Analysis of Regional Government Financial Performance and Its Impact on Poverty in South Sumatra

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ARTICLE INFORMATION	ABSTRACT

This study aims to analyze the financial performance of local governments in the districts and cities of South Sumatra Province and its impact on poverty levels. The data used were obtained from the Ministry of Finance and the Central Bureau of Statistics, covering regional revenue and expenditure budget data as well as poverty figures for the period 2019–2022. This research employs a panel data analysis method, which combines cross-sectional and time-series data to gain a deeper understanding of the dynamics of the subject under study. The findings indicate that the majority of districts and cities experienced a decrease in poverty levels, except South Ogan Komering Ulu Regency. An F-statistic of 1.747 and a p-value of $1.264 > 0.05$ show that, according to the fixed effect model's overall estimation, financial performance does not significantly affect the poverty rate. The overall R square result demonstrates that the independent variables can account for 14.63% of the variation in poverty figures. Among the six ratios, only the effectiveness ratio had a positive and significant impact, with a regression coefficient of.3426081 and a p-value of $0.019 < 0.05$. Overall, local governments' financial performance does not entirely determine the dynamics of poverty in South Sumatra Province. This underscores the need to consider other factors in reducing poverty rates. Although the effectiveness ratio has a positive impact, other unexplored variables play a dominant role. Therefore, as a recommendation, local governments need to broaden their focus from merely improving financial performance to other aspects affecting poverty.

A. INTRODUCTION

Poverty in various regions is often influenced by a multitude of interrelated factors. The literature commonly cites corruption, administrative systems, inefficient governance, and the transparency and accountability of local budget management as contributing elements. More specifically, a high dependency on transfers from the central government is identified as a key factor impeding progress in certain areas (Lewis & Smoke, 2017). With the evolution of the theory of fiscal decentralization, this concept has become a central focus in discussions on regional development. Decentralization enhances public welfare by ensuring efficient public consumption, grounded in the local government's comprehensive understanding of its citizens' preferences (Oates, 1972). This fundamentally supports

the notion that local governments are better attuned to the needs of their local communities. Further argue that one of the primary goals of decentralization is to reduce regional dependencies in the implementation of redistributive policies, thereby diminishing social inequalities (Bahl & Wallace, 2003).

The era of regional autonomy in Indonesia, initiated by the enactment of Law No. 22/1999 and later revised as Law No. 32/2004, introduced a new paradigm in governmental administration. This change was implemented with the aim of granting broader autonomy to local governments in managing their potential and resources to achieve communal prosperity. However, the question arises: Is decentralization truly effective in reducing poverty? What is the impact of decentralization on poverty, especially in the context of differing policies? Several studies have been conducted to answer this question, focusing primarily on the impact of local government budget management on poverty (Treisman, 2002; Wibisono, Lovett, & Suryani, 2023).

However, many of these studies have adopted a fragmented approach, focusing only on certain variables or specific time periods. Thus, there is a need for more comprehensive research, evaluating variables in a broader context and using more extensive panel data. This study will focus on the assumption that the financial performance of local governments, measured through various ratios, impacts efforts to reduce poverty. This assumption is based on the argument that local governments with more accurate information about community preferences can make decisions more aligned with the needs of the populace, in line with the primary objectives of regional autonomy.

Research on economic growth and poverty has centered around three main axes: geography, integration, and institutions (Rodrik, Subramanian, & Trebbi, 2004; Sachs, 2005). In line with the latter, a wave of decentralization reforms has swept through developing countries, following recommendations from international development agencies like the World Bank or the United Nations Development Programme (UNDP), including in Indonesia. Consequently, the implementation of financial balancing policies between the central and local governments, as stipulated in Law Number 33 of 2004 and updated with Law Number 1 of 2022, could be a strategic approach for Indonesia to enable local governments to deliver better services, exploit regional potentials more extensively, and more effectively address public issues, including poverty.

According to established theories, decentralization enhances administrative efficiency by meeting citizens' demands for public goods and services more accurately and efficiently (A. Adam, Delis, & Kammas, 2014); it heightens competition among local governments for investment, thereby encouraging honest, efficient, and responsive behavior; it increases the motivation of local governments to support local economic activities and democracy, ensuring political freedom and stability through a system of checks and balances; and finally, it reduces inter-regional conflicts. Local governments also possess greater capabilities to generate and utilize information at the local level (Moon, 2002). However, critics argue that decentralization weakens fiscal and macroeconomic discipline and leads to inefficiencies due to potential fiscal coordination failures among different levels of government (Singh, 2017; Treisman, 2002; Zakaria, 2015). Addressing this controversy, (Treisman, 2002) concludes that there is no conclusive evidence to state that decentralization generally has either the positive or negative impacts mentioned above. The conditions required for the benefits or disadvantages of decentralization to materialize are complex and difficult to discern, thus making generalization impractical.

In the context of Indonesia, financial balancing between the central and local governments involves four policies aimed at enhancing the autonomy of local government budget management: expenditure allocation, revenue allocation, intergovernmental policies – authorizing the central government to transfer financial resources in the form of grants to local governments – and regulatory policies for controlling and limiting local government finances (Gelfand, 1978; Singh, 2017).

Literature on local government financial management performance has often linked it with price stability, macroeconomic stability, fiscal balance, economic growth, and poverty (Indra & Akmal, 2023; Juliana et al., 2022; Maulana & Wijayanti, 2023). Despite extensive research, there is no consensus on these issues, as conclusions from various studies often contradict each other, and some even find evidence that local government financial performance has negative impacts (Insani, Rahayu, & Erwati, 2023) and can result in negative outcomes in poverty alleviation efforts (A. I. Adam, Husen, & Muhammad, 2022; Carr, 2008). These differences are influenced by various factors including socio-political conditions, economic circumstances, and natural disasters like the COVID-19 pandemic.

Analyzed the impact of local government financial management performance on poverty and inequality from a broader perspective (Sepulveda & Martinez-Vazquez, 2010). Their theoretical review distinguishes between direct and indirect impacts. Direct impacts include, for example, the influence of local government budget management on employment and, particularly, changes in income and expenditure policies. If jurisdictional mobility is restricted, redistributive policies can be implemented effectively and efficiently at the local level. Public resources can be directly transferred to the disadvantaged, thereby boosting their income, or channeled through pro-poor public spending programs. Local government budget management can also affect the progressiveness of the tax system, thereby altering the distribution of disposable income (Sørensen, Wu, & Yosha, 2001). Researchers also point out that local financial performance can impact economic growth, macroeconomic stability, regional convergence, government size, and institutional development levels. These are referred to as the indirect impacts of local government budget management on poverty.

Empirically, researchers using panel data from 34 countries found that the proportion of local spending within total government expenditure can have a significant impact on poverty and inequality. Specifically, there is substantial evidence that local financial performance can lead to an increase in poverty levels, but it also successfully reduces income inequality in cases where the central government has a significant role in the economy.

In assessing the performance of local government financial management, financial ratio analysis in the Regional Revenue and Expenditure Budget (APBD) is one method for evaluating local government financial performance. Through this analysis, local governments can improve the quality of their financial management. Evaluating the implementation of the APBD can serve as an instrument for assessing the effectiveness of local financial management. Given that regions have flexibility in managing their economies, this policy ideally can encourage economic growth and regional performance (Ropa, 2016). Financial ratio evaluation in the APBD can be a reference in assessing the financial independence of regions, the effectiveness of local revenue, and the efficiency of expenditures. The obtained ratio figures illustrate the capabilities of local governments in controlling their economies (Wati et al., 2021). Financial ratios are indicators from financial statements that provide insights into the financial condition and performance of a company over time, reflecting relevant and meaningful relationships (Malik, 2022). Financial ratios are comparisons between two figures taken from elements of financial statements (Mahmudi, 2019). This ratio analysis is used to interpret performance developments year over year. Some indicators of local government financial performance include revenue variation, decentralization ratio, financial independence of local government, and revenue growth (Saputra, I. N., Wijaya, I. G. N., & Putra, 2018). Consistent with these findings, (Harahap, 2020) states that in the financial performance of local governments, certain aspects, such as the decentralization ratio, still need attention.

The decentralization ratio indicates the contribution of local own-source revenue (PAD) to total regional income (Putra, Wijayanti, & Ardhiarisca, 2020). The ratio of financial independence of local governments depicts the capacity of local governments to self-fund various activities, including governmental tasks, development initiatives, and services for citizens who have contributed through tax payments and retributions as sources of local income (Siregar & Pratiwi, 2017). The effectiveness ratio of PAD illustrates the extent of local government capability in realizing budgeted local own-source revenue compared to the pre-set target/budget. The operational expenditure ratio compares the realization of operational expenditures to total expenditures, while the capital expenditure ratio compares total realized capital expenditures to total regional expenditures. Both ratios, operational and capital expenditures, commonly referred to as the expenditure compatibility ratio, depict how local governments prioritize allocation of funds between routine and developmental expenditures optimally. A higher percentage of funds allocated for routine expenditures means a proportionately smaller percentage of investment spending (developmental expenditures) used to provide economic infrastructure for the community. The revenue growth ratio measures the growth of a region's income, assessing the local government's ability to maintain and enhance its successes from one period to the next (Mahmudi, 2019).

This study aims to analyze the conditions of poverty and the impact of local government financial performance in the Districts/Cities of South Sumatra Province, consisting of the decentralization ratio, financial independence ratio, effectiveness ratio, operational expenditure ratio, capital expenditure ratio, and revenue growth ratio. South Sumatra was chosen because it is one of the provinces outside Java with significant natural resource potential but one of the highest poverty levels in Indonesia.

B. METHOD

This study aims to analyze the financial performance of local governments in 17 districts/cities in South Sumatra Province and examine its influence on the poverty rate in these areas. This research adopts a quantitative approach with descriptive and inferential methods.

Data Sources and Research Period The data used in this study are derived from the Regional Revenue and Expenditure Budget (APBD) reports and poverty rate data for 17 Districts/Cities in South Sumatra Province, published by the Ministry of Finance and the Central Bureau of Statistics of the Republic of Indonesia for the years 2019 – 2022. So, the steps in this research are as follows: Analysis of Local Financial Performance Financial ratio analysis of local governments is conducted by comparing the financial ratios of one region with those of relatively similar regions to understand the performance of local governments (Wati et al., 2021). The benchmarks used in this analysis technique are.

1. Fiscal Decentralization Ratio (RDD) RDD = (Local Own-Source Revenue)/(Total Regional Revenue) × 100%
2. Financial Independence Ratio (RK) RK = (Local Own-Source Revenue)/(Transfer Revenue) × 100%
3. Effectiveness Ratio (RE) RE = (Realized Local Own-Source Revenue Collection)/(Budgeted Local Own-Source Revenue) × 100%
4. Expenditure Compatibility Ratio
   a. Operational Expenditure Ratio (RBO) RBO = (Total Operational Expenditures)/(Total Regional Expenditures) × 100%
   b. Capital Expenditure Ratio (RBM) RBM = (Total Capital Expenditures)/(Total Regional Expenditures) × 100%
5. Revenue Growth Ratio (RPP) RPP = ((Local Own-Source Revenue in year t) - (Local Own-Source Revenue in year t-1)) / (Local Own-Source Revenue in year t-1) × 100%

Panel Data Analysis: Assessing the Impact of Local Government Financial Performance on Poverty To analyze the effect of local government financial performance on the poverty rate in the Districts/Cities of South Sumatra Province, this study employs a panel data regression model. Panel data regression, also known as longitudinal data, is a combination of cross-sectional and time-series data, where the same cross-sectional units are measured at different times. In other words, panel data consists of data from the same individuals observed over a specific period (Baltagi, 2005).

The research variables involved are Poverty Rate (AK), Fiscal Decentralization Ratio (RD), Financial Independence Ratio (RK), Effectiveness Ratio (RE), Operational Expenditure Ratio (RBO), Capital Expenditure Ratio (RBM), and Revenue Growth Ratio (RPP). To estimate the influence of the decentralization ratio, financial independence ratio, effectiveness ratio, operational expenditure ratio, capital expenditure ratio, revenue growth ratio, and the poverty rate on poverty, there are four steps in panel data regression:

1. Model estimation using Common Effect Model, Fixed Effect Model, Random Effect Model;
2. Determining the best model with Hausman Test, Chow Test, and Lagrange Multiplier Test;
3. Interpretation of data analysis results

C. RESEARCH FINDING AND DISCUSSION

Figure 1 illustrates the poverty levels in 17 Districts/Cities in South Sumatra Province. From the poverty data during the period 2019-2022, it is observed that 8 Districts/Cities experienced a decrease in poverty rates. These include North Musi Rawas Regency with a reduction of -0.67%, Pagar Alam City with -0.43%, Palembang City with -0.42%, East OKU Regency with -0.38%, Prabumulih City with -0.33%, Lahat Regency with -0.31%, Empat Lawang Regency and Lubuk Linggau City both with -0.27%, and Musi Rawas Regency with -0.03%. Meanwhile, South Ogan Komering Ulu Regency was the only district that saw an increase in poverty levels, albeit marginally, at 0.03%. The poverty rates in the remaining 8 districts remained relatively stable:
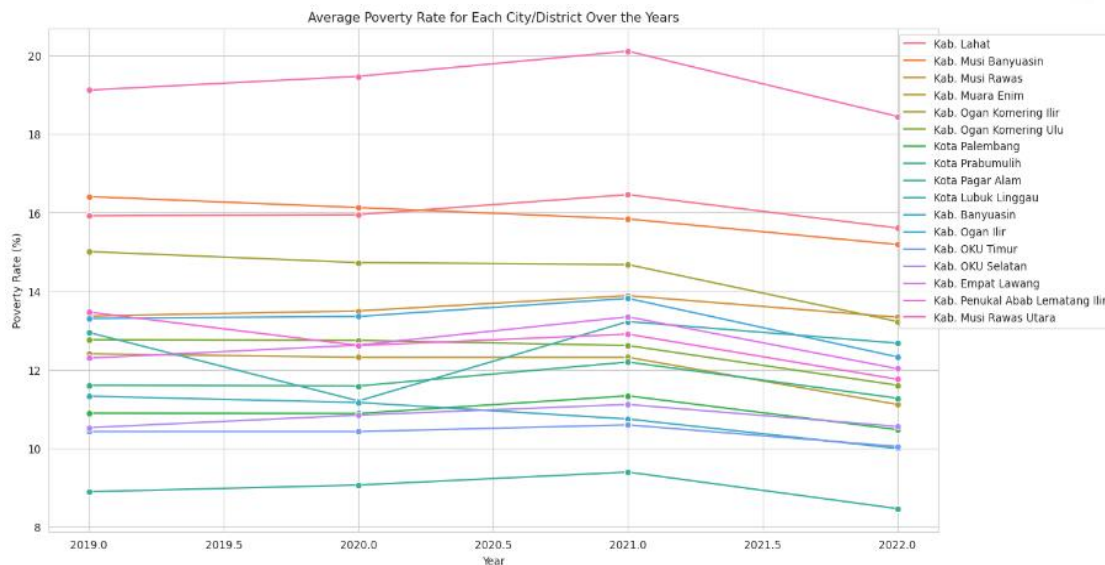
Figure 1 Poverty Level in South Sumatra Province 2019 – 2022
Source: Processed from BPS, 2022

Analysis of Local Government Budget Performance

Figure 2 presents the results of the analysis on the fiscal decentralization ratio, financial independence ratio, effectiveness ratio, operational expenditure ratio, capital expenditure ratio, and revenue growth ratio.

a. Fiscal Decentralization Ratio The fiscal decentralization ratio indicates the ability of local governments to generate and manage revenue. A higher contribution from Local Own-Source Revenue (PAD) signifies greater capability in implementing decentralization (Mahmudi, 2007). From the graph, several districts/cities exhibit high fiscal decentralization ratios, demonstrating their strong capacity in decentralization implementation. Palembang City has the highest average fiscal decentralization ratio at 29.3%, while Empat Lawang Regency has the lowest with a ratio of 3.4%.

b. Financial Independence Ratio The Financial Independence Ratio measures the ability of districts/cities to finance their needs from their own revenue sources. The financial independence of a region is indicated by the proportion of Local Own-Source Revenue (PAD) relative to total regional income from other sources (Halim, 2007). Several districts/cities stand out with high Financial Independence Ratios, showing their capacity to rely on internal resources. Palembang City has the highest average financial independence ratio at 41.42%, while Empat Lawang Regency has the lowest at just 3.59%.

c. Effectiveness Ratio The Effectiveness Ratio assesses the efficiency of local governments in collecting Local Own-Source Revenue (PAD) compared to the set targets. Some districts/cities consistently achieve or even exceed their PAD targets, indicating effective revenue management. The district with the highest average effectiveness ratio is Ogan Komering Ulu Timur Regency at 287%, meaning it can achieve more than double its PAD plan. Conversely, Ogan Komering Ilir Regency has the lowest average effectiveness ratio at 78%.

d. Operational Expenditure Ratio The Operational Expenditure Ratio depicts the proportion of operational spending to total expenditures. The district/city with the highest Operational Expenditure Ratio is Pagar Alam Regency at 73%, while Penukal Abab Lematang Ilir Regency has the lowest ratio at 44%.

e. Capital Expenditure Ratio The Capital Expenditure Ratio shows the proportion of capital spending to total expenditures. The area with the highest Capital Expenditure Ratio is Pagar Alam City with an average ratio of 86%, while Penukal Abab Lematang Ilir Regency has the lowest at 58.34%.

f. Revenue Growth Ratio The Revenue Growth Graph indicates how the income of districts/cities has grown year over year. Regions with stable revenue growth demonstrate healthy economic conditions and good resource management. The revenue growth in all Districts/Cities in South Sumatra Province was negative, indicating a decrease in income from the previous year. This can be linked to economic growth disruptions due to COVID-19 in 2020, which continued to impact until 2022. The district with the largest negative growth ratio is Ogan Komering Ilir Regency at -31.80%, while Musi Banyuasin Regency has the lowest negative growth rate at -8.27%.
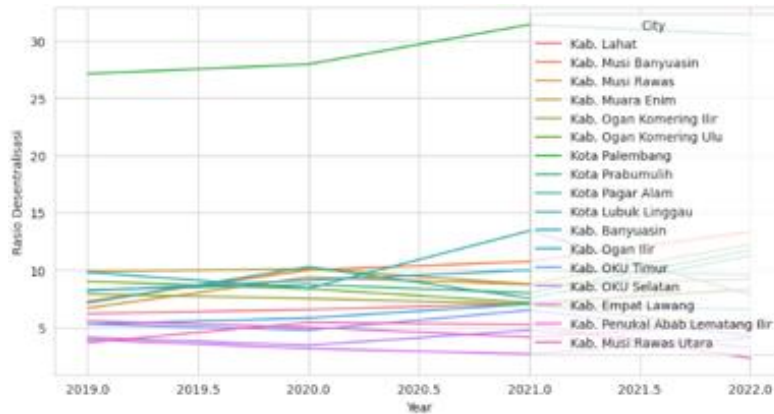

Figure 2 decentralization ratio trend throughout the year
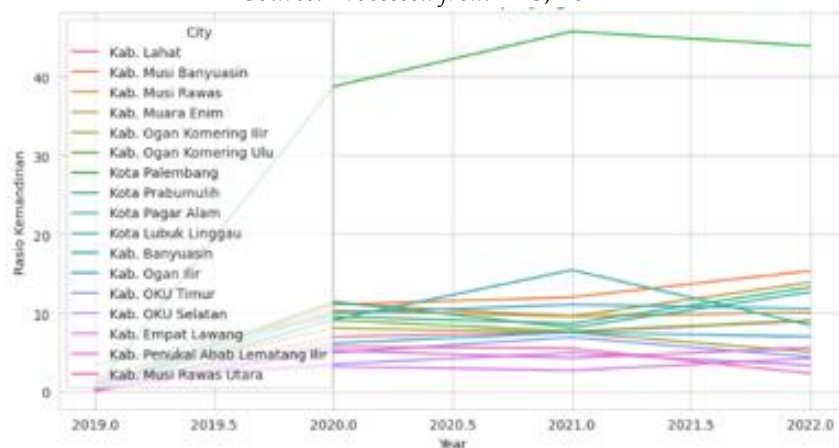*Source: Processed from BPS, 2022*

Figure 3 trend of independence ratio throughout the year
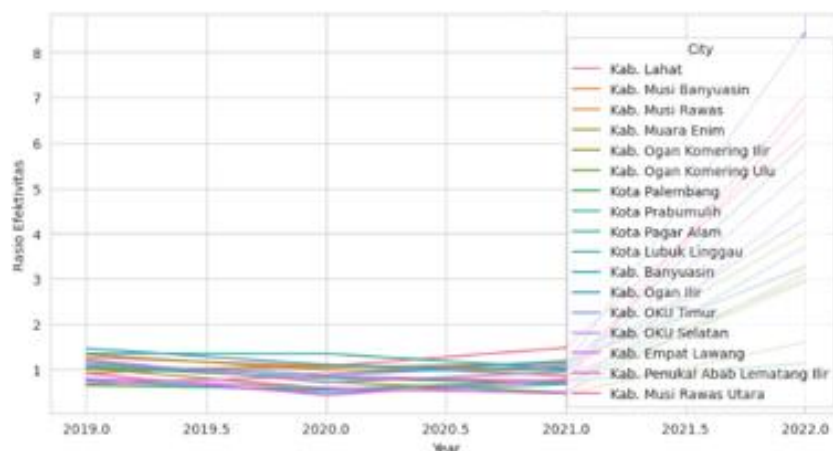*Source: Processed from BPS, 2022*

Figure 4 effectiveness ratio trends throughout the year
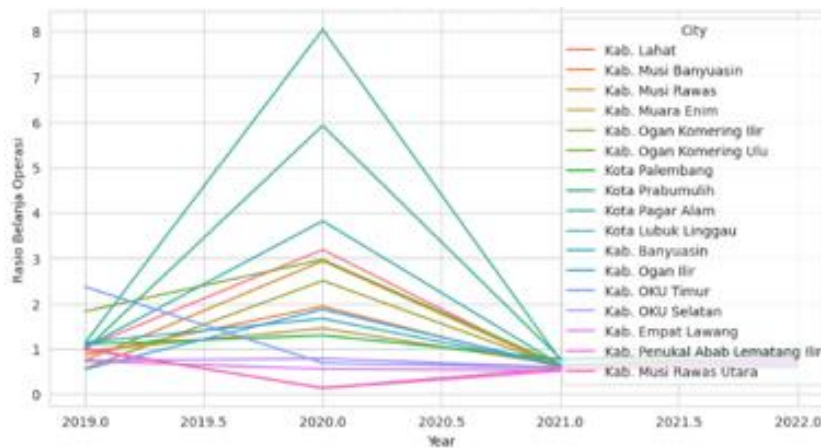*Source: Processed from BPS, 2022*

Figure 5 operating expenditure ratio trend throughout the year
Source: Processed from BPS, 2022
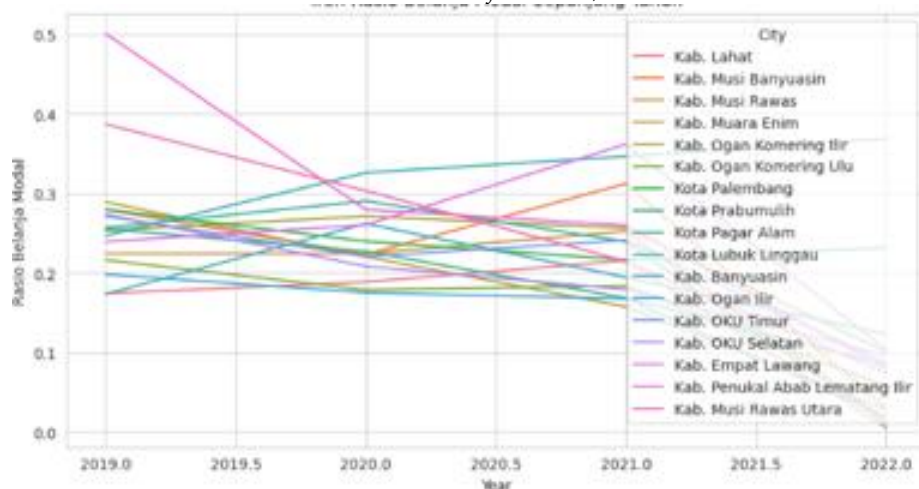
Figure 6 capital expenditure ratio trend throughout the year
Source: Processed from BPS, 2022
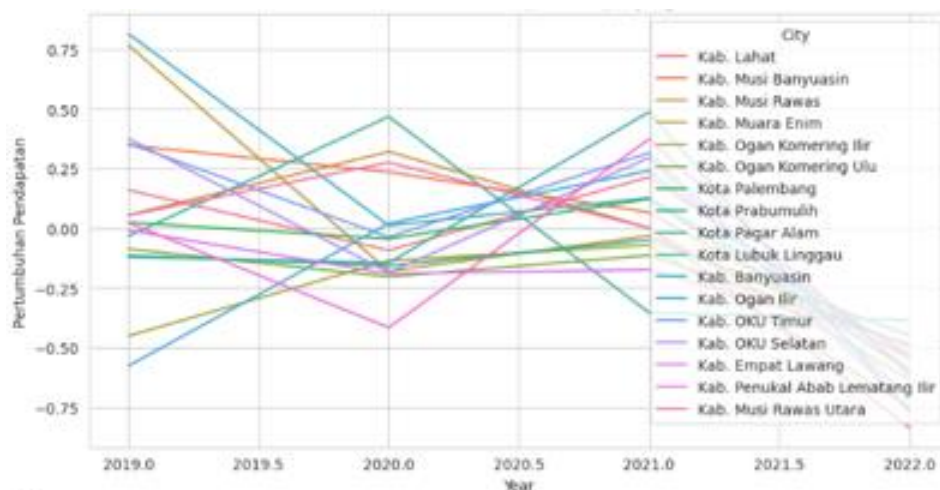
Figure 7 revenue growth trends throughout the year
Source: Processed from BPS, 2022.

Panel Data Analysis of the Impact of Financial Performance on Poverty Rates

The panel data analysis involves sequential testing to determine the best model among the common effect, fixed effect, or random effect models. The initial estimation is to test between the common effect model and the fixed effect model using the Chow Test, as per (Baltagi, 2005). If the p-

value is less than 0.05, the fixed effect model is selected. Subsequently, to determine between the fixed effect and random effect models, the Hausman Test is used, following (Baltagi, 2005). If the p-value is less than 0.05, the fixed effect model is considered the best choice. The selection between the random effect model and the common effect model is determined using the Lagrange Multiplier (LM) Test, as described by (Baltagi, 2005). If the p-value is less than 0.05, the random effect model is deemed the best.

To check for the presence of heteroskedasticity in the panel data regression, the Modified Wald Test for groupwise heteroskedasticity in fixed effect regression models developed by (Baum, 2001) can be used. Furthermore, for testing autocorrelation, the Wooldridge Test for autocorrelation in panel data, as described by (Drukker, 2003; Wursten, 2018), is employed.

Table 1
Descriptive Statistics

Variable	Statistik Deskriptif			Korelasi						
	Obs	Mean	Std Deviasi	AK	RD	RK	RE	RBO	RBM	PRP
AK	68	.3743178	.2134658	1						
RD	68	.2149822	.1998459	-0.0992	1					
RK	68	.1735463	.1964207	-0.0841	0.9951	1				
RE	68	.1639971	.1997081	0.2950	-0.1249	-0.1236	1			
RBO	68	.4306049	.1997081	-0.0040	0.2783	0.2623	0.2556	1		
RBM	68	.4013967	.1998303	-0.0885	-0.0984	-0.1026	-0.6066	-0.3987	1	
PRP	68	.4956727	.235698	0.1631	-0.0459	-0.0444	0.0348	0.1354	0.0226	1

Source: Research results, 2023

The correlation results indicate a positive correlation between the poverty rate and the effectiveness ratio as well as the revenue growth ratio. Conversely, the fiscal decentralization ratio, financial independence ratio, operational expenditure ratio, and capital expenditure ratio exhibit a negative correlation. The correlation results between the independent variables (Poverty Rate) are valued at less than 0.90, indicating that there is no potential for multicollinearity that could lead to biased parameter estimates, as suggested by (Gujarati & Porter, 2009).

Table 2
Chow Test and Hausman Test

Chow Test	Hausman Test
$F(22, 45) = 69.94$	$Chi2(6) = 2,69$
Prob > F = 0.0000	Prob>chi2 = 0.0846

Source: Research results, 2023

Initial Steps in Panel Data Regression Analysis

The initial step in the panel data regression analysis is to conduct the Chow Test to select the best model between the Common Effect Model and the Fixed Effect Model.

a. Hypotheses for the Chow Test:

*H*0: Common Effect Model

Ha: Fixed Effect Model

The Chow Test follows an F-distribution where the estimated model yields an F-statistic of 69.94 and a p-value of 0.000 < 0.05, indicating that the Fixed Effect Model is the preferred model. Subsequently, the Hausman Test was conducted with the following hypotheses:

b.   Hypotheses for the Hausman Test:

$H0$: Random Effect Model

Ha: Fixed Effect Model

The Hausman Test, which follows a Chi-square distribution, shows a Chi-square value of 2.69 and a p-value of 0.0846 < 0.05, suggesting that the Fixed Effect Model is the best choice. This evaluation result indicates that the best panel regression model to explain the influence of independent variables on the poverty rate is the Fixed Effect Model.

Table 3
Tests for Heteroskedasticity and Autocorrelation

Heteroscedasticity Test	Autocorrelation Test
Modified Wald test for groupwise heteroskedasticity in fixed effect regression model H0: sigma (i)^2 = sigma^2 for all i chi2 (1) = 1,25 Prob>chi2 = 0.2635	Wooldridge test for autocorrelation in panel data H0: no first-order autocorrelation F (6, 61) = 1,74 Prob > F = 0.1624

Source: Research results, 2023.

Testing for Heteroskedasticity and Autocorrelation in the Fixed Effect Model
Having determined the Fixed Effect Model as the best fit, the next step is to test for the presence of heteroskedasticity and autocorrelation in the resultant Fixed Effect Model. The Fixed Effect Model assumes that the residual variance across cross-sections (Provinces) is homoscedastic, as noted by (Baum, 2001). However, the Fixed Effect Model can allow for the occurrence of heteroskedasticity, known as groupwise heteroskedasticity, as indicated by (Baum, 2001). To test for this, the modified Wald statistic for groupwise heteroskedasticity, which follows a Chi-square distribution, is utilized. The evaluation results show a Chi-square value of 1.25 with a p-value of 0.265 > 0.05, indicating no heteroskedasticity within the model, and that residual variance varies between provinces. The autocorrelation test using the Wooldridge Test for autocorrelation revealed an F-statistic of 1.74 with a p-value of 0.1624 > 0.05, suggesting the absence of auto correlation

Table 4.
Fixed Effect Model

Variabel	Coefficient	t Statistik	P-value	95% Confidence Interval		F Statistik / R square
				Lower	Upper	
RD	-1.543407	-1.18	0.242	-4.158016	1.071202	F(6, 61) = 1,747
RK	1.554085	1.17	0.245	-1.092466	4.200635	P-value (1,264)
RE	.3426081	2.41	0.019	.057869	.6273473	
RBO	-.0473938	-0.32	0.750	-.3438956	.249108	
RBM	.1274627	0.75	0.458	-.2140786	.4690039	R Square Overall = 0,1463
RPP	.1364514	1.25	0.216	-.0818436	.3547464	
Konstanta	.2818401	2.18	2.18	.0236984	.5399819	

Source: Research results, 2023

Based on the overall fixed effect model estimation incorporating independent variables (X), these variables do not significantly influence the poverty rate, as indicated by an F-statistic of 1.747 and a p-value of 1.264 > 0.05. The R-square result shows that 14.63% of the variation in the poverty rate can be explained by the independent variables. Partial test results reveal that the fiscal decentralization ratio has a regression coefficient of -1.543407 with a p-value of 0.242 > 0.05, suggesting it does not significantly affect the poverty rate. The financial independence ratio, with a regression coefficient of 1.554085 and a p-value of 0.245 > 0.05, also does not significantly influence the poverty rate. The effectiveness ratio, however, has a significant positive impact on the poverty index, with a regression coefficient of 0.3426081 and a p-value of 0.019 < 0.05. The operational expenditure ratio and the capital expenditure ratio, with regression coefficients of -0.0473938 and 0.1274627 respectively, and p-values greater than 0.05, do not significantly affect the poverty rate. The revenue growth ratio, with a regression coefficient of 0.1364514 and a p-value of 0.316 > 0.05, also does not significantly influence the poverty index.

Poverty in Indonesia has been a major focus in recent years, especially with the economic impacts of the Covid-19 pandemic. According to data from the Central Bureau of Statistics (BPS), despite a declining poverty rate trend since 2021, the increase in fuel prices and inflation has affected poverty levels, particularly in September 2022. South Sumatra Province, as one part of Indonesia, reflects this national trend. Most of the 17 districts and cities in the province showed a decrease in poverty levels between 2019 and 2022. However, the South OKU District showed a slight increase. The poverty rate in South Sumatra exceeds the national rate, indicating more complex challenges in the province. Rising fuel prices and inflation have impacted the population's purchasing power, especially those below the poverty line. Commodity price increases, such as cooking oil, have had significant effects. Although the government has assisted, rising prices of some basic commodities still pressure the poor. In South Sumatra, despite declines in poverty rates in some areas, the rates remain high. This suggests that local government efforts need intensification. Urban area poverty reduction is more significant than in rural areas, indicating a disparity between urban and rural settings.

The hypothesis testing results show that only the effectiveness ratio has a significant positive influence on poverty rates. While the financial independence, capital expenditure, and revenue growth ratios have a positive but insignificant influence. The decentralization and operational expenditure ratios have a negative but insignificant impact. This research indicates that in Indonesia's fiscal decentralization framework, several variables affect poverty rates, but only the effectiveness ratio has a significant impact. The effectiveness ratio here is interpreted as the local government's ability to optimize its resources to achieve set Local Own-Source Revenue (PAD) targets. In other words, areas with high effectiveness in managing their PAD are more successful in poverty alleviation efforts.

Other variables like financial independence, capital expenditure, and revenue growth show positive influences on poverty rates, but not significantly. This indicates that even though regions have financial autonomy, high capital expenditures, or good revenue growth, these are not necessarily accompanied by a significant decrease in poverty rates. This suggests other factors beyond these

variables affect poverty rates. On the other hand, the decentralization and operational expenditure ratios have a negative but insignificant impact on poverty rates. This implies that while decentralization is expected to empower regions and improve people's welfare, its effect on poverty alleviation is not yet optimal. In the context of fiscal decentralization in Indonesia, this study shows that the effectiveness ratio has a significant positive impact on poverty rates. This aligns with findings by (Kumpangpune, Saerang, & Engka, 2019), who found that the effectiveness ratio significantly negatively influences poverty. The effectiveness ratio reflects how local governments optimize their resources to achieve specific goals, in this case, poverty alleviation.

Research by (Agyemang-Duah et al., 2018; Apriesa & Miyasto, 2013; Nursini, 2019) asserts that local government income and intergovernmental transfers significantly influence poverty reduction. This suggests that local government income, both from PAD and intergovernmental transfers, plays a crucial role in poverty alleviation efforts. However, in this study, the decentralization ratio has a negative but insignificant impact on poverty rates, possibly indicating that while fiscal decentralization is important, its field implementation may not be fully effective. Furthermore, the financial independence ratio in this study shows a positive but insignificant influence on poverty rates. This contrasts with findings by (Westmore, 2018) who assessed that the type of government transfer payments received by poor households could lift them out of poverty. This suggests that while financial independence is important, other factors may influence the ability of poor households to escape poverty. Lastly, the operational and capital expenditure ratios in this study show an insignificant impact on poverty rates. However, (Yonzan, Lakner, Mahler, Aguilar, & Wu, 2021) found that both ratios affect poverty. This suggests that while operational and capital expenditures are important, other variables may influence poverty rates in specific areas or during certain time periods.

This research indicates that the assumptions used in relation to the financial performance of local governments affecting poverty rates are not statistically proven. Various studies have shown that Covid-19 has caused local government financial performance to be less than optimal in reducing poverty levels. According to a World Bank study in 2020, the COVID-19 pandemic is estimated to have pushed an additional 71 million people into extreme poverty in 2021. This is due to the pandemic causing many people to lose their jobs and income. The Indonesian government has issued various policies to address the impact of the COVID-19 pandemic, one of which is providing social assistance to the poor. However, the effectiveness of these social assistance policies in combating poverty remains unclear. A study by the Indonesian Institute of Sciences (LIPI) in 2021 showed that the effectiveness of social assistance policies in combating poverty in Indonesia is still low. This is due to several factors, such as the lack of accuracy in the data of social assistance recipients, lack of transparency in the implementation of social assistance, and lack of government accountability in the implementation of social assistance.

The COVID-19 pandemic has shown that the effectiveness of government budgets in combating poverty heavily depends on the effectiveness of the implemented social assistance policies. Therefore, the Indonesian government needs to improve the effectiveness of social assistance policies to be more effective in combating poverty. Overall, this study provides additional insights into how various fiscal ratios affect poverty rates in Indonesia and how these findings align or differ from previous research. This highlights the importance of considering local context and time dynamics when analyzing the influence of fiscal variables on poverty.

D. CONCLUSION AND RECOMMENDATION

Conclusion

This study aimed to analyze poverty in South Sumatra Province and examine the influence of the financial performance of local governments in the province on poverty rates. The findings indicate that only the effectiveness ratio has a positive and significant impact on poverty rates. However, overall, the financial performance of local governments does not significantly affect poverty rates. This implies that the regional revenue and expenditure budget in the Districts/Cities of South Sumatra has not been significantly effective in reducing poverty rates.

Contributing factors include negative economic growth, decreased local own-source revenue, and budget repositioning during the Covid-19 pandemic. This confirms previous studies stating the negative impact of Covid-19 on the performance of regional revenue and expenditure budgets as well as poverty rates. Overall, the research shows that the dynamics of poverty in South Sumatra Province

are not fully controlled by the financial performance of local governments. This underscores the need to consider other factors in reducing poverty rates. Although the effectiveness ratio positively influences, other unexplored variables play a dominant role.

Recommendation

Recommendations for local governments include exploring strategic tax sources and diversifying potential revenue sources in their regions to realize higher local own-source revenues. Local governments should also improve the quality of budgeting as increased general allocation of funds and profit sharing from the central government should be accompanied by improved governance. Additionally, there is a need to re-evaluate the fiscal relationship between governments in relation to decentralization. The federal financial model, official limits, delegation of functions, authorities, and financing have been regulated by law. This model is suitable as Indonesia is diverse in demographic and ethnic aspects. Laws regulating regional autonomy and fiscal decentralization are expected to accommodate the needs of both Central and Regional Governments. The government should also achieve fiscal independence by implementing fiscal decentralization.

For future research, it is suggested to extend the observation period so that the results obtained can more accurately measure the financial performance of local governments and test its impact on poverty.

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