

PUBLIC EXPENDITURE, ECONOMIC GROWTH, INVESTMENT, AND POVERTY REDUCTION: A SYSTEMATIC LITERATURE REVIEW

DESPESAS PÚBLICAS, CRESCIMENTO ECONÔMICO, INVESTIMENTO E REDUÇÃO DA POBREZA: UMA REVISÃO SISTEMÁTICA DA LITERATURA

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Abstract

This article presents a systematic literature review examining the relationship between government expenditure and poverty reduction, with particular attention to expenditure composition, transmission mechanisms, and governance conditions in developing and decentralized economies. Although government spending is widely regarded as a central policy instrument for poverty alleviation, empirical findings remain mixed and highly context-dependent. Using a systematic review approach, this study synthesizes evidence from international empirical and theoretical studies to identify consistent patterns, divergences, and underlying mechanisms linking public expenditure to poverty outcomes. The review finds that aggregate government expenditure does not automatically reduce poverty; rather, its effectiveness depends critically on how resources are allocated and governed. Expenditures on education and health demonstrate the most robust and sustained poverty-reduction effects through human capital accumulation, while social protection spending is effective in reducing extreme poverty when programs are well targeted and institutionally sound. In contrast, expenditure on economic affairs and infrastructure yields heterogeneous poverty outcomes, largely conditional on project design, spatial targeting, and institutional quality.

Resumo

Este artigo apresenta uma revisão sistemática da literatura que examina a relação entre os gastos públicos e a redução da pobreza, com especial atenção à composição dos gastos, aos mecanismos de transmissão e às condições de governança em economias em desenvolvimento e descentralizadas. Embora os gastos públicos sejam amplamente considerados um instrumento político central para o combate à pobreza, os resultados empíricos continuam sendo contraditórios e altamente dependentes do contexto. Utilizando uma abordagem de revisão sistemática, este estudo sintetiza evidências de estudos empíricos e teóricos internacionais para identificar padrões consistentes, divergências e mecanismos subjacentes que ligam os gastos públicos aos resultados em termos de pobreza. A revisão constata que os gastos públicos agregados não reduzem automaticamente a pobreza; ao contrário, sua eficácia depende criticamente de como os recursos são alocados e administrados. Os gastos com educação e saúde demonstram os efeitos mais robustos e sustentados na redução da pobreza por meio da acumulação de capital humano, enquanto os gastos com proteção social são eficazes na redução da pobreza extrema quando os programas são bem direcionados e institucionalmente sólidos. Em contrapartida, os gastos com assuntos



The findings further highlight economic growth and investment as key transmission mechanisms, emphasizing that growth must be inclusive and employment-generating to produce meaningful poverty reduction. Governance quality emerges as a foundational moderating factor that strengthens or weakens the effectiveness of public spending across sectors. This study contributes to the literature by offering an integrated conceptual framework that clarifies the conditional pathways through which government expenditure affects poverty. From a policy perspective, the results underscore that effective poverty reduction requires not merely increased public spending, but strategic allocation toward pro-poor sectors, strong governance frameworks, and a clear focus on inclusive growth, particularly in countries facing persistent regional disparities.

Keywords: Government Expenditure. Poverty Reduction. Fiscal Policy. Governance Quality. Inclusive Growth. Systematic Literature Review.

econômicos e infraestrutura produzem resultados heterogêneos em relação à pobreza, dependendo em grande parte do desenho do projeto, do direcionamento espacial e da qualidade institucional. As conclusões destacam ainda o crescimento econômico e o investimento como mecanismos de transmissão fundamentais, enfatizando que o crescimento deve ser inclusivo e gerador de emprego para produzir uma redução significativa da pobreza. A qualidade da governança surge como um fator moderador fundamental que fortalece ou enfraquece a eficácia dos gastos públicos em todos os setores. Este estudo contribui para a literatura ao oferecer um quadro conceitual integrado que esclarece os caminhos condicionais pelos quais os gastos públicos afetam a pobreza. Do ponto de vista das políticas, os resultados ressaltam que a redução eficaz da pobreza requer não apenas o aumento dos gastos públicos, mas também a alocação estratégica para setores favoráveis aos pobres, estruturas de governança sólidas e um foco claro no crescimento inclusivo, particularmente em países que enfrentam disparidades regionais persistentes.

Palavras-chave: Gastos Públicos. Redução da Pobreza. Política Fiscal. Qualidade da Governança. Crescimento Inclusivo. Revisão Sistemática da Literatura.

1 INTRODUCTION

Poverty reduction remains a central objective of national development strategies in many developing countries, including Indonesia. Despite substantial progress over the past two decades, poverty reduction in Indonesia has not been spatially uniform. While national poverty rates have generally declined, significant disparities persist across provinces, particularly between regions with structurally high poverty and those with relatively low poverty incidence. This uneven spatial distribution suggests that economic growth alone is insufficient to ensure inclusive development and highlights the importance of effective public policy interventions (Ravallion, 2023).

Fiscal policy, particularly government expenditure, plays a critical role in addressing poverty and promoting inclusive economic growth. In developing economies, public spending functions not only as a macroeconomic stabilization tool but also as a

redistributive mechanism aimed at improving access to basic services, enhancing human capital, and reducing socioeconomic vulnerability. Theoretical frameworks rooted in welfare economics and the capability approach emphasize that public investment in education, health, social protection, and productive infrastructure can expand individuals' capabilities, raise productivity, and ultimately reduce poverty in a sustainable manner (Sen, 1999; Sasmal & Sasmal, 2016).

However, empirical evidence on the effectiveness of government expenditure in reducing poverty remains mixed. A growing body of literature documents a significant poverty-reducing effect of public spending, particularly when expenditures are directed toward education and health sectors (Olaye et al., 2024; Salim et al., 2024). These studies argue that investments in human capital generate long-term benefits by increasing employability, labor productivity, and income mobility. Conversely, other studies report weak or even positive associations between government spending and poverty, suggesting that higher public expenditure does not automatically translate into improved welfare outcomes (Yusoff et al., 2023; Wang et al., 2023). Such contradictory findings indicate that the relationship between public spending and poverty is highly context-dependent.

One key explanation for these divergent results lies in the composition and functional allocation of government expenditure. Public spending is inherently heterogeneous, and its impact on poverty depends on how resources are allocated across functions such as education, health, social protection, economic affairs, and infrastructure. Expenditures oriented toward pro-poor sectors tend to have stronger redistributive effects, whereas spending that is poorly targeted or biased toward capital-intensive sectors may disproportionately benefit higher-income groups, thereby limiting its poverty-reduction potential (Gethin, 2023). Consequently, examining government expenditure in aggregate terms may obscure important differences in policy effectiveness across spending functions.

In the Indonesian context, fiscal decentralization has further amplified regional heterogeneity in expenditure patterns. Since the implementation of decentralization reforms, provincial and local governments have been granted substantial autonomy in budgetary decision-making. While this framework allows for greater responsiveness to local needs, it has also resulted in considerable variation in fiscal capacity, institutional

quality, and expenditure priorities across regions. Provinces with high poverty rates often face constraints related to limited fiscal space and weaker administrative capacity, which may undermine the effectiveness of public spending in reducing poverty (Agussalim et al., 2024). In contrast, regions with lower poverty levels typically exhibit stronger economic structures and more effective public financial management, enabling them to translate government spending into tangible welfare gains.

Beyond expenditure composition, the literature highlights the role of economic growth and investment as critical transmission channels linking government spending to poverty reduction. Sustained and inclusive economic growth increases employment opportunities and household incomes, thereby accelerating poverty reduction (Ridha, 2021). Public and private investment, commonly proxied by gross fixed capital formation, reinforces this mechanism by expanding productive capacity and stimulating regional economic activity (Shabri & Khairina, 2024). Nonetheless, growth and investment alone are insufficient if not accompanied by effective governance structures that ensure efficient allocation and implementation of public resources.

Governance quality has emerged as a decisive factor in determining the poverty-reduction impact of public expenditure. Weak budget governance—manifested through inefficiencies, leakages, and inadequate accountability—can significantly diminish the effectiveness of government spending, regardless of its size (Danmuko et al., 2021). Recent studies emphasize that transparency, fiscal discipline, and strong oversight mechanisms are essential for ensuring that public resources reach intended beneficiaries and generate inclusive outcomes (Banik et al., 2022).

Given the diversity of empirical findings and the complexity of underlying mechanisms, a systematic synthesis of existing evidence is warranted. This study conducts a Systematic Literature Review (SLR) to consolidate and critically assess the growing body of research on government expenditure, economic growth, investment, governance quality, and poverty reduction. By synthesizing findings across different contexts and methodological approaches, this article aims to identify consistent patterns, sources of divergence, and key policy-relevant insights. In doing so, it contributes to the broader literature on public finance and development economics while offering evidence-based implications for designing more effective and equitable fiscal policies in Indonesia and other developing countries.

2 LITERATURE REVIEW

2.1 Theoretical perspectives on government expenditure and poverty

The relationship between government expenditure and poverty reduction is grounded in several major theoretical frameworks within development economics and public finance. Keynesian theory emphasizes the role of government spending in stimulating aggregate demand, generating employment, and stabilizing economic cycles, particularly during periods of economic downturn. From this perspective, expansionary fiscal policy can indirectly reduce poverty by increasing income and labor absorption (Arestis & Sawyer, 2018).

Beyond short-run stabilization, welfare state theory highlights the redistributive function of government expenditure. Public spending on education, health, and social protection is expected to correct market failures, reduce inequality, and protect vulnerable populations from income shocks. Sen's (1999) capability approach further extends this argument by framing poverty as multidimensional deprivation, whereby public expenditure enhances individual capabilities rather than merely increasing income levels. Accordingly, government spending is considered effective in reducing poverty when it expands access to basic services and improves human development outcomes.

However, public choice theory offers a more critical view, suggesting that government expenditure may be distorted by political incentives, rent-seeking behavior, and bureaucratic inefficiencies. In such cases, increased spending does not necessarily benefit the poor and may even exacerbate inequality if captured by elite groups (Mueller, 2003). This theoretical tension underscores the importance of governance quality and institutional capacity in mediating the poverty-reduction effects of public expenditure.

2.2 Functional composition of government expenditure

A substantial body of empirical literature emphasizes that the poverty impact of government expenditure depends critically on its functional composition. Education expenditure is widely regarded as one of the most effective tools for long-term poverty reduction. By improving human capital, education spending enhances labor productivity,

employment prospects, and intergenerational mobility, leading to sustained reductions in poverty (Baldacci et al., 2008; Salim et al., 2024).

Health expenditure similarly plays a crucial role in alleviating poverty by reducing households' vulnerability to health shocks and lowering out-of-pocket medical expenses. Improved health outcomes increase individuals' capacity to work and generate income, particularly among low-income populations (Olaye et al., 2024). Empirical evidence suggests that health spending is especially effective in regions with limited access to basic healthcare services.

Social protection expenditure, including cash transfers and social assistance programs, has been shown to reduce extreme poverty and income inequality in the short term. Studies indicate that well-targeted social protection programs can significantly improve consumption smoothing and welfare among poor households. Nevertheless, the effectiveness of such spending depends heavily on targeting accuracy and program design, as poorly implemented schemes may generate dependency and fiscal inefficiencies (Banik et al., 2022).

In contrast, expenditure on economic affairs and infrastructure yields more heterogeneous outcomes. While infrastructure investment can stimulate growth and reduce poverty through improved market access and job creation, its benefits are often unevenly distributed across income groups and regions. In capital-intensive projects with weak governance, infrastructure spending may disproportionately benefit higher-income groups, limiting its pro-poor impact (Gethin, 2023).

2.3 Economic growth and investment as transmission mechanisms

The literature widely recognizes economic growth as a key transmission channel through which government expenditure influences poverty. Pro-poor growth theory posits that growth reduces poverty most effectively when it is labor-intensive and inclusive, enabling poor households to participate in and benefit from economic expansion (Ravallion, 2023). Government spending that stimulates productive sectors and supports small and medium enterprises can strengthen this channel.

Investment, particularly gross fixed capital formation, further reinforces the growth–poverty nexus. Public investment in infrastructure can crowd in private

investment by lowering transaction costs and improving business environments, thereby amplifying the poverty-reduction impact of fiscal policy (Shabri & Khairina, 2024). However, empirical studies caution that the growth-enhancing and poverty-reducing effects of investment depend on complementary factors such as human capital and institutional quality.

2.4 Governance quality and budget effectiveness

Governance quality has emerged as a central determinant of the effectiveness of government expenditure in reducing poverty. Strong institutions characterized by transparency, accountability, and effective oversight ensure that public resources are allocated efficiently and reach intended beneficiaries. Conversely, weak governance can lead to budget leakages, misallocation, and low service delivery quality, thereby undermining the poverty-reduction potential of public spending (Danmuko et al., 2021).

Recent empirical studies demonstrate that the interaction between government expenditure and governance quality significantly shapes poverty outcomes. In regions with stronger public financial management systems, government spending tends to have a more pronounced negative effect on poverty. This finding highlights that improving governance is not merely complementary but essential to maximizing the welfare impact of fiscal policy (Banik et al., 2022).

2.5 Contribution of the study

Despite the extensive literature on government expenditure and poverty, several gaps remain. First, existing studies often focus on individual spending categories or specific regions, limiting cross-functional and cross-regional comparability. Second, the mediating roles of economic growth, investment, and governance quality are frequently examined in isolation rather than within an integrated analytical framework. Third, evidence from decentralized developing economies such as Indonesia remains fragmented.

By adopting a Systematic Literature Review approach, this study contributes to the literature by synthesizing findings across spending functions, transmission

mechanisms, and governance contexts. The review provides a comprehensive and policy-relevant understanding of how government expenditure can be designed and implemented to achieve more effective and equitable poverty reduction outcomes.

3 METHODOLOGY

This study adopts a Systematic Literature Review (SLR) approach to synthesize and critically evaluate existing empirical and theoretical evidence on the relationship between government expenditure, economic growth, investment, governance quality, and poverty reduction. The SLR method is particularly suitable for addressing fragmented and heterogeneous findings in the literature, as it allows for a transparent, replicable, and comprehensive review process aligned with international best practices.

3.1 Review protocol and research questions

The review protocol was designed following established SLR guidelines, including the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA). The review was guided by the following research questions:

1. How does government expenditure influence poverty reduction in developing and decentralized economies?
2. Which functional categories of government expenditure are most effective in reducing poverty?
3. What roles do economic growth, investment, and governance quality play as transmission mechanisms between government expenditure and poverty outcomes?

These questions were formulated to ensure consistency with the study's objectives and to facilitate structured synthesis across diverse strands of the literature.

3.2 Literature search strategy

A comprehensive literature search was conducted across multiple academic databases to capture high-quality and peer-reviewed studies. The primary databases

included Scopus, Web of Science, and Google Scholar, complemented by selected national journals to capture context-specific evidence from developing countries, particularly Indonesia.

The search strategy employed combinations of keywords and Boolean operators, including: “government expenditure,” “public spending,” “poverty reduction,” “economic growth,” “investment,” “governance quality,” “fiscal decentralization,” and “developing countries.” To ensure relevance and contemporaneity, the review focused on studies published between 2000 and 2025.

3.3 Inclusion and exclusion criteria

Clear inclusion and exclusion criteria were established to enhance the rigor and transparency of the review process. Studies were included if they:

1. Examined the relationship between government expenditure and poverty, either directly or indirectly;
2. Considered at least one mediating or moderating variable, such as economic growth, investment, or governance quality;
3. Were published in peer-reviewed journals or reputable academic outlets;
4. Employed quantitative, qualitative, or mixed-method approaches with clearly articulated methodologies.

Studies were excluded if they:

1. Focused solely on inequality or welfare outcomes without explicit reference to poverty;
2. Were policy briefs, opinion papers, or non-peer-reviewed reports;
3. Lacked sufficient methodological transparency or empirical rigor;
4. Were not accessible in full-text form.

3.4 Study selection process

The study selection process was conducted in several stages. First, duplicate records were removed. Second, titles and abstracts were screened to assess relevance to the research questions. Third, full-text articles were reviewed to confirm eligibility based

on the predefined criteria. Disagreements during the screening process were resolved through iterative assessment to ensure consistency and objectivity.

The overall selection process followed the PRISMA flow structure, documenting the number of records identified, screened, excluded, and included at each stage.

3.5 Data extraction and coding

For each selected study, relevant information was systematically extracted using a standardized coding framework. Extracted data included: authorship, year of publication, country or regional focus, data period, methodological approach, type and composition of government expenditure, mediating variables, governance indicators, and key findings related to poverty outcomes.

The coding process enabled thematic classification of studies according to expenditure functions, transmission mechanisms, and governance contexts, facilitating structured comparison and synthesis.

3.6 Quality assessment

To ensure the robustness of the review, each study was subjected to a quality assessment based on methodological clarity, data reliability, analytical rigor, and relevance to the research questions. Studies were categorized into high, medium, or moderate quality. Lower-quality studies were retained only if they provided unique contextual insights not captured by higher-quality evidence.

3.7 Synthesis approach

Given the heterogeneity of data sources, methodologies, and outcome measures, a narrative synthesis approach was employed. This approach emphasizes identifying patterns, convergences, and divergences across studies rather than producing pooled quantitative estimates. The synthesis focused on comparing findings across expenditure categories, governance settings, and regional contexts, with particular attention to decentralized developing economies.

By employing a rigorous and transparent SLR methodology, this study aims to provide a comprehensive and policy-relevant synthesis of the literature, laying a strong foundation for the subsequent discussion and interpretation of findings.

4 RESULTS AND FINDINGS OF THE SYSTEMATIC LITERATURE REVIEW

This section presents a thematic synthesis of findings from peer-reviewed journal articles examining the relationship between government expenditure and poverty reduction. The results are organized according to functional expenditure categories, transmission mechanisms, and governance conditions, allowing for systematic comparison across contexts and methodologies (Ravallion, 2023).

4.1 Government expenditure and poverty reduction: general patterns

Across the reviewed literature, a dominant finding is that government expenditure has the potential to reduce poverty, but its impact is highly heterogeneous and context-dependent. Empirical studies consistently report that aggregate public spending often shows weak, insignificant, or unstable effects on poverty when expenditure is treated as a single composite variable (Sasmal & Sasmal, 2016; Wang et al., 2023). This suggests that the size of government spending alone is insufficient as a policy instrument for poverty reduction.

More recent studies emphasize that disaggregated expenditure analysis provides stronger explanatory power. When government spending is decomposed by function, the relationship with poverty becomes clearer and more robust, reinforcing the argument that expenditure composition is more critical than expenditure volume (Gethin, 2023; Salim et al., 2024).

4.2 Poverty effects of functional categories of government expenditure

4.2.1 Education expenditure

Education expenditure emerges as the most consistently poverty-reducing category across the reviewed studies. Evidence from cross-country and regional panel data indicates that increased public spending on education significantly lowers poverty rates by enhancing human capital, labor productivity, and intergenerational income mobility (Baldacci et al., 2008; Salim et al., 2024). Several studies further demonstrate that the poverty-reducing impact of education spending materializes predominantly in the medium to long term, reflecting the cumulative nature of human capital formation (Ravallion, 2023).

4.2.2 Health expenditure

Public health expenditure is also found to exert a significant negative effect on poverty. Empirical evidence shows that increased health spending reduces household exposure to catastrophic health expenditures and improves labor participation, particularly among low-income populations (Olaye et al., 2024). The magnitude of this effect is larger in regions with initially low access to basic healthcare services, indicating diminishing returns in more developed health systems (Danmuko et al., 2021).

4.2.3 Social protection expenditure

The reviewed literature highlights the effectiveness of social protection expenditure in reducing extreme and transient poverty. Well-designed cash transfer and social assistance programs significantly improve consumption smoothing and welfare among poor households (Banik et al., 2022). However, multiple studies caution that poor targeting, weak administrative capacity, and political capture can substantially weaken the long-term poverty-reduction impact of social protection spending (Yusoff et al., 2023).

4.2.4 Economic affairs and infrastructure expenditure

Findings on expenditure for economic affairs and infrastructure are mixed. While infrastructure investment is frequently associated with improved market access, job creation, and regional growth, its poverty-reduction effects are uneven and highly conditional (Shabri & Khairina, 2024). Several studies report that capital-intensive infrastructure projects tend to benefit higher-income groups disproportionately, particularly in settings with weak governance and limited local participation (Gethin, 2023; Wang et al., 2023).

4.3 Economic growth as a transmission channel

Economic growth is widely recognized as a primary transmission mechanism linking government expenditure to poverty reduction. The literature shows that public spending reduces poverty most effectively when it stimulates inclusive and labor-intensive growth processes (Ravallion, 2023). Empirical evidence indicates that growth driven by productive public expenditure amplifies the poverty-reducing effects of fiscal policy, whereas growth concentrated in capital-intensive sectors yields limited distributional benefits (Sasmal & Sasmal, 2016).

4.4 Investment as an amplifying mechanism

Investment, particularly public investment in infrastructure and productive assets, plays a crucial role in amplifying the poverty-reduction effects of government expenditure. Studies demonstrate that public investment can crowd in private investment by lowering transaction costs and improving business environments, thereby strengthening long-term growth and poverty reduction (Shabri & Khairina, 2024). Nevertheless, these benefits depend critically on complementary factors such as human capital availability and institutional effectiveness (Salim et al., 2024).

4.5 Governance quality and differential outcomes

Governance quality consistently emerges as a fundamental determinant of the effectiveness of government expenditure in reducing poverty. Studies show that transparency, accountability, and effective public financial management significantly enhance the poverty-reduction impact of public spending (Danmuko et al., 2021; Banik et al., 2022). Conversely, in environments characterized by weak governance and high leakage, increased public expenditure often fails to translate into meaningful poverty reduction and may even exacerbate inequality (Gethin, 2023; Yusoff et al., 2023).

4.6 Integrated synthesis of findings

Overall, the systematic review identifies three robust conclusions supported by the reviewed literature. First, the effectiveness of government expenditure in reducing poverty depends primarily on its functional composition rather than its aggregate size. Second, economic growth and investment act as essential transmission and amplification mechanisms, but their poverty impacts hinge on inclusiveness and sectoral orientation. Third, governance quality is a necessary precondition for translating public spending into tangible poverty reduction outcomes.

These findings provide a strong empirical foundation for the subsequent discussion and policy implications, particularly for decentralized developing economies such as Indonesia, where fiscal capacity, expenditure composition, and governance quality vary substantially across regions.

5 DISCUSSION AND POLICY IMPLICATIONS

This section discusses the findings of the systematic literature review by situating them within broader theoretical debates and drawing policy-relevant implications, particularly for decentralized developing economies such as Indonesia. The discussion emphasizes how government expenditure can be designed and implemented more effectively to achieve sustainable and equitable poverty reduction.

5.1 Interpreting the role of government expenditure in poverty reduction

The findings of this review reaffirm that government expenditure is a necessary but not sufficient condition for poverty reduction. Consistent with the capability approach and welfare state theory, public spending contributes to poverty alleviation primarily when it expands access to basic services and enhances productive capacities (Sen, 1999; Baldacci et al., 2008). However, the mixed empirical evidence highlighted in this review underscores that the poverty-reducing impact of government expenditure is highly contingent on how public resources are allocated and governed.

The weak and inconsistent effects of aggregate government expenditure observed in many studies suggest that fiscal expansion alone cannot guarantee inclusive outcomes. This finding aligns with public choice perspectives, which caution that without adequate institutional safeguards, increased public spending may be subject to inefficiencies and elite capture, thereby diluting its intended redistributive effects (Mueller, 2003; Gethin, 2023).

5.2 Why functional composition matters

One of the most salient insights from the review is the decisive role of expenditure composition. Education and health spending consistently demonstrate stronger and more stable poverty-reduction effects compared to other expenditure categories. These findings support human capital theory, which posits that investments in education and health yield long-term returns through higher productivity, employability, and income mobility (Ravallion, 2023).

In contrast, the heterogeneous effects of infrastructure and economic affairs expenditure suggest that such spending is not inherently pro-poor. While infrastructure investment can stimulate growth and improve market integration, its distributional impact depends on project selection, spatial targeting, and complementarities with human capital. In the absence of these conditions, infrastructure-led growth may bypass poor households, reinforcing existing inequalities (Wang et al., 2023).

5.3 Growth, investment, and inclusiveness

The review highlights economic growth as a central transmission mechanism linking government expenditure to poverty reduction. However, the evidence clearly indicates that not all growth is equally effective in reducing poverty. Growth that is capital-intensive or geographically concentrated tends to generate limited benefits for poor populations, whereas labor-intensive and broad-based growth delivers stronger poverty outcomes (Sasmal & Sasmal, 2016).

Investment, particularly public investment, amplifies the poverty-reduction impact of government expenditure when it crowds in private investment and supports productive activities. Nevertheless, the effectiveness of investment-driven growth is conditional upon the availability of skilled labor, access to finance, and supportive institutional frameworks. Without these complements, investment may fail to translate into meaningful welfare improvements for the poor (Shabri & Khairina, 2024).

5.4 Governance as a foundational condition

A critical contribution of this review is the identification of governance quality as a foundational condition for effective poverty reduction through fiscal policy. Transparency, accountability, and strong public financial management systems consistently enhance the effectiveness of government expenditure. Conversely, weak governance undermines policy outcomes by allowing inefficiencies, leakages, and misallocation of public resources (Danmuko et al., 2021).

For decentralized systems, governance challenges are often more pronounced due to variations in administrative capacity and oversight across regions. The findings suggest that improving governance is not merely complementary to fiscal policy but is integral to ensuring that public spending reaches intended beneficiaries and produces equitable outcomes (Banik et al., 2022).

5.5 Policy implications for Indonesia and similar economies

The findings of this review yield several important policy implications. First, policymakers should prioritize the reallocation of public expenditure toward sectors with proven poverty-reduction impacts, particularly education, health, and well-targeted social protection. Second, fiscal policy should be explicitly aligned with strategies for inclusive growth, emphasizing labor-intensive sectors and regional economic diversification.

Third, strengthening governance and public financial management should be treated as a core component of poverty reduction strategies. This includes enhancing budget transparency, improving targeting mechanisms, and reinforcing monitoring and evaluation systems at both national and subnational levels. Finally, decentralization policies should be accompanied by capacity-building initiatives to reduce disparities in fiscal effectiveness across regions.

5.6 Contribution to the literature

By synthesizing evidence across expenditure categories, transmission mechanisms, and governance contexts, this study contributes to the literature in three key ways. First, it provides a comprehensive and integrated understanding of how government expenditure affects poverty beyond aggregate spending measures. Second, it highlights the conditional nature of fiscal policy effectiveness, emphasizing the roles of growth inclusiveness and governance quality. Third, it offers policy-relevant insights for decentralized developing economies, addressing a gap in existing empirical research.

Overall, this discussion reinforces the view that effective poverty reduction requires not only adequate public spending but also strategic allocation, inclusive growth orientation, and strong governance frameworks.

6 CONCLUSION

This study provides a systematic synthesis of the literature on the relationship between government expenditure and poverty reduction, with particular attention to expenditure composition, transmission mechanisms, and governance conditions. By

reviewing and integrating findings from a wide range of empirical and theoretical studies, this article offers a comprehensive understanding of why public spending yields heterogeneous poverty outcomes across countries and regions.

The review demonstrates that government expenditure can play a significant role in reducing poverty, but its effectiveness depends primarily on how resources are allocated and managed rather than on the overall size of public spending. Expenditures on education and health consistently show the most robust and durable poverty-reduction effects, reflecting their central role in enhancing human capital and productive capacity. Social protection spending is effective in alleviating extreme and short-term poverty, particularly when programs are well targeted and administratively sound. In contrast, expenditure on economic affairs and infrastructure exhibits mixed results, with outcomes that are highly conditional on project design, spatial targeting, and institutional quality.

Furthermore, this study highlights economic growth and investment as key channels through which government expenditure influences poverty outcomes. Growth that is inclusive and employment-generating strengthens the poverty-reducing impact of fiscal policy, whereas capital-intensive and uneven growth limits its distributional benefits. Investment, especially public investment, can amplify these effects when supported by adequate human capital and complementary institutional frameworks.

A central conclusion of this review is the foundational role of governance quality. Transparency, accountability, and effective public financial management systems are essential for ensuring that public expenditure translates into tangible welfare gains for poor populations. Weak governance substantially undermines the effectiveness of fiscal policy, regardless of expenditure size or intent. This finding is particularly relevant for decentralized systems, where variations in administrative capacity and oversight can lead to unequal policy outcomes across regions.

From a policy perspective, the findings underscore the need for a strategic reorientation of fiscal policy toward expenditure categories with proven poverty-reduction impacts, coupled with strong governance reforms and a clear emphasis on inclusive growth. For countries such as Indonesia, reducing regional disparities in poverty requires not only adequate fiscal transfers but also improvements in subnational capacity, targeting accuracy, and budget accountability.

Despite its contributions, this study has limitations. As a systematic literature review, it relies on the quality and scope of existing studies and does not generate new empirical estimates. Future research could extend this work by conducting meta-analyses or country-specific empirical studies that explicitly model the interaction between government expenditure, governance quality, and poverty dynamics.

Overall, this article contributes to the literature by demonstrating that effective poverty reduction through fiscal policy is not merely a matter of spending more, but of spending better—through appropriate allocation, inclusive growth orientation, and strong governance frameworks.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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