THE EFFECT OF LOCAL REVENUE, CAPITAL EXPENDITURE AND EXPENDITURE ON EDUCATION AND HEALTH FUNCTIONS ON THE POVERTY RATE: A STUDY IN REGENCIES/CITIES IN EAST NUSA TENGGARA (NTT) FROM 2019-2024

Ardiyanto Maksimilianus Gai[1]
Universitas Merdeka Malang, Malang, Indonesia
Institut Teknologi Nasional, Malang Indonesia
ardiyantomax@gmail.com

Gaguk Apriyanto[2]
Universitas Merdeka Malang, Malang, Indonesia

Moh. Burhan[3]
Universitas Merdeka Malang, Malang, Indonesia

Abstract

The objective of this study is to determine the effect of local revenue, capital expenditure and education and health function expenditure on the poverty rate: a study conducted in regencies/cities within East Nusa Tenggara (NTT) Province for the period 2019–2024. The type of research applied in this study is correlational research, and its scope refers to quantitative research. The research location refers to the place where the research data is obtained. In this case, the location is the regencies/cities in East Nusa Tenggara (NTT), with data collected from regional financial reports for the years 2019–2024. The type of data used in this study is secondary data, specifically time series data. The data collection techniques employed in this research consist of two primary methods: literature study and documentation method. The data analysis technique used is multiple linear regression. Based on the research findings, three main conclusions were obtained local revenue has a significant and negative effect on the poverty rate, capital expenditure does not have a significant effect on the poverty rate, and expenditure on education and health functions has a significant and negative effect on the poverty rate. Based on the study's findings, future research should consider additional variables such as social assistance, unemployment, and inflation to better understand poverty dynamics in east nusa tenggara. Using panel data or qualitative approaches, expanding the study area, and evaluating the efficiency of education and health spending are also recommended for more accurate and region-specific poverty reduction insights.

Keywords: Local Revenue, Capital Expenditure, Expenditure on Education and Health Functions, Poverty Rate

INTRODUCTION

Poverty is a complex and multidimensional issue that not only affects social welfare but also hinders economic development in a region (Saragi et al., 2021; Chevalier, 2023). Poverty, as a condition reflecting the inability of individuals or groups to meet basic needs, can be defined through various indicators. According to the World Bank (2021), extreme poverty is defined by individuals living on less than $1.90 per day, which clearly demonstrates the difficulty in meeting basic food needs. Additionally, the United Nations Development Programme (UNDP, 2020; Mohapatra, 2021) emphasizes the importance of access to education and healthcare services as vital elements in poverty reduction. High poverty rates often indicate low access to essential resources and public services, as well as a weak distribution of development outcomes, creating social injustices (Costa, 2024; Kakwani et al. 2021).

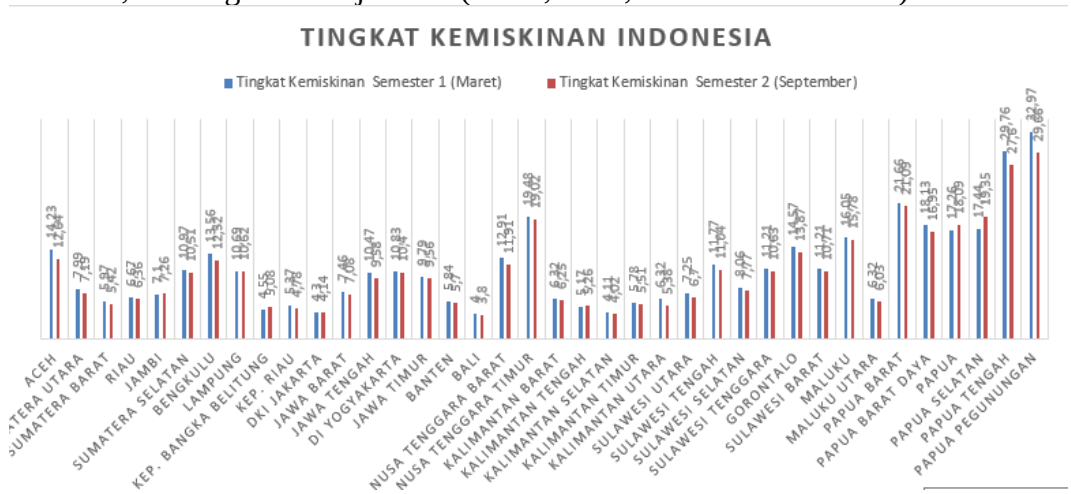

Figure 1.
Poverty Rate of Indonesia (2024)
Source: BPS Data (2025)

Based on the poverty rate graph of Indonesia for the first semester (March) and the second semester (September), there are nine provinces with a poverty rate above 10%, with the majority located in Eastern Indonesia. The province with the highest poverty rate is Papua Pegunungan, which saw an increase from 28.41% in March to 28.97% in September, making it the area with the highest poverty rate nationally. It is followed by Papua Tengah, which, despite a decrease from 27.62% to 26.97%, still ranks as the second highest. Papua also recorded a very high poverty rate, although it decreased from 26.03% to 25.76%. A similar trend was observed in Papua Barat, which slightly declined from 21.74% to 21.59%.

The development of poverty trends in East Nusa Tenggara (NTT) from 2020 to 2024 is illustrated below. This graph will provide an overview of the decrease or increase in the percentage of the poor population during this period, which is an important indicator in evaluating the progress of development and poverty alleviation programs that have been implemented. Below is the poverty trend data for East Nusa Tenggara (NTT) from 2020 to 2024, presented in both table and graph formats:

Table 1.
Percentage of Poor Population in NTT (2020–2024)

Year	Poverty Rate (%)
2020	20,90%
2021	20,62%
2022	20,05%
2023	19,96%
2024	19,48%

Source: BPS East Nusa Tenggara Province

The table and graph above illustrate the downward trend in the percentage of the poor population in East Nusa Tenggara (NTT) from 2020 to 2024. In 2020, the poverty rate in NTT was 20.90%, and although there was a gradual decline, this figure continued to decrease, reaching 19.48% in 2024. This reduction reflects the efforts made by the government through various policies and social programs aimed at alleviating poverty, such as improving access to education, healthcare, and social assistance. Despite the progress, the still relatively high poverty rate highlights the need for more intensive measures to accelerate the poverty alleviation process in the region.

Below is a graph depicting the trend in the percentage of the poor population in East Nusa Tenggara (NTT) from 2020 to 2024. This graph shows a gradual decline in the poverty rate, reflecting the results of various programs implemented by the government to reduce poverty in the region.

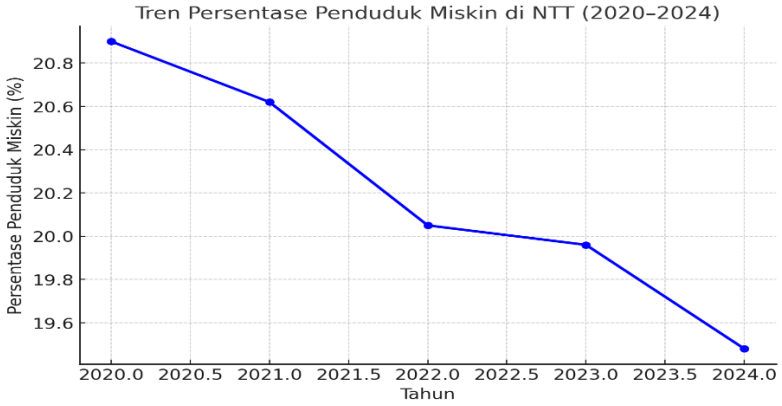

Figure 2.
Poverty Population in NTT (2020–2024)

Source: BPS East Nusa Tenggara Province

The effect of local revenue, capital expenditure, and expenditure on education and health functions plays a vital role in shaping the poverty rate within a region. Higher local revenue provides governments with greater fiscal capacity to fund essential infrastructure and social services that directly impact the quality of life of the population (Wei et al., 2023; Bello et al., 2020; Che & Jiang, 2021; Adegboyo, 2020). Capital expenditure focused on building and maintaining infrastructure such as roads, schools, and healthcare facilities not only stimulates economic activity but also creates employment opportunities, which can reduce poverty levels (Zhao & Lan, 2023; Min

et al., 2021). Meanwhile, adequate spending on education and health enhances human capital by improving skills and health outcomes, enabling individuals to participate more effectively in the labor market and secure better-paying jobs (Lim & Lee, 2021; Muazu et al., 2023; Wang et al., 2021; Xu et al., 2021).

Together, these financial elements work synergistically to reduce social and economic inequalities that contribute to poverty. Regions with robust local revenue streams are better equipped to invest in comprehensive programs that address the root causes of poverty. In contrast, areas with limited local revenue often face challenges in financing these critical investments, highlighting the need for additional support, such as transfers from the central government (Asongu & Nnanna, 2020; Katuka et al., 2023; Sirén, 2023; Muhtar, 2023). Ultimately, the strategic allocation of local revenue, capital expenditure, and social spending on education and health functions is essential for sustainable poverty alleviation and promoting inclusive economic growth (Lim & Lee, 2021; Muazu et al., 2023; Davie et al., 2021; Joy et al., 2021; Adanu, 2024; Imelda, 2022).

The research gap in this topic lies in the lack of a comprehensive understanding of the interaction between local fiscal variables, such as local revenue, capital expenditure, and social spending, on poverty levels in Indonesia, particularly in East Nusa Tenggara (NTT). Although several studies have discussed the impact of local revenue and budget allocation on poverty, most of them focus on one or two variables without considering the effects of the interaction between these variables comprehensively. Research that integrates all these fiscal variables remains limited, and as a result, there is no consensus on the extent to which PAD, capital expenditure, and social spending in education and health interact to reduce poverty levels, especially in resource-constrained regions. Furthermore, the role of transfer funds from the central government in strengthening policies for regions with low local revenue has not been widely explored, even though it could be a crucial factor in supporting poverty alleviation policies.

The urgency of this study is critical because Indonesia, particularly East Nusa Tenggara (NTT), faces significant challenges in reducing poverty, which is influenced by limited fiscal capacity and regional budget allocation. A deeper understanding of the interaction between local revenue, capital expenditure, social spending, and transfer funds is expected to provide a more comprehensive insight into how regions can optimize the available resources to reduce poverty. This research also aims to contribute to the formulation of policies at both the local and national levels, particularly in designing more inclusive and sustainable development strategies. Therefore, the results of this study are expected not only to offer solutions for poverty reduction in NTT but also to serve as a valuable reference for regional development policies more broadly in Indonesia.

The aim of this study is to analyze the impact of local revenue, capital expenditure, expenditure on education and healthcare, and transfer funds from the central government on the poverty rate in the regencies/cities of East Nusa Tenggara (NTT) from 2019 to 2024. This research aims to identify the influence of local revenue on poverty levels, as well as to analyze the impact of capital expenditure focused on infrastructure development on poverty reduction. In addition, this study will examine the effect of spending on education and

healthcare on improving human capital and reducing poverty. Furthermore, this research intends to assess the role of transfer funds from the central government in strengthening the positive impact of local revenue and social spending on poverty reduction. Finally, this study will explore the interaction between local revenue, capital expenditure, education and healthcare spending, and transfer funds in influencing poverty levels in NTT. With these objectives, the study is expected to provide useful recommendations for policymakers at both the regional and national levels in designing more effective development strategies to reduce poverty in NTT.

RESEARCH METHOD

The type of research applied in this study is correlational research, and the scope of this research refers to quantitative research. The research location is the place where the data is obtained. The location of this study is regencies/cities in East Nusa Tenggara (NTT), where the data is drawn from regional financial reports from 2019 to 2024. The type of data used in this study is secondary data, and the data utilized is time series data. The data sources include the Central Statistics Agency (BPS), the Regional Financial and Asset Management Agency (BPKAD) of NTT, and the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia. The data collection techniques used in this research consist of two main methods, namely literature review and documentation methods. The data analysis technique employed is multiple linear regression to test the relationship between the variables in this study, namely local revenue, capital expenditure, and education and health function expenditure on the poverty rate.

RESULTS AND DISCUSSION

Variable Description

Descriptive statistics are used to describe data in a clearer and more understandable form, providing an overview of the research in terms of the relationships between the independent variables being proxied. The results of the descriptive statistical analysis can be seen in Table 4.1 below:

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Local Revenue	132	15.89	19.63	17.9079	.59928
Capital Expenditure	132	15.96	20.02	18.8673	.51945
Expenditure on Education and Health	132	14.71	18.42	17.0004	.74258
Poverty Rate	132	8.00	31.00	20.5492	5.98186
Valid N (listwise)	132				

Source: Processed Data, (2025)

Based on the table above, it is shown that the number of valid data (N) for each variable is 132 samples. For the Local Revenue (X1) variable, the minimum value is 15.89, the maximum value is 19.63, the mean value is 17.9079, and the standard

deviation is 0.59928. For the Capital Expenditure (X2) variable, the minimum value is 15.96, the maximum value is 20.02, the mean is 18.8673, and the standard deviation is 0.51945. For the Expenditure on Education and Health (X3) variable, the minimum value is 14.71, the maximum value is 18.42, the mean is 17.0004, and the standard deviation is 0.74258. For the Poverty Rate (Y) variable, the minimum value is 8.00, the maximum value is 31.00, the mean is 20.5492, and the standard deviation is 5.98186. This indicates that the mean values are greater than the standard deviations, which means that the data deviations are low, and therefore the distribution of values is relatively uniform.

Normality Test

Normality testing is conducted to determine whether the residual values obtained from the model follow a normal distribution. The test results indicate that the residuals are normally distributed if the points shown in the SPSS output image are located around the diagonal line. The results of the normality test can be seen in the following table:

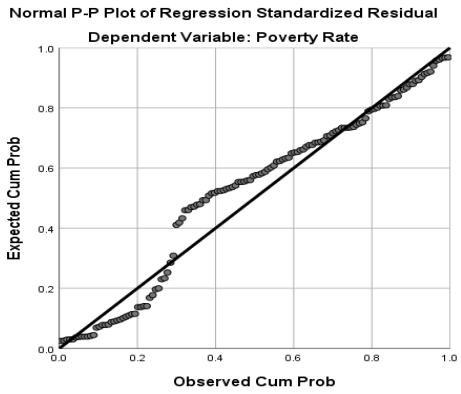

Figure 4
Normality Test Results
Source: Processed Data, (2025)

Figure 4.1 shows that the points are located around the diagonal line. The points scattered around the diagonal line indicate that the residuals are normally distributed. Therefore, it can be concluded that the residuals between local revenue, capital expenditure, and expenditure on education and health functions in relation to the poverty rate are normally distributed. The normality test can also be observed using the One-Sample Kolmogorov-Smirnov test, as shown in Table 3

Table 3
Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		132
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	5.43902378
Most Extreme Differences	Absolute	.141
	Positive	.089
	Negative	-.141

Test Statistic	.141
Asymp. Sig. (2-tailed)	.200[c]
a. Test distribution is Normal.	
b. Calculated from data.	
c. Lilliefors Significance Correction.	

Source: Processed Data, (2025)

From Table 3, the test statistic value for the variables local revenue, capital expenditure, and expenditure on education and health functions in relation to the poverty rate is 0.141 with a significance value of 0.200, which is greater than 0.05. Therefore, it can be concluded that H0 is accepted and H1 is rejected, indicating that all residuals for the variables local revenue, capital expenditure, and expenditure on education and health functions in relation to the poverty rate are normally distributed.

Multicollinearity Test

The results of the multicollinearity assumption test indicate that there is no multicollinearity in the model. This can be seen from the correlation matrix between the independent variables in Table 4.

Table 4
Multicollinearity Test Results

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Local Revenue	.778	1.285
	Capital Expenditure	.926	1.080
	Expenditure on Education and Health	.796	1.255
a. Dependent Variable: Poverty Rate			

Source: Processed Data, (2025)

Multicollinearity testing can be determined by examining the Variance Inflation Factor (VIF) and tolerance values obtained. If the tolerance value equals 1 and the VIF value equals 1, it can be concluded that multicollinearity does not occur. From the test results, it is known that all VIF values for the variables local revenue, capital expenditure, and expenditure on education and health functions are around 1, and the tolerance values are also around 1. Therefore, it is concluded that there is no multicollinearity among the independent variables.

Heteroscedasticity Test

The heteroscedasticity test checks for unequal residual variance in a regression model. If the scatter plot of ZPRED vs. SRESID shows no clear pattern and points are randomly spread around zero on the Y-axis, heteroscedasticity is not present.

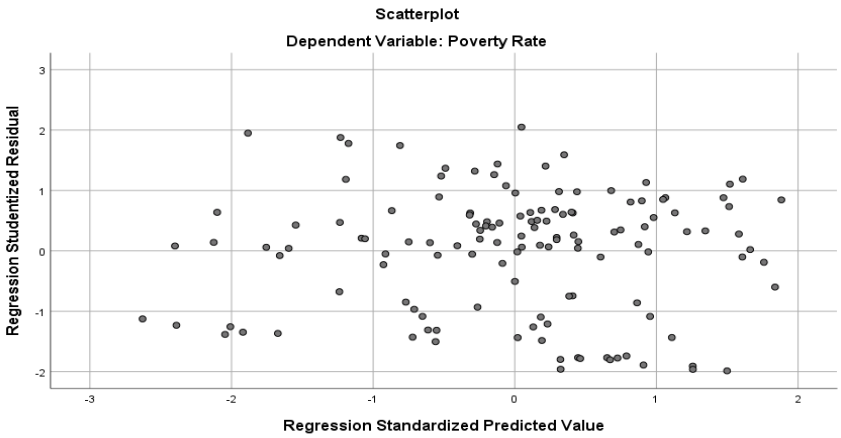

Figure 5
Scatterplot Graph
Source: Processed Data, 2025

Based on Figure 4 above, it can be seen that there is no clear pattern and the points are scattered above and below the zero mark on the Y-axis. This indicates that heteroscedasticity does not occur in the data of this study.

Autocorrelation Test

The autocorrelation assumption test aims to examine whether there is a correlation between the disturbance errors in period *t* and the disturbance errors in period *t–1* within a linear regression model. To diagnose the presence of autocorrelation in a regression model, the Durbin-Watson (DW) test is used.

Table 5
Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.416[a]	.173	.154	5.50239	1.649
a. Predictors: (Constant), Expenditure on Education and Health, Capital Expenditure, Local Revenue					
b. Dependent Variable: Poverty Rate					

Source: Processed Data, 2025

Based on the output above, the Durbin-Watson value is 1.649. This value will be compared with the DW table value at a 5% significance level. Given the number of observations (N) = 132 and the number of independent variables (K) = 3, the upper bound value (du) is 1.7652. The DW value of 1.649 is less than the upper bound (du) of 1.7652 and greater than (3 - du), which is 3 - 1.7652 = 1.2348. Therefore, it can be concluded that there is no autocorrelation.

Multiple Linear Regression Test

Multiple linear regression analysis is intended to determine the effect or relationship between the independent variables and the dependent variable. To obtain more accurate results, the researcher used the SPSS software program. Based on the Coefficients table, the output is presented in Table 6.

Table 6
Multiple Regression Test Results

Coefficients[a]					
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	75.408	20.610		3.659	.000
	Local Revenue	-3.017	.909	-.302	-3.318	.001
	Capital Expenditure	1.434	.962	.125	1.491	.138
	Expenditure on Education and Health	-1.640	.725	-.204	-2.261	.025
a. Dependent Variable: Poverty Rate						

Source: Processed Data, 2025

Based on the equation, it can be illustrated as follows:

$$\mathbf{Y = b_0 + b_1X1 + b_2X2 + b_3X3 + e}$$

$$Y = 75.408 + (-3.017X1) + 1.434X2 + (-1.640X3) + 20.610$$

Explanation:

Y = Poverty Rate
a = Constant
b = Regression Coefficient
X_1 = Local Revenue
X_2 = Capital Expenditure
X_3 = Expenditure on Education and Health
e = Standard Error

The above regression equation can be explained as follows:

1. The constant is 75.408, which means if Local Revenue (X_1), Capital Expenditure (X_2), and Expenditure on Education and Health (X_3) are all zero, then the Poverty Rate (Y) will be 75.408.
2. The regression coefficient for the variable Local Revenue (X_1) is -3.017, meaning that if the other independent variables remain constant, an increase of one unit in Local Revenue will result in a decrease of 3.017 units in the Poverty Rate (Y). The negative coefficient indicates a negative effect of Local Revenue on the Poverty Rate.
3. The regression coefficient for the variable Capital Expenditure (X_2) is 1.434, meaning that if the other independent variables remain constant, an increase of one unit in Capital Expenditure will increase to 1.434 units in the Poverty Rate (Y). The positive coefficient indicates a positive effect of Capital Expenditure on the Poverty Rate.
4. The regression coefficient for the variable Expenditure on Education and Health (X_3) is -1.640, meaning that if the other independent variables remain constant, an increase of one unit in Expenditure on Education and Health will result in a decrease of 1.640 units in the Poverty Rate (Y). The negative coefficient indicates a negative effect of Expenditure on Education and Health on the Poverty Rate.
5. The standard error value is 20.610, which is used to minimize errors in the estimation.

Hypothesis Testing

t-Test

The t-test is used to determine whether the independent variables partially have a significant effect on the dependent variable. The significance level used is 0.05. If the significance value is less than the confidence level, then the alternative hypothesis (Ha) is accepted, indicating that an independent variable partially affects the dependent variable. According to the testing criteria:

- The null hypothesis (H_0) is rejected if the calculated t-value (t count) > the critical t-value (t table); if t count < t table, then H_0 is accepted
- The alternative hypothesis (Ha) is accepted if t count > t table; if t count < t table, then Ha is rejected.

Based on the results of the SPSS t-test, the results are presented in Table 7 as follows:

Table 7
t-Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	75.408	20.610		3.659	.000
	Local Revenue	-3.017	.909	-.302	-3.318	.001
	Capital Expenditure	1.434	.962	.125	1.491	.138
	Expenditure on Education and Health	-1.640	.725	-.204	-2.261	.025
a. Dependent Variable: Poverty Rate						

Source: Processed Data, (2025)

Based on the results of the partial t-test statistics, the following can be concluded:

1. The variable Local Revenue (X_1) has a significance value (Sig.) of 0.001 in the Coefficients table, with a significance level α of 0.05. Since 0.001 < 0.05 and the calculated t-value of -3.318 is greater in absolute value than the critical t-value of 1.979, this means that Local Revenue has a significant and negative effect on the Poverty Rate.
2. The variable Capital Expenditure (X_2) has a significance value (Sig.) of 0.138 in the Coefficients table, with α = 0.05. Since 0.138 > 0.05 and the calculated t-value of 1.491 is less than the critical t-value of 1.979, this indicates that Capital Expenditure does not have a significant effect on the Poverty Rate.
3. The variable Expenditure on Education and Health (X_3) has a significance value (Sig.) of 0.025 in the Coefficients table, with α = 0.05. Since 0.025 < 0.05 and the calculated t-value of -2.261 is greater in absolute value than the critical t-value of 1.979, this means that Expenditure on Education and Health has a significant and negative effect on the Poverty Rate.

Coefficient Of Determination Test

The coefficient of determination (R^2) shows how much of the dependent variable's variation is explained by the independent variables. An R^2 of 0 means no

explanatory power, while an R^2 of 1 means full explanation. The R^2 test results are shown in the table below.

Table 8
Coefficient of Determination Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.416[a]	.173	.154	5.50239	1.649
a. Predictors: (Constant), Expenditure on Education and Health, Capital Expenditure, Local Revenue					
b. Dependent Variable: Poverty Rate					

Source: Processed Data, (2025)

Based on Table 8, the R^2 value of 0.173 means that 17.3% of the variation in the Poverty Rate can be explained by Local Revenue, Capital Expenditure, and Expenditure on Education and Health, while the remaining 82.7% is influenced by other factors. The Standard Error of the Estimate is 5.50239, indicating the model's prediction error, and is considered acceptable if it is lower than the standard deviation of Y.

The Influence of Local Revenue on the Poverty Rate

The t-test results show that the Local Revenue variable (X_1) has a significant and negative effect on the Poverty Rate, with a significance value of 0.001 and a t-value of -3.318. This means that the higher the local revenue, the lower the poverty rate in a region.

The relationship between Local Revenue and Poverty Rate shows a significant and negative direction, meaning that an increase in Local Own-Source Revenue (PAD) makes a substantial contribution to reducing poverty levels. When local governments are able to optimize sources of local income—such as regional taxes, service charges, and income from regionally owned assets—their fiscal capacity increases. This enables them to expand access to public services, improve social infrastructure, and provide targeted assistance programs for vulnerable groups more effectively. Thus, PAD not only serves as an indicator of fiscal independence but also acts as a strategic instrument in supporting well-directed and sustainable poverty alleviation policies.

These findings are supported by previous international studies. Nindito and Nugroho (2022) found that increased local revenue significantly reduces poverty in Indonesian cities. Abidin et al. (2021) showed that fiscal decentralization supported by local income enhances poverty intervention effectiveness. Osei and Ackah (2020) confirmed that regions with higher local revenue can allocate more to social programs. Similarly, Zhao et al. (2023) reported a strong negative correlation between local revenue and poverty in China. These studies highlight local revenue as a strategic fiscal tool for poverty reduction.

The Influence of Capital Expenditure on the Poverty Rate

The t-test results indicate that the Capital Expenditure variable (X_2) has a significance value of 0.138, which is greater than the threshold of 0.05, and a t-value

of 1.491, which is less than the critical t-table value of 1.979. Therefore, Capital Expenditure does not have a significant effect on the Poverty Rate.

Capital Expenditure typically focuses on long-term investments such as infrastructure development, which may not provide immediate or direct benefits to the poor. As such, its impact on poverty reduction may be indirect and delayed, requiring complementary policies such as targeted social assistance or education programs to produce significant outcomes.

This finding is supported by previous research. For example, Hodge et al. (2018) found no direct link between capital investment and short-term poverty reduction in rural areas. Similarly, Bakhtiari and Meisami (2019) argued that capital spending is more effective in boosting economic growth than in directly reducing poverty. A study by Barro (2020) in *Economic Modelling* showed mixed results regarding the relationship between government investment and social welfare. Lastly, Tang and Zhang (2022) highlighted that the absence of proper targeting in capital expenditure can diminish its effect on poverty. These studies confirm that capital spending alone may not be sufficient to lower poverty levels.

The Influence of Expenditure on Education and Health Functions on the Poverty Rate

The t-test results show that the variable Expenditure on Education and Health Functions (X_3) has a significance value of 0.025, which is less than the 0.05 threshold, and a t-value of -2.261, which exceeds the critical value of 1.979 in absolute terms. This indicates that spending on education and health has a significant and negative effect on the Poverty Rate, meaning higher expenditure in these sectors contributes to reducing poverty levels.

Investments in education and health play a crucial role in human capital development. Improved access to quality education increases individual earning potential, while better healthcare reduces economic vulnerability. Therefore, budget allocations to these functions can directly lower poverty by empowering communities with the tools needed to achieve long-term economic independence.

This finding aligns with global research. Baldacci et al. (2008) found that increased social spending on education and health significantly reduces poverty in developing countries. Gupta et al. (2003) showed that pro-poor expenditure on health and education improves income distribution and lowers poverty. Filmer and Pritchett (2001) linked education investment to lower child mortality and better welfare outcomes. Lastly, Fan and Rao (2008) demonstrated that public spending on health and education is strongly correlated with rural poverty reduction in Asia and Africa.

CONCLUSION

Based on the research findings, three main conclusions were obtained: (1) Local Revenue has a significant and negative effect on the Poverty Rate, (2) Capital Expenditure does not have a significant effect on the Poverty Rate, and (3) Expenditure on Education and Health Functions has a significant and negative effect on the Poverty Rate. Based on the study's findings, future research should consider additional variables such as social assistance, unemployment, and inflation to better understand poverty dynamics in East Nusa Tenggara. Using panel data or qualitative

approaches, expanding the study area, and evaluating the efficiency of education and health spending are also recommended for more accurate and region-specific poverty reduction insights.

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