation in the ROSR across provinces reflects the patterns identified by Yan et al. (2024) concerning fiscal disparities and regional inequality. Provinces with robust economic fundamentals are more capable of enhancing their fiscal capacity, as also observed by Ngo and Lee (2025) in their examination of poverty reduction and economic development. Li et al. (2024) highlight the necessity of detailed data analysis to pinpoint underdeveloped areas, which is pertinent to understanding why certain provinces lag despite national development initiatives. In the absence of targeted interventions, provinces with existing advantages may continue to augment their revenue capacity, thereby exacerbating the disparity with less affluent regions. Similar patterns of divergence in household vulnerability were documented by Li et al. (2025), emphasizing the risk of entrenched inequality without balanced development strategies.

Policy Framework for Sustainable Fiscal Autonomy

The findings of this study have clear policy implications for the government. Economic development and poverty reduction must be pursued together to achieve lasting fiscal sustainability, as suggested by Halimatussadiah et al. (2025). Cao et al. (2025) stressed the importance of aligning local governance with sustainable development objectives, which this study's results support through the demonstrated link between economic strength, poverty reduction, and fiscal capacity. Krapf and Staubli (2025) show that tax responsiveness varies regionally, implying that policy effectiveness depends on addressing structural economic differences rather than simply adjusting tax rates. Furthermore, the persistence of revenue patterns suggests that reforms should be implemented from a long-term perspective, ensuring continuous institutional strengthening. This multidimensional approach, as discussed by Priambodo et al.

(2025), is essential for building regional own-source revenue and supporting broader developmental goals.

4. Conclusion

This study provides empirical evidence that regional economic growth significantly strengthens the capacity of provinces in Indonesia to mobilize their own-source revenue, while high poverty levels remain a persistent constraint on fiscal performance in the long run. The analysis confirms that historical revenue patterns create enduring effects and shows the importance of institutional continuity in shaping local fiscal outcomes. The findings also suggest that fiscal decentralization, while offering potential benefits, delivers sustainable results only when accompanied by targeted strategies that address economic disparities, institutional capacity gaps, and structural barriers to reducing poverty.

From a policy perspective, the results emphasize that achieving greater fiscal autonomy in Indonesia requires a balanced approach that fosters inclusive economic growth, expands the local tax base, and ensures effective poverty alleviation. Strengthening governance systems, improving revenue collection efficiency, and integrating innovative financing mechanisms can further enhance provincial governments' fiscal resilience. The study also reinforces the role of coordinated long-term strategies in aligning economic development with fiscal sustainability within a decentralized governance framework.

However, this study has certain limitations that may influence the scope of its conclusions. The analysis relies on secondary data aggregated at the provincial level, which may mask variations within provinces and differences in local fiscal capacity. The study covers a limited period, which may reduce its ability to capture long-term structural changes in Indonesia's fiscal landscape. In addition, the model specification, although it addresses endogeneity through the GMM, may not fully account for all unobserved institutional or political factors that influence revenue generation. Future research can extend the time period, include district-level data, and incorporate qualitative insights to gain a deeper understanding of the mechanisms that drive fiscal autonomy and poverty reduction in Indonesia.

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