



## An Analysis of Strategies for Increasing Economic Growth as an Effort to Reduce Poverty and Unemployment through Regional Financial Management optimization

Ariyani Widyastuti<sup>1</sup>✉

Universitas Negeri Semarang

Article Info	Abstract
Article History : Received January 2023 Accepted April 2023 Published June 2023	<p>During the Covid-19 pandemic, the percentage of poor people in Central Java increased from 10.58% in 2019 to 11.41% in 2020, and in 2021 it again increased to 11.79%. It happened due to the large number of companies that have terminated employment (PHK) for several employees because of the dramatic company's production drop. Regarding this matter, the open unemployment rate in Central Java experienced a very significant increase, namely from 4.44% in 2019 to 6.48% in 2020. The specific purpose of this research was to analyze possible strategies for increasing economic growth as a means of reducing poverty and unemployment through the optimization of regional financial management. It used an SEM PLS analysis method. Findings showed that: 1) balancing funds was the variable that had a direct and significant effect on economic growth, 2) balancing funds and economic growth had a direct and significant effect on the unemployment, 3) the variables which had a direct and significant relationship on poverty were capital expenditure and economic growth, 4) fiscal decentralization and balancing funds had no significant effect on poverty, 5) capital expenditure had an indirect effect on unemployment through economic growth, 6) the variable that indirectly had a significant influence on poverty through economic growth is also capital expenditure, 7) capital expenditure indirectly had a significant effect on poverty through economic growth, 8) fiscal decentralization and balancing funds had no significant effect on unemployment and poverty through economic growth. Thus, Central Java province used to be a province with unemployment and poverty issues. For the strategies, it is suggested for the government to simplify the registration process of license and tax breaks for labor-intensive industries so that they can absorb a greater workforce.</p>
Keywords: <i>Poverty, Unemployment, Fiscal Decentralization, Balancing Funds, Capital Expenditures</i>	

© 2023 Universitas Negeri Semarang

✉ Correspondence :  
 Postgraduate, Universitas Negeri Semarang  
 Kelud Utara III, Semarang 50237 Indonesia  
 E-mail: [jee@mail.unnes.ac.id](mailto:jee@mail.unnes.ac.id)

**p-ISSN 2301-7341**  
**e-ISSN 2502-4485**

## INTRODUCTION

Poverty is a complex problem that is still being faced by several regions in Indonesia, such as Central Java Province. During the Covid-19 pandemic, the percentage of poor people in Central Java increased from 10.58% in 2019 to 11.41% in 2020, and in 2021 it increased to 11.79% (1). One of the causes of increasing poverty in Central Java was the large number of companies that have terminated employment (PHK) due to the dramatic drop of company's production. The open unemployment rate in Central Java reached a very significant increase during the Covid-19 pandemic from 4.44% in 2019 to 6.48% in 2020. However, in 2021 it decreased to 5.95% (2). Efforts to reduce poverty and unemployment can be done by increasing economic growth. The more increase in economic growth, the higher labor absorption will be.

The increase in production activities can provide jobs for the community which later can alleviate their poverty. Increasing economic growth is a complex thing, but it can be started from the regional financial management that is focused on the improvement of strategic sectors. During Covid-19 pandemic, there happened some budget relocation to covid-19 cases handling and economic recovery, for example the provision of social assistance to as a means of survivability during the pandemic. Good regional financial management can have a positive impact on economic development. Improved economic development can increase employment and business opportunities for the community which later can help alleviate poverty. Previous studies have showed that regional finance has a significant effect on economic growth and unemployment. Similarly, other studies show that regional finance has a significant influence on economic growth and poverty (3, 4). Other researches show that regional financial management, in this case capital expenditure, has a significant effect on economic growth (5, 6).

Another research shows the opposite results that regional finances have no significant effect on economic growth and unemployment (7). With a similar opposite result, the next investigation shows that regional finances do not significantly

influence both economic growth and poverty (8). The next research indicates that the allocation of capital expenditure has no significant effect on economic growth (9)

Based on the previous explanation, some previous researches found different and contradictory findings related to the model of reducing unemployment and poverty. Thus, this research was urged the issues of poverty and unemployment since both are the basic problems faced by society. Efforts to reduce unemployment and poverty are needed and can be realized immediately by optimizing regional finances to increase access to capital and increase economic growth, for jobs can be created to absorb labor and reduce unemployment. Absorption of existing manpower is expected to increase people's income so that it will reduce poverty. Therefore, the specific objective of this research was to analyze strategies for increasing economic growth in efforts to reduce poverty and unemployment through the optimization of regional financial management. This research was a special functional education staff scheme research by taking the socio-economic theme and the sub-theme of economic growth.

## RESEARCH METHODS

The design used in this research was quantitative in form of a case study in Central Java Province. It used secondary data from the reports on the realization of district/city budgets in Central Java Province as well as economic growth and poverty for the 2016-2020 periods. The data taken consisted of fiscal decentralization, balancing funds, capital spending, economic growth, unemployment, poverty, in regencies/cities in Central Java in 2016-2020. This research was also supported by primary data from the results of Focus Group Discussion (FGD).

The variables in this study consist of endogenous and exogenous variables. Exogenous variables are fiscal decentralization, balancing funds, capital expenditures. Meanwhile, the endogenous variables are economic growth, unemployment, poverty. In details, the variables and indicators in this study are described in the following table:

Table 1. Latent Variables and Poverty Structure Model Indicators

Latent Variables	Indicators
Poverty	Y2.1: poor people percentage
	Y2.2: Poverty gap index
	Y2.3: Poverty severity index
Unemployment	Y1.1: open unemployment rate
	Y1.2: educated working age population percentage
	Y1.3: population density
Economic growth	Z1: GDP at constant price
Fiscal decentralization	X1.1: regional revenue
	X1.2: regional expenditures
Balancing funds	X2.1: general allocation funds
	X2.2: specific allocation funds
	X2.3: revenue sharing
Capital expenditures	X3.1: building purchase
	X3.2: land purchase
	X3.3: infrastructure purchase
	X3.4: equipment purchase

Source: compilation of various references, 2022.

The analytical method used was Partial Least Square (PLS). PLS is an alternative method in structural equations. PLS is a method for implementing the Structural Equation Modeling (SEM) model. In addition, the data analysis in this study was carried out with the help of Smart PLS software. In this study, the structural model analyzed was a reflective model with all indicators of exogenous variables, covering fiscal decentralization, and capital expenditure and balance, endogenous variables of economic growth, unemployment and poverty.

Based on Ghozali and Lathan (2012), PLS must at least go through five stages of process where each stage will affect the next stage. The stages are:

- 1) Model Conceptualization a. Designing inner models. b. Designing the outer model
- 2) Determination of the Algorithm Analysis Method
- 3) Determination of the Resampling Method

Generally there were two methods used by researchers in the SEM field to carry out the resampling process, namely bootstrapping and jackknifing. In this study, the resampling method used was the bootstrapping method because this resampling method is more commonly used in structural equation models.

- 4) Drawing a Path Diagram

After conceptualizing the model, the next step was to draw a path diagram of the model to estimate. Model Evaluation

The PLS evaluation model was carried out by assessing the outer and inner models. Evaluation of the measurement model or outer model was carried out to assess the validity and reliability of the model. Since in this study the outer model was reflective, the evaluation carried out was:

- a. Outer model

Evaluation of the measurement model or outer model is carried out to assess the validity and reliability of the model. Convergent validity, the loading factor value is  $> 0.70$  and the Average Variance Extracted (AVE) value is  $> 0.50$  - Discriminant validity The correlation of the construct with the measurement items must be greater than the size of the other constructs and the Cross loading value must be  $> 0.70$ . Composite reliability, the accepted limit value for the level of composite reliability (pc) is  $> 0.7$ .

- b. Inner models

Evaluation of the structural model or inner model aims to predict the relationship between latent variables. The Inner Model is evaluated by looking at the percentage of variance explained by looking at the R-Square value (Latan and Ghazali, 2013). According to Hair (2011) in Latan and Ghazali (2013), when the R-Square values are 0.75, 0.50 and 0.25, it said that the model is strong, medium or moderate and weak.

An analysis of fiscal decentralization role, balancing funds, capital expenditures	An analysis of economic growth roles	An analysis of economic growth roles as a mediating variable
Secondary data, PLS SEM analysis method	Secondary data, PLS SEM analysis method	Secondary data, PLS SEM analysis method
Roles in increasing economic growth	Roles in reducing unemployment	Mediation on unemployment and poverty
Roles in reducing unemployment and poverty	Roles in reducing poverty	A model for increasing regional economic growth as an effort to reduce poverty and unemployment through the optimization of regional financial management

Figure 1. The Diagram of Research Flow

**RESULTS AND DISCUSSION**

**1. The Results of Structural Model Design (Inner Model)**

The description of latent variables and their manifest variables are below:

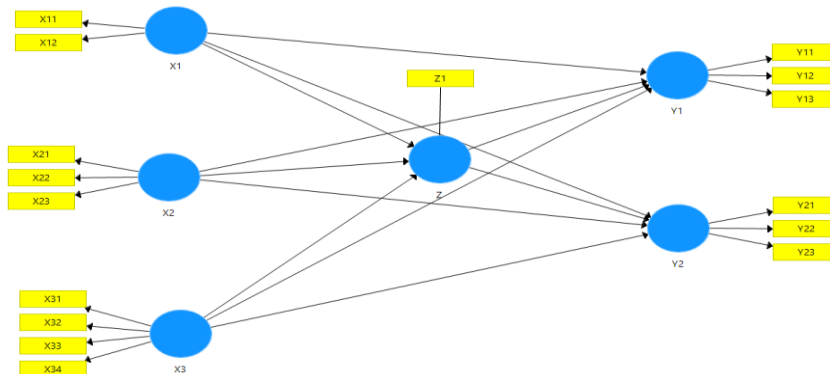


Figure 3. A Design of Structural Model

1. The exogenous latent variable Fiscal Decentralization (X1) had two manifest variables (indicators), namely regional revenue (X11) and regional expenditure (X12).
2. The exogenous variable Balancing Funds (X2) had three manifest variables (indicators), namely general allocation funds (X21), special allocation funds (X22) and profit-sharing funds (X23).
3. The exogenous variable capital expenditure (X3) had four manifest variables (indicators), namely building expenditure (X31), land expenditure (X32), road expenditure (X33) and equipment expenditure (X34)
4. The endogenous variable of economic growth (Z) had one manifest variable (indicator), namely the GRDP growth rate at constant prices (Z1)
5. The endogenous unemployment variable (Y1) had three manifest variables (indicators), namely the open unemployment rate (Y11), the percentage of the educated working-age population (Y12) and population density (Y13).
6. The endogenous poverty variable (Y2) had three manifest variables (indicators), namely the percentage of poor people (Y21), poverty depth index (Y22) and poverty severity index (Y23).

Based on the description of the manifest variables (indicators) of each exogenous variable and endogenous variable, a structural model can be designed as follows:

## 2. Evaluation of the Measurement Model (Outer Model)

Evaluation of the measurement model is carried out to measure the specific relationship between latent variables and their indicators. It consists of four stages: convergent validity test, discriminant validity test, Cronbach's Alpha reliability test and composite reliability test.

### a. Convergent Validity Test

The first data validity test was carried out using the Convergent Validity approach, where indicators are assessed based on the correlation between the item score/component score. For

reflective indicators, the validity can be tested by using the correlation between the indicator score and the construct score. Measurements with reflective indicators showed that there was a change in an indicator in a construct when other indicators in the same construct change. Convergent validity can be accepted or data is declared valid if it has a loading factor value  $\geq 0.5$  (Hair et al., 1998). In this research, the convergent validity test results using Smart PLS 3.3 software can be seen in the following table 4.1:

**Table 2. Output Result for Outer Loading**

Variable	Indicator	Loading Factor	Note
Fiscal decentralization	X11	0,922	Valid
	X12	0,908	Valid
Balancing funds	X21	0,889	Valid
	X22	0,915	Valid
	X23	0,876	Valid
	X31	0,775	Valid
Capital expenditures	X32	0,657	Valid
	X33	0,870	Valid
	X34	0,853	Valid
Economic growth	Z1	1,000	Valid
	Y11	0,875	Valid
Unemployment	Y12	0,825	Valid
	Y13	0,859	Valid
	Y21	0,855	Valid
Poverty	Y22	0,737	Valid
	Y23	0,864	Valid

Source: Processed primary data output, 2022

Based on table 2 all indicators for each variable had a loading factor value above 0.5, so those met the convergent validity requirements.

The output loading factor in this research model is presented in Figure 4.2. as follows:

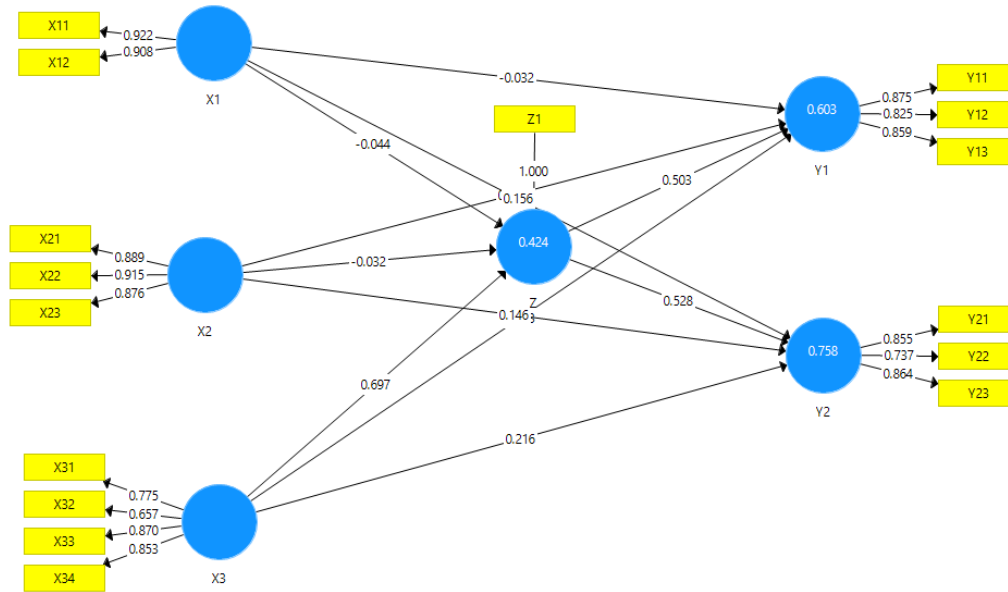


Figure 4. The Loading Factor Output of the Research Model

**b. Discriminant Validity Test (Discriminant Validity)**

A discriminant validity test is necessary to be done on reflective indicators by comparing the Average Variance Extracted (AVE) value of the average variance extracted and the correlation involving these latent variables. The model has

good discriminant validity if the AVE root value of each latent variable is greater than the correlation value between the latent variables and other latent variables in the model, and it is recommended that the AVE value should be greater than 0.50 (Kock and Lyn, 2012).

Table 3. The Comparison of AVE Values and Correlation Between Variables

	X1	X2	X3	Y1	Y2	Z
X1	0.915					
X2	0.771	0.893				
X3	0.555	0.730	0.793			
Y1	0.425	0.585	0.658	0.853		
Y2	0.557	0.658	0.751	0.813	0.821	
Z	0.318	0.443	0.649	0.711	0.782	1.000

Table 3 shows that the Average Variance Extracted (AVE) value of the average variance extracted for each variable was greater than 0.5, and the correlation value between latent variables and other latent variables in the model was greater, so the discriminant validity in models were met.

**c. Cronbach's Alpha Reliability Test**

Construct reliability test is intended to measure the consistency of the questionnaire. A questionnaire is said to be reliable if one's answers to the questions are consistent or stable from time to time (Putka & Sackett, 2010). A construct or variable is said to be reliable if it gives a Cronbach's Alpha value > 0.70 (Sarwono & Narimawati, 2015). The results of the Cronbach's Alpha reliability test in this research model are as follows:

**Table 4. Cronbach's Alpha Reliability Test Results**

Construct	Cronbach's Alpha	Note
Fiscal decentralization (X1)	0,806	Reliable
Balancing funds (X2)	0,874	Reliable
Capital expenditures (X3)	0,802	Reliable
Economic growth (Z)	1,000	Reliable
Unemployment (Y2)	0,813	Reliable
Poverty (Y2)	0,755	Reliable

Based on table 4 it can be seen that all constructs in the model gained a Cronbach's Alpha value > 0.70, so all of them were reliable.

#### d. Composite Reliability Test

Composite reliability testing is carried out to show the internal consistency of an indicator in latent variables. Usually the composite reliability value is greater than the Cronbach's Alpha value. An indicator is considered reliable if the composite reliability value is > 0.70 (Nurnally & Bernstein, 1994). The results of the composite reliability test are presented in table 4.4. as follows:

**Table 5. Composite Reliability Test Results**

Construct	Cronbach's Alpha	Note
Fiscal decentralization (X1)	0,911	Reliable
Balancing funds (X2)	0,922	Reliable
Capital expenditures (X3)	0,870	Reliable
Economic growth (Z)	1,000	Reliable
Unemployment (Y2)	0,889	Reliable
Poverty (Y2)	0,860	Reliable

Source: Processed primary data output, 2022

Based on table 5 it can be seen that all constructs in the model obtained a composite reliability value of > 0.70, so all of them were reliable.

### 3. Evaluation of the Structural Model (Inner Model)

The evaluation of the structural model in SEM and PLS was carried out through the R-squared ( $R^2$ ) test, Goodness of Fit (Gof) and significance test through path coefficient estimation.

#### a. R-square test ( $R^2$ )

The prediction power of a structural model can be measured using RSquare ( $R^2$ ). It is used to explain whether there is an effect of certain exogenous latent variables on endogenous latent variables. The R-Square ( $R^2$ ) values of 0.67, 0.33 and 0.19 show that the model is strong, moderate and weak (Ghozali and Latan, 2015). Meanwhile, the R-Square value ( $R^2$ ) in this study is presented in table 6 as follows:

**Table 6. R-Square Test Results ( $R^2$ )**

Construct	R-Square	R-Square Adjusted
Economic growth (Z)	0,424	0,406
Unemployment (Y1)	0,603	0,586
Poverty (Y2)	0,758	0,748

Source: processed primary data output, 2022

Based on table 6 it can be seen that the R-Square value for the unemployment variable was 0.603. It indicates that the variable degree of fiscal decentralization, balance funds, capital expenditures and economic growth had an effect on unemployment of 60.3%. Also, the value indicates that the model in this study was categorized as moderate since the value of 0.603 is around the value of 0.33. In addition, the poverty variable gained a value of 0.758. It means that the variable degree of fiscal decentralization, balancing funds, capital expenditure and economic growth had an effect on poverty by 75.8%. This value also indicates that the model in this study was included in the strong criteria because the value of 0.758 is around the value of 0.67.

**b. Goodness of Fit (GoF)**

The PLS Path Modeling analysis can identify global optimization criteria to determine the Goodness of Fit index. The Goodness of Fit or GoF index was designed by Tenenhaus et al (2004) and is used to evaluate measurement models and structural models as well as provide a simple measure of the overall predictions of the model. The GoF score criteria are 0.10, 0.25 and 0.36 for small, medium and large indicators (Ghozali and Latan, 2015). The Gof value in this research model can be seen in table 4.6. as follows:

**Table 7. Goodness of Fit Test Results**

Construct	R-Square	Communality
Economic growth (Z)	0,424	1,000
Unemployment (Y1)	0,603	0,728
Poverty (Y2)	0,758	0,673
Mean	0,495	0,800

Source: processed primary data output, 2022

Based on table 7, the GoF value is calculated by the square root value of the communality index and R-squares means (Ghozali and Latan, 2015) as follows:

$$GoF = \sqrt{Com \times R^2}$$

$$GoF = \sqrt{0,800 \times 0,495}$$

$$GoF = 0,629$$

Using the above formulae, this study obtained the GoF value of 0.629, meaning that the model in this study was included in the GoF large criteria.

**c. Significance Test (Bootstrapping)**

To test the hypothesis the significance value between construct-t-statistics and p-values was observed. With this technique, measurement estimates and standard errors are no longer calculated using statistical assumptions, but are based on empirical observations. In the bootstrap resampling method in this study, the significance value used or t-value was 1.985 (significance level = 5%) provided that the t-statistic value must be greater than 1.985. Hypothesis testing with the PLS SEM method was carried out by carrying out the bootstrapping process with the help of SmartPLS 3.3 software so that the relationship between the influence of exogenous variables on endogenous variables was obtained as follows:

**Table 8. The Results of Direct Effect Bootstrapping Calculations**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
X1 -> Y1	-0.032	-0.031	0.124	0.260	<b>0.795</b>
X1 -> Y2	0.156	0.155	0.084	1.872	<b>0.062</b>
X1 -> Z	-0.044	-0.053	0.170	0.257	<b>0.797</b>
X2 -> Y1	0.282	0.289	0.133	2.115	<b>0.035</b>
X2 -> Y2	0.146	0.148	0.099	1.475	<b>0.141</b>
X2 -> Z	-0.032	-0.023	0.176	0.183	<b>0.855</b>
X3 -> Y1	0.143	0.133	0.128	1.125	<b>0.261</b>
X3 -> Y2	0.216	0.218	0.080	2.690	<b>0.007</b>
X3 -> Z	0.697	0.708	0.113	6.167	<b>0.000</b>
Z -> Y1	0.503	0.510	0.094	5.376	<b>0.000</b>
Z -> Y2	0.528	0.525	0.070	7.592	<b>0.000</b>

**1) Direct Effect between Variables (Direct Effect)**

a. H1a: Fiscal decentralization has a significant effect on economic growth

Based on the estimation results of SEM PLS, the t statistical effect of fiscal decentralization (X1) on economic growth (Z) was  $0.257 < 1.984$  (t count) and the p value was  $0.797 > 0.05$  (alpha 5%),

so it can be concluded that H1a was rejected, meaning that fiscal decentralization had no significant effect on economic growth. The original sample estimate value showed a figure of -0.044 which indicated that the relationship between the variable degree of fiscal decentralization and



economic growth had a negative direction. The results of this research were in line with a research conducted by Vitara Agatha & Uliansyah (2021), namely fiscal decentralization simultaneously affects economic growth. Another research related to the effect of fiscal decentralization on economic growth is explained by Anwar et al., (2016), in his investigation it was explained that partially fiscal decentralization has a significant positive effect on economic growth. Other results are shown by (Saputra & Mahmudi, 2012) where fiscal decentralization has a positive impact on economic growth.

In AB Satria's research (Satria, 2016) the relationship between Degree of Fiscal Decentralization and Economic Growth was studied. Using the Fixed Effect Model (FEM) and the Generalized Least Square (GLS) method, there obtained a significant degree of decentralization influences economic growth. This research also shows a hump-shaped relationship, namely the degree of fiscal decentralization has a positive effect and the degree of squared fiscal decentralization has a negative effect on economic growth. The hump-shaped relationship means that when the degree of fiscal decentralization is not too high, the fiscal decentralization policy is able to increase economic growth, but in certain conditions where the degree of fiscal decentralization is too high, the fiscal decentralization policy actually hinders economic growth.

b. H1b: Fiscal Decentralization has a significant effect on unemployment

Regarding the results of the PLS SEM estimation, the t statistical effect of fiscal decentralization (X1) on unemployment (Y1) was  $0.260 < 1.984$  (t count) and the p value was  $0.795 > 0.05$  (alpha 5%) so it can be concluded that H1b was rejected, indicating that fiscal decentralization had no significant effect on unemployment. The original sample estimate value showed a figure of -0.032 which indicated that the relationship between fiscal decentralization and unemployment had a negative direction. A different thing happened in the research conducted by Kusuma Wijaya (2019) explaining that fiscal decentralization has no significant positive impact on unemployment.

c. H1c: Fiscal Decentralization has a significant effect on poverty

With regard to the results of the PLS SEM estimation, the t statistical effect of fiscal decentralization (X1) on poverty (Y2) was  $1.872 < 1.984$  (t count) and the p value was  $0.062 > 0.05$  (alpha 5%), so it can be concluded that H1c was rejected or fiscal decentralization had no significant effect on poverty. The original sample estimate value showed a number of 0.156 which proved that the relationship between fiscal decentralization and poverty variables had a positive direction. The governing legislatures play a significant role in financial development and poverty reduction through the policies they issue, one of which is Regional Original Revenue (PAD). However, various regions with various levels of policies and various fiscal capabilities have not been able to reduce poverty fairly. This showed that the Regency/Municipal Government of Central Java Province was not yet ideal in assessing regional financial capacity. However, this research is in line with a research conducted by Ichsan Maulana and Raja Masbar (2018). Their research was done to determine the extent of the influence of fiscal decentralization through the General Allocation Fund (DAU) and the Special Allocation Fund (DAK), using the Gross Regional Domestic Product (GRDP) as a control variable, on poverty in eastern Indonesia; Papua, West Papua, Maluku, North Maluku and East Nusa Tenggara (NTT). The data used were panel data (pooled data) for 5 provinces in 2008-2013, while the model was the panel model with the fixed effect model analysis method. The results of their investigation show that fiscal decentralization has a positive and significant effect on poverty.

c. H2a: Balancing Fund has a significant effect on economic growth

Based on the results of the PLS SEM estimation, the t statistical effect of the effect of balancing funds (X2) on economic growth (Z) was  $0.183 < 1.984$  (t count) and the p value was  $0.855 > 0.05$  (alpha 5%), so it can be concluded that H2a was rejected, in other words balancing funds had no significant influence on economic growth. The original sample estimate value showed a figure of -0.032 which implied that the relationship between the balancing funds variable and economic growth had a negative direction. The results of this study

are in line with a research conducted by (Hasan, 2015) which shows that balancing funds (DAU, DBH and interest rates) have a positive effect on economic growth with little significance. This may happen due to the fact that regional balancing funds were relatively smaller compared to other government expenditure allocations. Hasan's research population was the district/city budget realization reports in South Sulawesi for the 2005-2010 period. The results of other researches also show the same thing, for example (Aulia, 2017) mentions balancing funds have a close relationship with economic growth. Her research was conducted with a population of regencies/cities in Central Java Province in 2003-2012, using a qualitative descriptive analysis model and canonical correlation.

d. H2b: Balance Fund has a significant effect on unemployment

According to the results of the PLS SEM estimation, the t statistical effect of the effect of balancing funds (X2) on unemployment (Y1) was  $2.115 > 1.984$  (t count) and the p value was  $0.035 < 0.05$  (alpha 5%), so H2b was accepted, and the balancing fund had a significant effect on unemployment. The original sample estimate value showed a number of 0.282 which showed that the relationship between the balance funds variable and unemployment had a positive direction. The same results are obtained by Setiyawati and Hamzah's research (2017) that balancing funds had a positive effect on unemployment.

e. H2c: Balancing Funds have a significant effect on poverty

Based on the estimation results of the PLS SEM, the t statistical effect of the effect of balancing funds (X2) on poverty (Y2) was  $1.475 < 1.984$  (t count) and the p value was  $0.141 > 0.05$  (alpha 5%), so H2c was accepted or the balancing funds had no significant effect on poverty. The original sample estimate value obtained 0.146 or the relationship between the balancing funds variable and poverty had a positive direction. In a research conducted by (Manek & Badrudin, 2017) regarding Regional Original Income, Balancing Funds, Economic Growth and Poverty in Regencies/Cities in East Nusa Tenggara Province in 2007-2016 with the combined times series and cross-sectional data using SEM-based variance, PAD was found to have a significant positive impact on economic

growth but has a significant negative impact on poverty. Meanwhile, balancing funds have a significant negative effect on economic growth and poverty. Another research conducted by (Adriawan et al., 2022) explains that the General Allocation Fund (DAU) on the Poverty Level has a positive relationship and has an insignificant effect. Meanwhile, the Special Allocation Fund (DAK) on the Poverty Level has a negative direction and an insignificant effect.

f. H3a: Capital expenditure has a significant effect on economic growth

Based on the results of the PLS SEM estimation, the statistical t value of the effect of capital expenditure (X3) on economic growth (Z) was  $6.167 > 1.984$  (t count) and the p value was  $0.000 < 0.05$  (alpha 5%), so H3a was accepted or capital expenditure had a significant influence on economic growth. The original sample estimate value showed a score of 0.697 indicating that the relationship between the balancing funds variable and economic growth had a positive direction.

g. H3b: Capital expenditure has a significant effect on unemployment

Based on the results of the PLS SEM estimation, the t statistical effect of the effect of capital expenditure (X3) on unemployment (Y1) was  $1.125 < 1.984$  (t count) and the p value was  $0.261 > 0.05$  (alpha 5%), meaning that H3b was rejected, and capital expenditure had not significant effect on unemployment. The original sample estimate value indicated a score of 0.143 or the relationship between capital expenditure and unemployment variables had a positive direction. Oppositely, Riski Prasetyo Putro's research (2016) explains that capital expenditure has a negative effect on the unemployment rate.

h. H3c: Capital expenditure has a significant effect on poverty

Based on the results of the PLS SEM estimation, the t statistical effect of capital expenditure (X3) on poverty (Y2) was  $2.690 > 1.984$  (t count) and the p value was  $0.007 > 0.05$  (alpha 5%), so H3c was accepted or the capital expenditure had a significant effect on poverty. The original sample estimate value gained 0.216 which meant that the relationship between capital expenditure and poverty variables had a positive direction. A research conducted by (Vitara Agatha & Uliansyah, 2021) explains that DAU and DAK

have a significant positive effect on economic growth. The Special Autonomy Fund has a positive and insignificant effect on economic growth. PAD and capital expenditure have a significant negative effect on economic growth. DAU, DAK, and economic growth have a significant negative effect on poverty. The Special Autonomy Fund and capital expenditure have a negative and insignificant effect on poverty.

i. H4a: Economic growth has a significant effect on unemployment

In terms of the PLS SEM estimation, the t statistical effect of the effect of economic growth (Z) on unemployment (Y1) was  $5.376 > 1.984$  (t count) and the p value was  $0.000 < 0.05$  (alpha 5%), so H4a was accepted or economic growth had a significant effect on unemployment. The original sample estimate value showed a number of 0.503 and implied the relationship between economic growth and unemployment variables had a positive direction. Similarly, Riski Prasetyo Putro (2016) states economic growth has a positive effect on unemployment.

i. H4b: Economic growth has a significant effect on poverty

Based on the results of the PLS SEM estimation, the t statistical effect of the effect of economic growth (Z) on poverty (Y2) was  $7.592 > 1.984$  (t count) and the p value was  $0.000 < 0.05$  (alpha 5%), so H4b was accepted or economic growth had a significant effect on poverty. The original sample estimate value obtained a score of 0.528, indicating that the relationship between economic growth and poverty variables had a positive direction. A research by (Nurhidayah et al., 2018) which used path analysis concludes that there is no positive direct effect of economic growth on poverty. Their research used economic growth as an intervening variable. Different results are showed by (Manek & Badrudin, 2017) in their research on Local Own Revenue, Balancing Funds, Economic Growth and Poverty in Regencies/Cities in East Nusa Tenggara Province in 2007-2016. They found that economic growth has no significant negative impact on poverty. Another research by (Pangiuk, 2018) concludes that the economic growth variable has no effect and is not significant on the poverty variable or its unitary value on poverty is negative.

## 2) The Indirect Effects among Variables

**Table 9. The Results of Bootstrapping Measurement regarding the Indirect Effects**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
X3 -> Z -> Y2	0.368	0.370	0.072	5.107	0.000
X1 -> Z -> Y1	-0.022	-0.031	0.087	0.252	0.801
X2 -> Z -> Y1	-0.016	-0.006	0.089	0.182	0.855
X3 -> Z -> Y1	0.350	0.360	0.088	3.965	0.000
X1 -> Z -> Y2	-0.023	-0.029	0.088	0.261	0.795
X2 -> Z -> Y2	-0.017	-0.009	0.091	0.187	0.852

Based on table 9 the hypothesis tests carried out are as follows:

a. H5: Fiscal decentralization has a significant effect on unemployment through economic growth

Based on the results of the PLS SEM estimation, the t statistical effect of fiscal decentralization (X1) on unemployment (Y1) through economic growth (Z) of  $0.252 < 1.984$  (t count) and a p value gained  $0.801 > 0.05$  (alpha 5%), so H5 was rejected or fiscal decentralization had no significant effect on unemployment through economic growth. The original sample estimate value showed a value of -0.022 indicating that the

relationship between fiscal decentralization and unemployment through economic growth had a negative direction.

b. H6: Balancing Funds have a significant effect on unemployment through economic growth

Based on the results of the PLS SEM estimation, the t statistical effect of the effect of balancing funds (X2) on unemployment (Y1) through economic growth (Z) was  $0.182 < 1.984$  (t count) and the p value was  $0.855 > 0.05$  (alpha 5%) so that it can be concluded that H6 was rejected, meaning that balancing funds had no significant

effect on unemployment through economic growth. The original sample estimate value showed a value of -0.016 implying that the relationship between the balancing funds variable and unemployment through economic growth had a negative direction.

c. H7: Capital expenditure has a significant effect on unemployment through economic growth

Based on the results of the PLS SEM estimation, the statistical t value of the effect of capital expenditure (X3) on unemployment (Y1) through economic growth (Z) was  $3.965 > 1.984$  (t count) and the p value was  $0.000 < 0.05$  (alpha 5%) so that it can be concluded that H7 was accepted or capital expenditures had a significant effect on unemployment through economic growth. The original sample estimate value gained a score of 0.350, meaning that the relationship between capital expenditure and unemployment through economic growth had a positive direction.

d. H8: Fiscal decentralization has a significant effect on poverty through economic growth

Based on the results of the PLS SEM estimation, the t statistical value of the effect of fiscal decentralization (X1) on poverty (Y2) through economic growth (Z) was  $0.261 < 1.984$  (t count) and the p value was  $0.795 > 0.05$  (alpha 5%) so that it can be concluded that H8 was rejected or fiscal decentralization had no significant effect on poverty through economic growth. The original sample estimate value gained a score of -0.023 which indicated that the relationship between fiscal decentralization and poverty through economic growth had a negative direction.

e. H9: Balancing funds have a significant effect on poverty through economic growth

Based on the results of the PLS SEM estimation, the t statistical effect of the effect of balancing funds (X2) on poverty (Y2) through economic growth (Z) was  $0.187 < 1.984$  (t count) and the p value was  $0.852 > 0.05$  (alpha 5%) so that it can be concluded that H9 was rejected, meaning that balancing funds had no significant effect on poverty through economic growth. The original sample estimate value obtained a score of -0.017 which indicated that the relationship between the balancing funds variable and poverty through economic growth had a negative direction.

f. H10: Capital expenditures have a significant effect on poverty through economic growth

Based on the results of the PLS SEM estimation, the statistical t value of the effect of capital expenditure (X3) on poverty (Y2) through economic growth (Z) was  $5.107 > 1.984$  (t count) and the p value was  $0.000 < 0.05$  (alpha 5%), so that it can be concluded that H10 was accepted or that capital expenditure had a significant effect on poverty through economic growth. The original sample estimate value gained a score of 0.368 which meant that the relationship between the balancing funds variable and poverty through economic growth had a positive direction.

## CONCLUSION

Regarding the findings, it can be concluded that based on the PLS analysis results, the variable which has a direct and significant effect on the economic growth is balancing funds. Meanwhile, the variables fiscal decentralization and balancing funds do not significantly affect economic growth. In addition, the variables which have a direct and significant effect on unemployment are balancing funds and economic growth, while fiscal decentralization and capital expenditures do not. Then, capital expenditures and economic growth are the variables which have a direct and significant effect on poverty. However, fiscal decentralization and balancing funds do not.

Furthermore, the PLS analysis results imply that the variable which indirectly has a significant effect on unemployment through economic growth is capital expenditures. Then, the variable which indirectly has a significant effect on poverty through economic growth is also capital expenditures. Meanwhile, fiscal decentralization and balancing funds have no significant effect on unemployment and poverty through economic growth.

A suggestion given to the Central Java province is to simplify the license registration and tax breaks for labor-intensive industries so that they can absorb a greater workforce. In addition, efforts to reduce unemployment also require an increase in the role of vocational training centers in order to improve soft skills and hard skills for job seekers.

To be able to eradicate poverty, the government needs a policy of capital credit assistance with soft interest and providing training to improve skills for the poor so that they can be more productive so they can be released from the poverty trap. This research still has limitations in terms of areas and variables. Therefore, further research can develop a wider area and develop models with additional new variables.

## REFERENCES

- Badan Pusat Statistik. Presentase Kemiskinan di Jawa Tengah. 2022. Website: <https://jateng.bps.go.id/> (diakses 2 februari 2022).
- Badan Pusat Statistik. Tingkat Pengangguran Terbuka di Jawa Tengah. 2022. Website: <https://jateng.bps.go.id/> (diakses 2 februari 2022).
- Woestho, C., Sulistyowati, A., & Sari, R. K. (2020). Analisis Kemampuan Dan Kemandirian Keuangan Daerah Serta Pengaruhnya Terhadap Pertumbuhan Ekonomi Di Kabupaten Jenepono. *Jurnal Ekonomi Pembangunan STIE Muhammadiyah Palopo*, 6(2), 182-191.
- Prakoso, J. A., Islami, F. S., & Sugiharti, R. R. Analisis Kemampuan dan Kemandirian Keuangan Daerah Terhadap Pertumbuhan Ekonomi dan Kemiskinan di Jawa Tengah. *Jurnal REP (Riset Ekonomi Pembangunan)*, 2019;4(1), 87-100.
- Zulkarnain, M., Astuti, Y., & Wiriani, E. Pengaruh Rasio Keuangan Daerah terhadap Pertumbuhan Ekonomi Melalui Belanja Modal di Kota Langsa. *Jurnal Samudra Ekonomika*, 2019;3(1), 65-73.
- Linawati, L., SOLIKAH, M. A., & ZAMAN, B. Alokasi Belanja Modal Sebagai Pemoderasi Kinerja Keuangan Daerah Terhadap Pertumbuhan Ekonomi di Karesidenan Kediri. *Majalah Ekonomi*, 2018;23(1), 60-71.
- Nurulita, S., Arifulsyah, H., & Yefni, Y. Analisis Pengaruh Kinerja Keuangan Daerah Terhadap Pertumbuhan Ekonomi Dan Dampaknya Terhadap Tingkat Pengangguran Di Provinsi Riau. *Jurnal Benefita*, 2018;3(3), 336-356.
- Kumpangpune, N., Saerang, D. P., & Engka, D. S. Pengaruh Kinerja Keuangan Daerah terhadap Pertumbuhan Ekonomi serta Dampaknya terhadap Kemiskinan di Kota Bitung. *Jurnal Pembangunan Ekonomi dan Keuangan Daerah*, 2021;20(3), 60-77.
- Handayani, T. U., & Erinos, N. R. Pengaruh Pendapatan Asli Daerah Dan Belanja Modal Terhadap Tingkat Kemandirian Keuangan Daerah Dengan Pertumbuhan Ekonomi Sebagai Variabel Moderating. *JURNAL EKSPLORASI AKUNTANSI (JEA)*, 2020;2(1), 2348-2361.
- Karenina, S., Andayani, K. D., Aditya, I. A., & Wasil, M. Tingkat Kemandirian Keuangan Daerah dan Implikasinya Terhadap Pertumbuhan Ekonomi Kabupaten Bojonegoro Tahun 2010-2019. *Journal of Regional Economics Indonesia*, 2021;2(1), 27-41.
- Siregar, O. K., & Panggabean, F. Y. Analisis Kinerja Keuangan Daerah Berbasis Rasio dan Pertumbuhan Ekonomi Pada Pemerintah Kabupaten dan Kota Sumatera Utara (Studi Kasus MEBIDANGROKAT). *Jurnal Akuntansi Bisnis Dan Publik*, 2021;11(2), 27-37.
- Arina, M. M., Koleangan, R. A., & Engka, D. S. Pengaruh pendapatan asli daerah, dana bagi hasil, dana alokasi umum, dan dana alokasi khusus terhadap pertumbuhan ekonomi kota manado. *Jurnal pembangunan ekonomi dan keuangan daerah*, 2021;20(3), 26-35.
- Riana, D. Analisis Kemandirian dan Kemampuan Keuangan Daerah serta Pengaruhnya Terhadap Pertumbuhan Ekonomi Kabupaten/Kota di Provinsi Sumatera Selatan. *Akuntansi Dan Manajemen*, 2019;14(2), 50-64.
- Yasin, M. Analisis Pendapatan Asli Daerah dan Belanja Pembangunan terhadap Pertumbuhan Ekonomi di Kabupaten/Kota Jawa Timur. *COSTING: Journal of Economic, Business and Accounting*, 2020;3(2), 465-472.
- Pangiuk, A. Pengaruh Pertumbuhan Ekonomi terhadap Penurunan Kemiskinan di Provinsi Jambi Tahun 2009-2013. *ILTIZAM Journal of Shariah Economics Research*, 2018;2(2), 44-66.
- Ningsih, D., & Andiny, P. Analisis pengaruh inflasi dan pertumbuhan ekonomi terhadap kemiskinan di Indonesia. *Jurnal samudra ekonomika*, 2018;2(1), 53-61.
- Usman, U., & Mita, D. Pengaruh Jumlah Penduduk, Pengangguran, dan Pertumbuhan Ekonomi Terhadap Kemiskinan di Provinsi Kepulauan Riau. *Jurnal Ekonomi Regional Unimal*, 2018;1, 2.
- Diana, R. Analisis Efektivitas Program Keluarga Harapan (PKH) Terhadap Pengurangan kemiskinan Dalam Perspektif Ekonomi Islam (Studi Pada Desa Kota Jawa Kecamatan Way Khilau) (Doctoral dissertation, UIN Raden Intan Lampung), 2018.
- Dinata, S. R. Pengaruh Indeks Pembangunan Manusia, Pertumbuhan Ekonomi, Jumlah Penduduk dan Pengangguran Terhadap Kemiskinan di Provinsi Riau Tahun 2003-2018. *JURNAL AL-IQTISHAD*, 2020;16(2), 116-137.

- Suryahadi, A., Kusumawardhani, N., & Al Izzati, R. Efektivitas program bantuan sosial dalam pengurangan kemiskinan dan ketimpangan. *The SMERU Research Institute*, 2018.
- Rofik, M., Lestari, N. P., & Septianda, R. Pertumbuhan Ekonomi, Upah Minimum dan Tingkat Pengangguran di Kalimantan Barat. *Jurnal Inovasi Ekonomi*, 2018;3(02).
- Aprilia, S. N., Wulandari, R., & Qomarodin, N. Strategi Pengurangan Tingkat Pengangguran dengan Mengetahui Korelasi Tingkat Pertumbuhan Ekonomi dan Tingkat Angkatan Kerja di Kabupaten Bondowoso. *MATRAPOLIS: Jurnal Perencanaan Wilayah dan Kota*, 2020;1(1), 46-56.
- Dassaad, D., Mulatsih, M., & Riyanti, R. (September). ANALISIS PERTUMBUHAN EKONOMI TERHADAP PENGANGGURAN TERBUKA DI INDONESIA. In *Seminar Nasional Sistem Informasi (SENASIF) 2018*; Vol. 2, No. 1, pp. 1417-1422).
- Effendy, R. S. Pengaruh Upah Minimum terhadap Pengurangan Tingkat Pengangguran Terbuka di Indonesia. *Fokus Ekonomi: Jurnal Ilmiah Ekonomi*, 2019;14(1), 115-124.
- Hanifah, I., Pratidina, G., & Seran, M. Y. Kinerja Dinas Tenaga Kerja dan Transmigrasi dalam Melaksanakan Program Pengurangan Angka Pengangguran. *Jurnal Governansi*, 2018;4(1), 11-20.