DOES BALANCING FUND AFFECT ECONOMIC GROWTH AND POVERTY LEVEL IN CENTRAL JAVA?

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Abstract
Fiscal federalism copes with the division of governmental function and financial relations among levels of authorities. The objective of this research was to give empirical evidence about the effects of Local Own-Source Revenue (PAD), Revenue Sharing Fund (DBH), General Allocation Fund (DAU), Special Allocation Fund (DAK), and Local Expenditure (BD) on economic growth and poverty level. The data of this study were sourced from secondary data. The data collection method used was mechanical observation technique. Panel data from 35 districts and municipalities in Central Java province throughout 2009-2018 were analyzed by multiple regression analysis. This study concludes that balancing funds have an affect on increasing economic growth (except DBH) and reducing poverty levels even though not as effective as PAD. In contrast, local expenditure does not have an affect on increasing economic growth and reducing poverty levels. This study supports the fiscal federalism theory, that the allocation of sources can be accomplished effectively by states and local governments. Balancing funds have an affect on increasing economic growth and decreasing poverty levels.

Keywords: Growth; Local expenditure; Local revenue; Poverty

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INTRODUCTION

Fiscal federalism copes with the division of governmental features and financial relations among levels of authorities (Kapucu, n.d.). The Law of the Republic of Indonesia No. 23 of 2014 regarding Regional Government affirms that the granting of vast autonomy to regions is aimed to speed up the attention of public welfare through the enchancement of public services, equitable improvement for each region, as well as the empowerment of natural and human resources. As the enforcing of local government authority, the central authorities will transfer the balanced funds to local governments. Balanced funds are money rising from APBN revenues allocated to areas to finance regional desires in order to enforce decentralization. Financial stability consists of the distribution of finance between the central government and local governments through considering local needs, potentials, and conditions. The significance of balanced cash is to keep or assurance the fulfillment of public service requirements all through the country. The implementation of balanced funds is a consequence of unequal regional economic and monetary capacity. Balanced funds include Revenue Sharing Fund (DBH), General Allocation Fund (DAU), and Special Allocation Fund (DAK) (Indonesia, 2014). The common transfer fund allocation is assumed for public offerings is growing especially in the fields of health, sanitation infrastructure, markets, agriculture, road infrastructure, environment, help for Early Childhood Basic Education (PAUD), health operational assistance, small and medium scale industries and the allocation of village cash also improved (Kristian et al., 2020).

Besides transfer from the central government that is through the balanced funds, local governments are also necessary to be capable to discover their very own regional monetary sources in enforcing governmental authority. This suggests that the regions should attempt to expand Local Own-Source Revenue because it is a regional benchmark in enforcing regional autonomy. New regulation can extend the province revenue through enforcing intensification (tax of consignment and retribution) of an region which is mentioned (Idayati, 2008). Basically, the greater the acceptance of Local Own-Source Revenue on Regional Revenue and Expenditure Budget (APBD), the much less regional dependence on the central government. Increased authority owned through local governments is directed to expand the independence of the region by means of increasing the potentials in order to stimulate financial growth (Apriana & Suryanto, 2010). In contrast, fiscal records analysis carried out for provinces, districts and cities in Indonesia point out that many local governments are nevertheless highly dependent on the fiscal transfers from the national governments in conducting their public financing features (Sijabat, 2016). At the same time, an excessive dependence of a area on intergovernmental transfers is positively connected with economic growth (or, conversely, negatively connected with economic stagnation) (Yushkov, 2015).

Central Java Province consists of 29 districts and 6 cities. Agriculture is the primary sector of Central Java's economy. Central Java is also home to a variety of large and medium-sized industries. The Semarang-Ungaran-Demak-Kudus area is the primary industrial region in Central Java. As much as 47% of the population is the labor force. Many livelihoods are in the agricultural sector (42.34%), followed by trade (20.91%), industry (15.71%), and services (10.98%). Central Java is traversed by numerous national roads, which consist of the northern coast line (connecting Jakarta-Semarang-Pati-Surabaya-Banyuwangi), the Tegal-Purwokerto line, the southern route...
(connecting Bandung-Yogyakarta-Surakarta-Madiun-Surabaya), and the Semarang-Surabaya route (Jawa Tengah, n.d.). These conditions support the acquisition of sufficient PAD so that the province of Central Java is clearly not the main goal of balancing funds from the central government because the province of Central Java has a fairly large fiscal capacity. According to the Directorate General of Budget, Ministry of Finance, Central Java province's PAD was once ranked the 4th biggest in 2018. This study is carried out to attain empirical proof on the effects of Local Own-Source Revenue, Revenue Sharing Fund, General Allocation Fund, Special Allocation Fund, and Local Expenditures on the economic growth and poverty level of districts/cities in Central Java. This study differs from previous studies because this study examines the effect of independent variables on economic growth and poverty levels a year and 2 years after income is received or expenditure is made. The results of the research are expected to contribute to the central government regarding the effectiveness of the use of balancing funds to increase economic growth and reduce poverty in provinces that have good fiscal capacity.

LITERATURE REVIEW
Fiscal Federalism
Fiscal federalism was introduced by the German-born American economist Richard Musgrave in 1959. This term deals with the division of governmental features and financial relations among levels of government (Kapucu, n.d.). Fiscal federalism’ theory assumes that a federal government system can be efficient and effective in fixing governments troubles face today, such as distribution of income, efficiently and effectively allocation of resources, and financial stabilization. Economic stability and fairly distribution of income can be accomplished by federal government because of its flexibility in dealing with these problems. Because of states and localities are not equal in their income, federal government intervention is usually needed. Allocation of assets can be accomplished effectively by the states and local governments. Musgrave argued that the federal or central government should be responsible for the monetary stabilization and income redistribution however the state and local governments should be responsible for the allocation of sources (Kapucu, n.d.).

These are the advantages of fiscal decentralization: regional and local differences can be considered; less planning and administrative costs; competition among local governments favours organizational and political innovations; and more efficient politics caused by citizens have more influence. There are several negative aspects of fiscal federalism as well: the insufficiency accountability of state and local governments to constituents; the less of availability of qualified staff; the opportunity for people to select where to reside; the degree of independence of the local governments from the national government; and inadequacy of public expenditure’ infrastructure at the local level. (Kapucu, n.d.).

Regional Autonomy
The Law of the Republic of Indonesia No. 23 of 2014 regarding Local Government, autonomous areas herein after referred to as regions, are legal community gadgets that have territorial boundaries approved to regulate and administer government affairs and the pursuits of local communities in accordance to their very own initiatives based totally on the aspirations of the community in the system of The Unitary State of the Republic of Indonesia. This regulation offers autonomy as a whole in planning, implementing, supervising, controlling, and evaluating regional policies to regencies and cities to form and enforce policies in accordance to the
initiatives and aspirations of the humans (Indonesia, 2014). Fiscal decentralisation potentially pressured up long term regional growth if the states are given the incentives and potential to decide their budgetary priorities according to their local sources and desires (Ghani et al., 2019).

**Local Own-Source Revenue**
According to the Law of the Republic of Indonesia No. 33 of 2004 regarding Financial Balance between the Central Government and Local Government article 1 paragraph 18 Local Own-Source Revenue, herein after referred to as PAD, is revenue obtained through regions which is accumulated primarily based on regional regulations according to statutory regulations in order to finance activities that will be carried out through local governments. Local Own-Source Revenue is regarded as an alternative to acquiring extra funds that can be used for regional needs, particularly routine needs. Local Own-Source Revenue originates from Regional Taxes, Regional Retribution, The Results of the Management of Separated Regional Property, and Other Legal PAD (Indonesia, 2004). Furthermore, local taxes, regional retribution, and other legal district revenues have a substantial impact on the district's own source revenues of Balikpapan, Samarinda, and Bontang concurrently (Hadiyatno et al., 2020). Direct tax has grow to be the primary component of government revenue accompanied by indirect and non-direct tax revenue. In addition, non-tax revenues appear to be a less necessary contributor to the successfullness of country’s growth as compared with direct and indirect tax (Taha & Loganathan, 2008). Arini & Made Dwi Setyadhi Mustika (2015) noted that the Local Own-Source Revenue obtained reflects the degree of readiness of local governments to control their regions.

**Revenue Sharing Fund**
According to the Law of the Republic of Indonesia No. 33 of 2004 article 1 paragraph 20, Revenue Sharing Fund are funds sourced from APBN revenues allotted to areas based on proportion figures that have been decided through statutory regulations which are used to finance regional needs in order to enforce decentralization. Yuwono (2008) defined that Revenue Sharing Fund are received from the distribution of tax and natural resource revenues between the central and local governments. According to the Law of the Republic of Indonesia No. 33 of 2004 article eleven Revenue Sharing Fund acquired through taxes consist of Land and Building Tax (PBB) Revenues, Acquisition Duty of Right on Land and Building (BPHTB), and Income Tax (PPh) article 21, article 25 and article 29 domestic individual taxpayers. Meanwhile, the Revenue Sharing Fund received from natural sources consist of forestry, general mining, fisheries, petroleum mining, natural gasoline mining, and geothermal mining sectors (Indonesia, 2004). Intergovernmental grants enhance the collection of local revenues, and also that the advantageous impact of fiscal transfers on local revenue collection appears to be extra suggested in rural districts (Masaki, 2018).

**General Allocation Fund**
According to the Law of the Republic of Indonesia No. 33 of 2004 article 1 paragraph 21, General Allocation Fund hereinafter referred to as DAU, are a quantity of funds allotted to each independent area in Indonesia every year as improvement funds and as the primary buffer for APBD funding, generally for personnel spending, so that spending on improvement projects are significantly reduced. The need for General Allocation Fund in a region is decided through using fiscal gap and primary allocation concept approaches. The fiscal gap is calculated from the fiscal need minus the regional fiscal capacity. Regional fiscal desires are regional funding desires measured
successively through the quantity of population, area, Construction Cost Index (CCI), Gross Regional Domestic Product (GRDP) per capita, and Human Development Index (HDI) to enforce common primary service functions. Meanwhile, regional fiscal capability is a source of regional funding originating from Local Own-Source Revenue and Revenue Sharing Fund. In different words, General Allocation Fund serve to cover gaps triggered through regional needs that exceed the revenue of the region concerned. Based on the idea of fiscal gap, regions with larger economic capability will obtain smaller General Allocation Fund, and conversely (Indonesia, 2004).

**Special Allocation Fund**

According to the Law of the Republic of Indonesia No. 33 of 2004 article 1 paragraph 23 Special Allocation Fund (DAK) are funds originating from the APBN allocated to each region to assist finance special needs as regional affairs and in conformity with national priorities. Special Allocation Fund are allocated through considering the availability of funds in the APBN. In the Law of the Republic of Indonesia No. 33 of 2004, Special Allocation Fund have criteria that consist of common criteria, specific criteria, and technical criteria. The common standards for the Special Allocation Fund are decided through considering the regional economic capability in the APBD. The special criteria for Special Allocation Fund are decided through considering statutory regulations and regional characteristics. Meanwhile, the technical criteria for Special Allocation Fund are decided through the state ministries/technical departments (Indonesia, 2004).

**Local Expenditure**

According to the Law of the Republic of Indonesia No. 33 of 2004 article 1 paragraph 14, Local Expenditure is all regional liabilities identified as a deduction for net worth assets in the period of the fiscal year concerned. Yuwono (2008) mentioned that Local Expenditure is all expenditures from the regional common treasury which consequences in a reduction in the value of equity as a regional liability in one fiscal year. According to the Central Bureau of Statistics, the classification of Local Expenditure is divided into direct expenditure and oblique expenditure *(Financial Statistics of Provincial and Regency/City Governments in Central Java 2016-2018, 2019)*. Indirect expenditure, in accordance to the Central Bureau of Statistics, indirect expenditure is budgeted expenditure however is no longer directly associated to the application of programs and activities to be implemented. The presence or absence of activities does not affect indirect expenditure. The quantity of indirect expenditure remains particularly constant from year to year to the variability of programs or activities. Indirect expenditures consist of Personnel Expenditure in the form of Salaries and Allowances that Have Been Stipulated through Law, Interest Expenditure, Subsidy Expenditure, Grant Expenditure, Social Assistance Expenditure, Profit Sharing Expenditure to Provincial/Regency/City and Village Governments, Financial Assistance Expenditure to the Provincial/Regency/City and Village Government, and Unexpected Expenditures *(Financial Statistics of Provincial and Regency/City Governments in Central Java 2016-2018, 2019)*. Direct expenditure, in accordance to the Central Bureau of Statistics, is a group of Local Expenditures budgeted directly associated to the implementation of programs/activities. The fee value of every direct expenditure will be immediately affected by the variety of programs. Direct expenditures consist of Personnel Expenditure, Goods and Services Expenditure, and Capital Expenditure. While good and service expenditure has positive and substantial on directly impact
to economic growth (Pratolo & Binang Sukma Yudha, 2012).

**Poverty Level**

Poverty is a situation of one's incapability to fulfill basic needs such as food, clothing, shelter, and health. This situation of incompetence is represented by the low capability of earnings to fulfill basic needs in the form of food, apparel and shelter. This low income capability will also limit the ability to achieve average living standards such as public health standards and education requirements (Rasu et al., 2019).

Meanwhile, the poor are people who have an average expenditure per capita per month under the poverty line. The Poverty Line (GK) consists of two components, namely Food Poverty Line (GKM) and Non-Food Poverty Line (GKNM), the system is:

\[ GK = GKM + GKNM \]

Food Poverty Line (GKM) is the value of minimum food expenditure, which is equal to 2,100 kilocalories per capita per day. Non-Food Poverty Line (GKNM) is the minimal need for housing, clothing, education, and health. Poverty can be classified into two (two), the origin of the reason and the concept (Financial Statistics of Provincial and Regency/City Governments in Central Java 2016-2018, 2019).

Conceptually, poverty is conceptually divided into two types, namely: (a) Relative Poverty, relative poverty is poverty that is assessed from a predetermined standard of living and decided subjectively through the local community and is local in nature. (b) Absolute Poverty, absolute poverty is poverty that is assessed from the minimum standard of living in the form of food and non-food to meet the primary needs required (Financial Statistics of Provincial and Regency/City Governments in Central Java 2016-2018, 2019).

Decentralisation advocates argue that decentralised governments are more adaptable to the needs of the poor than central governments and for that reason are more possibly to conceive and enforce pro-poor policies (Crook, 2003). However, research conducted by Kumpangpune et al., (2019) showed that economic growth has a negative and not significant impact on poverty.

**Economic Growth**

Economic growth suggests an increase in production and service capability within a certain period. In general, economic growth is described as an extend in the capability of an economy to produce goods and services. Economic growth exhibit the extent to which economic activity will generate extra public profits in a certain period. This is commonly measured using the Gross Domestic Product (GDP) data. Economic growth is different from economic development, both of which have barely different meanings even though they both explain improvement (Welianto, 2020). Inflation control need to be carried out through various policies that can extend economic growth that can enhance people's welfare (Supriyatno, 2020). Fiscal autonomy has a positive influence on economic growth across provinces in Vietnam (Nguyen et al., 2019). The study found empirical evidence of positive results of revenue decentralization, transfer dependency, and vertical fiscal imbalance on regional economic growth across 5 regions (Nantharath et al., 2020). The economic growth has significant effect on the social welfare (Simanjuntak et al., 2017). Growth–equity decomposition proves that economic growth has been responsible for much of the poverty reduction (Asra, 2000).

**Local Own-Source Revenue, Economic Growth and Poverty Level**

Local Own-Source Revenue or PAD is revenue obtained through regions which is accumulated primarily based on regional regulations according to statutory regulations in order to finance activities
that will be carried out through local governments. In accordance with the goals of the implementation of regional autonomy, the Local Own-Source Revenue is aimed at enhancing the public welfare with the aid of enhancing economic growth which in turn will decrease the level of poverty that takes place in the region. In regional financial management, the use of PAD is more flexible than with balancing funds, however must still be managed as government revenue with the principles of transparency and responsibility (Swandewi, 2014). PAD has great potential for funding programs that can extend economic growth and minimize poverty.

Kusumadewi & Rahman (2007) mentioned that whether or not the General Allocation Fund and Regionally Original Income have an impact on the regions’ spending. Local own-source revenue, general allocation fund, and population quantity has a substantial impact towards local expenditure (Aziza & Sumardjo, 2020). PAD and DAU positively and substantially influence local government expenditure (Tasri, 2018). Local own-source revenue, general allocation fund, and population amount has a significant effect towards local expenditure (Aziza & Sumardjo, 2020). Research performed by Hidayah & Hari Setiyawati (2014) confirmed that Local Governance Revenue advantageous and substantial influence on Direct Expenditure. Research carried out by Subowo & Endar Rosita Wati (2010) was once indicated that there are big relationship between PAD and stability fund with capital expenditure. Regional original income and balance funds have a substantial positive influence on capital expenditure in Central and East Java (Hardiningsih et al., 2020). Local own-source revenue has a positive and significant effect on regional expenditures (Fakhroni & Irwansyah, 2019). The research carried out by way of Darwanis & Saputra (2014) was indicated that local original income effect on financial performance. Research conducted by Perwita Sari et al.,(2018) indicated that financial performance of local government is influenced through the PAD. Thus, it can be considered if the Local Own-Source Revenue has a negative and significant effect on decreasing the poverty level. This is in line with the results of research performed by Lisa et al., (2017) and Jolianis (2016). There is an indirect impact of District Own Revenue and General Allocation Fund on Regional Economic Growth through Capital Expenditure (Widyastuti & Rahmawati, 2020). Partially variable PAD, DBH, DAU and Economic Growth influence significantly to capital expenditure (Sudrajat & Purniawati, 2018). Regional Own source Revenue has a significant effect on economic growth (Simanjuntak et al., 2017). Regional Own Local Expenditure has a positive and significant impact on regional economic growth (Imamah, 2018). Local Original Income has a negative and significant impact on the poverty level (Rasu et al., 2019). Using the least square panel method, the results exhibit that the Local Revenue has a significant negative impact on poverty charge (Astuti et al., 2019).

**H1:** Local Own-Source Revenue has a significant effect on economic growth  
**H2:** Local Own-Source Revenue has a significant effect on poverty levels

**Revenue Sharing Fund, Economic Growth and Poverty Level**  
Because states and localities are not equal in their income, federal government intervention is usually needed. Allocation of resources can be done effectively by states and local governments (Kapucu, n.d.). Most of the transfer funds to the regions are block grant (can be used freely by the region and fully accounted for) at the regional level, namely to the DPRD) (Nurhemi, 2015). Revenue Sharing Fund are money sourced from APBN revenues.
allotted by using the central government to local governments primarily based on share figures to fund regional needs in the implementation of decentralization. As one of the components of the balancing fund, Revenue Sharing Fund has great potential to be used to increase economic growth and reduce poverty levels in the implementation of decentralization.

Lisa et al., (2017) mentioned that Revenue Sharing Fund have a negative and significant impact on poverty levels. Revenue Sharing Fund has a positive impact in the direction of the Local Government Budget (Syahrina & , 2020). Regional original income and balance funds have a significant positive influence on capital expenditure in Central and East Java (Hardiningsih et al., 2020). Revenue Sharing Funds, and Special Allocation Funds have a positive and significant effect on Capital Expenditures (Bolen & Payamta, 2019). Partially variable PAD, DBH, DAU and Economic Growth influence significantly to capital expenditure (Sudrajat & Purniawati, 2018). Balanced Budget has a significant impact on Capital Expenditure (Rianti et al., 2020).

Balancing funds have a positive and significant effect on regional expenditures (Fakhroni & Irwansyah, 2019). The greater the Revenue Sharing Fund obtained through the local government with suitable management, the goal of regional autonomy can be accomplished that is to welfare the region through enhancing economic growth which leads to a reduction in the poverty level.

H1: Revenue Sharing Fund has a significant effect on economic growth  
H2: Revenue Sharing Fund has a significant effect on the poverty level

General Allocation Fund, Economic Growth and Poverty Level  
Because states and localities are not equal in their income, federal government intervention is needed. Allocation of resources can be accomplished successfully through states and local governments (Kapucu, n.d.). Most of the transfer funds to the regions are block grant (can be used freely by the region and completely accounted for) at the regional level, particularly to the DPRD) (Nurhemi, 2015). General Allocation Fund are dollars transferred through the central authorities to local governments for the common needs for equal distribution of regional economic capability to overcome imbalances that occur between regions. Although regions with larger economic capability will obtain smaller general allocation fund, the general allocation fund can still be potential to support the implementation of programs to increase economic growth and reduce regional poverty.

Paulus et al., (2017) mentioned that General Allocation Fund obtained by local governments are expected to be more proportional towards applications and activities that improve economic growth and support poverty alleviation so that the contribution of the General Allocation Fund to the poverty degree can be further increased. The research carried out by Kusumadewi & Rahman (2007) mentioned that whether or not the General Allocation Fund and Regionally Original Income affect the regions’ spending. Local own-source revenue, general allocation fund, and population quantity has a significant influence towards local expenditure (Aziza & Sumardjo, 2020). PAD and DAU positively and significantly influence local government expenditure. However, the DAU more affects local government expenditure than PAD (Tasri, 2018). Local own-source revenue, general allocation fund, and population amount has a significant effect towards local expenditure (Aziza & Sumardjo, 2020). Research performed by Hidayah & Hari Setiyawati (2014) confirmed that General Allocation Fund positive and significant influence on Expenditure. The research
performed by Prakosa (2004) indicated that the DAU has greater capacity to predict district’s spending than the PAD. This is in line with the research results of Lisa et al., (2017) and Saraswati & Sudarsana Arka (2016) which state that General Allocation Fund has a negative and significant impact on poverty levels. There is an indirect impact of District Own Revenue and General Allocation Fund on Regional Economic Growth by Capital Expenditure (Widyastuti & Rahmawati, 2020). Partially variable PAD, DBH, DAU and Economic Growth influence significantly to capital expenditure (Sudrajat & Purniawati, 2018). General Allocation Fund have a significant positive impact on economic growth (Talangamin et al., 2018). This study concluded that the DAU, DAK, and Village Funding variables becoming significantly influencing the rural poverty reduction in Indonesia (Ambya et al., 2019).

H5: General Allocation Fund has a significant effect on economic growth

H6: General Allocation Fund has a significant effect on poverty levels

Special Allocation Fund, Economic Growth and Poverty Level

Because states and localities are not equal in their income, federal government intervention is needed. Allocation of resources can be achieved correctly by states and local governments. (Kapucu, n.d.). Most of the transfer funds to the areas are block grant (can be used freely by the region and totally accounted for) at the regional level, specifically to the DPRD) (Nurhemi, 2015). Special Allocation Fund (DAK) are funds originating from the APBN allocated to each region to assist finance special needs as regional affairs and in conformity with national priorities. National priorities should be in line with national and regional development goals, namely the welfare of the community with various programs to support economic growth and poverty alleviation. Special allocation fund has great potential to be used to support regional economic development programs and regional poverty alleviation.

According to Lisa et al., (2017) the allocation of Special Allocation Fund tends to extend the fixed assets owned through the regional government, so that it is expected to enhance public services. The Special Allocation Fund are directed to fund special long-term activities, which are expected to be capable to enhance economic growth and decrease regional poverty levels. Revenue Sharing Funds, and Special Allocation Funds have a positive and significant effect on Capital Expenditures (Bolen & Payamta, 2019). In line with this, the result of research by Paulus et al., (2017) states that Special Allocation Fund has a negative and significant influence on poverty levels. Special Allocation Fund have a significant positive influence on economic growth (Talangamin et al., 2018). This study concluded that the DAU, DAK, and Village Funding variables becoming significantly influencing the rural poverty reduction in Indonesia (Ambya et al., 2019).

H7: Special Allocation Fund has a significant effect on economic growth

H8: Special Allocation Fund has a significant effect on poverty levels

Local Expenditure, Economic Growth and Poverty Level

Regional government spending is the value of spending made through local governments that are used for the advantage of the community. The role of local government spending in the economy is not considered from the nominal size, but from the value of policies that can stimulate economic growth (PDRB), should be capable to affect the economy in the area. Thus, government spending is an aspect that has a primary function in economic growth and poverty alleviation (Imamah, 2018). Local government
spending should be focused on achieving regional prosperity goals through increasing economic growth and poverty alleviation. Regional spending has enormous potential to increase economic growth and reduce poverty levels. According to Swandewi (2014), an extend in Local Expenditure will increase facilities and infrastructure in economic improvement which in turn will create jobs for the neighborhood which will later enhance economic growth and public welfare. The higher the public spending, the higher the funding in the provision of facilities and infrastructure and public services, so that public welfare will extend and decrease the poverty level. Purnami & Saskara (2016) mentioned that direct expenditure in the APBD prioritizes the implementation of regional government affairs. Direct expenditure is outlined in packages and activities, which its performance advantages can be felt by the community in enhancing the excellent of public services. Thus, economic growth increases and consequences in a decrease in the degree of poverty. Local Expenditure has a positive and significant influence on regional economic growth (Imamah, 2018). The research carried out by Rizky et al., (2016) was indicated that overseas direct investments, domestic direct investments, and capital expenditures have positive and significant effects towards provincial economic growth in Indonesia from the 12 months 2010-2013 partially and simultaneously. Research performed by Sodik (2007) located that the regional economic growth for periods 1993-2003 is affected by government investments, authorities consumption, labor force and fee openness economic province. The suitable and efficient allocation of Local Expenditures will be capable to decrease poverty levels (Iskarno et al., 2014). Being consistent with the research result of Paulus et al., (2017) which states that Local Expenditure has a negative and significant effect on poverty levels. The results show that in order to decrease rural poverty, the Indian government have to give perfect priority to additional investments in rural roads, agricultural research and education. These types of investment now not only have much larger poverty effect per rupee spent than any other government investment, but also generate greater productivity growth (Fan et al., 2000).

**H9: Local Expenditure has a significant effect on economic growth**

**H10: Local Expenditure has a significant effect on poverty levels**

Based on the above explanation, the framework can be described as follows

![Research Framework](image-url)
RESEARCH METHOD
The population in this study were all districts and cities in the province of Central Java totalling 29 districts and 6 cities with an observation period of 10 years from 2009-2018. The data of this study were sourced from secondary data. The data were acquired from the official internet site of the Central Bureau of Statistics Central Java through gaining access to the internet site www.jateng.bps.go.id/publication. Central Java is traversed by numerous national roads and as much as 47% of the population is the labor force. Central Java is also home to a variety of large and medium-sized industries. Central Java province can represent the profile of a province that has sufficient fiscal independence to increase economic growth and reduce regional poverty levels. Meanwhile, the data collection method used was mechanical observation technique. This study uses 2 observation periods. The period (t+1) is used to examine the effect of the independent variable on the dependent variable one year after the income is obtained or the expenditure is made. While the period (t+2) is used to investigate the effect of the independent variable on the dependent variable two years after the income is received or the expenditure is made. The use of 2 observation periods is supposed to explore the effect of the independent variable on the dependent variable more precisely.

Table 1. Definition of Dependent Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty</td>
<td>an incapacity to meet the minimal standard of basic needs which consists of food and non-food needs</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>the amount of gross added value arising from all economic sectors in the region and measured by Gross Regional Domestic Product (GRDP)</td>
</tr>
</tbody>
</table>

Source: Previous research processed in 2020

Table 2. Definition of Independent Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Own-Source Revenue</td>
<td>revenue acquired through the region which is accumulated based on regional regulations below statutory regulations.</td>
</tr>
<tr>
<td>Revenue Sharing Fund</td>
<td>funds originating from tax and natural resource revenues in the APBN allotted to finance specific expenditure in the areas which are given to 35 districts/cities in Central Java consisting of tax Revenue Sharing Fund and non-revenue/natural useful resource sharing funds</td>
</tr>
<tr>
<td>General Allocation Fund</td>
<td>funds derived from APBN revenues which are allotted to equalize financial capability between regions as funding for regional needs.</td>
</tr>
<tr>
<td>Special Allocation Fund</td>
<td>funds rising from APBN revenues to assist finance specific needs as regional affairs in conformity with national priorities</td>
</tr>
<tr>
<td>Local Expenditure</td>
<td>spending made by 35 districts/cities in Central Java, which consists of regional direct expenditure and regional indirect expenditure</td>
</tr>
</tbody>
</table>

Source: Previous research processed in 2020

The data in this study would be analyzed using multiple regression analysis at the 5% significance level.

RESULT AND DISCUSSION
Results
Descriptive statistics are presented in table 3 dan 4.
Table 3. Descriptive Statistics Variable Observation Period (t+1)

<table>
<thead>
<tr>
<th>No</th>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Local Own-Source Revenue</td>
<td>5.30</td>
<td>37.47</td>
<td>13.2497</td>
<td>5.00232</td>
</tr>
<tr>
<td>2</td>
<td>General Allocation Fund</td>
<td>24.89</td>
<td>58.48</td>
<td>45.5624</td>
<td>5.57071</td>
</tr>
<tr>
<td>3</td>
<td>Revenue Sharing Fund</td>
<td>1.06</td>
<td>13.41</td>
<td>2.8084</td>
<td>1.89452</td>
</tr>
<tr>
<td>4</td>
<td>Special Allocation Fund</td>
<td>0.00</td>
<td>18.04</td>
<td>7.8437</td>
<td>4.52032</td>
</tr>
<tr>
<td>5</td>
<td>Local Expenditure</td>
<td>69.82</td>
<td>99.21</td>
<td>87.9057</td>
<td>5.35463</td>
</tr>
<tr>
<td>6</td>
<td>Economic Growth</td>
<td>4.14</td>
<td>22.40</td>
<td>12.4987</td>
<td>3.90871</td>
</tr>
<tr>
<td>7</td>
<td>Poverty Level</td>
<td>4.11</td>
<td>6.45</td>
<td>5.4748</td>
<td>0.41701</td>
</tr>
</tbody>
</table>

Source: Secondary data processed in 2021

Table 4. Descriptive Statistics Variable Observation Period (t+2)

<table>
<thead>
<tr>
<th>No</th>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Local Own-Source Revenue</td>
<td>4.68</td>
<td>27.91</td>
<td>11.7122</td>
<td>4.66439</td>
</tr>
<tr>
<td>2</td>
<td>General Allocation Fund</td>
<td>8.60</td>
<td>69.39</td>
<td>49.3530</td>
<td>7.60880</td>
</tr>
<tr>
<td>3</td>
<td>Revenue Sharing Fund</td>
<td>1.06</td>
<td>13.41</td>
<td>3.3524</td>
<td>1.94641</td>
</tr>
<tr>
<td>4</td>
<td>Special Allocation Fund</td>
<td>0.21</td>
<td>17.94</td>
<td>6.6980</td>
<td>3.71156</td>
</tr>
<tr>
<td>5</td>
<td>Local Expenditure</td>
<td>69.82</td>
<td>97.02</td>
<td>87.6992</td>
<td>5.13088</td>
</tr>
<tr>
<td>6</td>
<td>Economic Growth</td>
<td>4.76</td>
<td>20.50</td>
<td>12.0230</td>
<td>3.49533</td>
</tr>
<tr>
<td>7</td>
<td>Poverty Level</td>
<td>3.58</td>
<td>6.39</td>
<td>5.4533</td>
<td>0.45314</td>
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</table>

Source: Secondary data processed in 2021

Table 5. The Results of the Classical Assumption Test of the Regression Equation of the Observation Period (t + 1)

<table>
<thead>
<tr>
<th>No</th>
<th>Test Type</th>
<th>Dependent Variable</th>
<th>Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Normality</td>
<td>Economic Growth</td>
<td>0.200</td>
<td>Normal distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>0.200</td>
<td>Normal distribution</td>
</tr>
<tr>
<td>2</td>
<td>Heteroscedasticity</td>
<td>Economic Growth</td>
<td>the dots spread out without a pattern</td>
<td>Homoscedasticity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Autocorrelation</td>
<td>Economic Growth</td>
<td>DW=1.965, du=1.811, dl=1.691</td>
<td>No Autocorrelation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>DW=1.866, du=1.811, dl=1.691</td>
<td>No Autocorrelation</td>
</tr>
<tr>
<td>4</td>
<td>Multicollinearity</td>
<td>Economic Growth</td>
<td>VIF values ranged from 1.232 to 2.189</td>
<td>No Multicollinearity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>VIF values ranged from 1.232 to 2.189</td>
<td>No Multicollinearity</td>
</tr>
</tbody>
</table>

Source: Secondary data processed in 2021

Table 6. The Results of the Classical Assumption Test of the Regression Equation of the Observation Period (t + 2)

<table>
<thead>
<tr>
<th>No</th>
<th>Test Type</th>
<th>Dependent Variable</th>
<th>Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Normality</td>
<td>Economic Growth</td>
<td>0.200</td>
<td>Normal distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>0.200</td>
<td>Normal distribution</td>
</tr>
<tr>
<td>2</td>
<td>Heteroscedasticity</td>
<td>Economic Growth</td>
<td>the dots spread out without a pattern</td>
<td>Homoscedasticity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Autocorrelation</td>
<td>Economic Growth</td>
<td>DW=1.869, du=1.829, dl=1.745</td>
<td>No Autocorrelation</td>
</tr>
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</table>
Table 7. The F Test Results and Adjusted R Square Values of the Regression Equation of the Observation Period (t + 1)

<table>
<thead>
<tr>
<th>No</th>
<th>Test Type</th>
<th>Dependent Variable</th>
<th>Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>F test</td>
<td>Economic Growth</td>
<td>0.000*</td>
<td>significant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>0.000*</td>
<td>significant</td>
</tr>
</tbody>
</table>

Source: Secondary data processed in 2021

Table 8. The F Test Results and Adjusted R Square Values of the Regression Equation of the Observation Period (t + 2)

<table>
<thead>
<tr>
<th>No</th>
<th>Test Type</th>
<th>Dependent Variable</th>
<th>Results</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>F test</td>
<td>Economic Growth</td>
<td>0.000*</td>
<td>significant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty Level</td>
<td>0.000*</td>
<td>significant</td>
</tr>
</tbody>
</table>

Source: Secondary data processed in 2021

Table 9. Hypothesis Test Results

<table>
<thead>
<tr>
<th>No</th>
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<th>Period</th>
<th>Regression Coefficient</th>
<th>Significance Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>H1: Local Own-Source Revenue has a significant effect on economic growth</td>
<td>(t+1)</td>
<td>0.024</td>
<td>0.004*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>0.029</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td>2</td>
<td>H2: Local Own-Source Revenue has a significant effect on poverty levels</td>
<td>(t+1)</td>
<td>-0.256</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.524</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td>3</td>
<td>H3: Revenue Sharing Fund has a significant effect on economic growth</td>
<td>(t+1)</td>
<td>-0.049</td>
<td>0.005*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.097</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td>4</td>
<td>H4: Revenue Sharing Fund has a significant effect on the poverty level</td>
<td>(t+1)</td>
<td>-0.494</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.553</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td>5</td>
<td>H5: General Allocation Fund has a significant effect on economic growth</td>
<td>(t+1)</td>
<td>0.011</td>
<td>0.173</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>0.028</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td>6</td>
<td>H6: General Allocation Fund has a significant effect on poverty levels</td>
<td>(t+1)</td>
<td>0.328</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.007</td>
<td>0.828</td>
<td>Rejected</td>
</tr>
<tr>
<td>7</td>
<td>H7: Special Allocation Fund has a significant effect on economic growth</td>
<td>(t+1)</td>
<td>0.022</td>
<td>0.018*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>0.019</td>
<td>0.026*</td>
<td>Accepted</td>
</tr>
<tr>
<td>8</td>
<td>H8: Special Allocation Fund has a significant effect on poverty levels</td>
<td>(t+1)</td>
<td>-0.250</td>
<td>0.000*</td>
<td>Accepted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.055</td>
<td>0.319</td>
<td>Rejected</td>
</tr>
<tr>
<td>9</td>
<td>H9: Local Expenditure has a significant effect on economic growth.</td>
<td>(t+1)</td>
<td>-0.004</td>
<td>0.529</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(t+2)</td>
<td>-0.005</td>
<td>0.386</td>
<td>Rejected</td>
</tr>
</tbody>
</table>
Discussions

The Effect of Original Local Government Revenue on Economic Growth

The results exhibit that local revenue consistently has a positive and significant effect on economic growth both in (t+1) period and (t+2) period. Original local government revenue (PAD) is all revenue acquired from managing the local potential of an area. As the main source of regional income, PAD is of course prioritized on programs to increase regional economic growth. The higher the PAD, the more economic development programs that can be carried out, the higher the regional economic growth.

The research findings is consistent with the results of research performed by Lisa et al. (2017) and Jolianis, (2016). Regional expenditure has a positive and significant impact on regional economic growth. (Imamah, 2018). The research performed by Setiyawati & Hamzah (2007) was indicated that region original revenue have directly significant effect on the economic growth, however have not directly significant impact on the poverty and the unemployment. The research findings is not consistent with the results of research carried out by Tahar, Afrizal dan Zakhiya (2011) that the Local Government Revenue (PAD) and General Allocation Fund (DAU) that is supported through regional independent do not have significant impact towards the economic growth. Original Local Government Revenue does not have significant impact on Capital Expenditure. (Rianti et al., 2020).

The Effect of Original Local Government Revenue on Poverty Level

The research results show that the Original Local Government Revenue consistently has a negative and significant effect on poverty levels both in (t+1) period and (t+2) period. The higher the PAD, the more economic development programs that can be carried out. Regional economic development will increase the production of goods and services, increase community productivity, reduce unemployment and poverty levels.

The research findings support the results of research carried out by Jolianis (2016). Local Original Income has a negative and significant impact on the poverty level. (Rasu et al., 2019) The research performed by Setiyawati & Hamzah (2007) was indicated that region original revenue have directly significant impact on the economic growth, however have indirectly significant impact on the poverty and the unemployment. Original Local Government Revenue does not have significant influence on Capital Expenditure (Rianti et al., 2020).

The Effect of Revenue Sharing Funds on Economic Growth

The research results show that the Revenue Sharing Fund consistently has a negative and significant impact on economic growth both in (t+1) period and (t+2) period. There is an imbalance in the balance of funds from the central to the regions, where the balancing funds (DBH) acquired by the central are higher than the regions so that the DBH allocated from the central to the regions has not been capable to maximize direct spending (development) of local governments and has not succeeded in realizing the higher level of economic growth, in conformity with the goals of regional autonomy. The research findings is consistent with the results of research performed by Lisa et al., (2017). However hypothesis test results simultaneously can be considered a
significant affect between local revenues and balancing funds to fund regional expenditure in Bandung. (Wati & Catur Martian Fajar, 2017). Research conducted by Subowo & Endar Rosita Wati (2010) was indicated that there are significant relationship between PAD and balance fund with capital expenditure. Balanced Budget has a significant influence on Capital Expenditure (Rianti et al., 2020).

**The Effect of Revenue Sharing Funds on Poverty Level**
The research results indicate that the Revenue Sharing Fund consistently has a negative and significant impact on the poverty level both in (t+1) period and (t+2) period. The allocation of appropriate and ideal Revenue Sharing Funds will support regional economic growth which in turn will have an impact on poverty alleviation. The larger the DBH, the greater the additional funds to finance economic development that creates jobs and reduces poverty.

Hypothesis test results simultaneously can be viewed a significant effect between local revenues and balancing funds to fund regional expenditure in Bandung. (Wati & Catur Martian Fajar, 2017). Research performed by Subowo & Endar Rosita Wati (2010) was indicated that there were significant relationship between PAD and balance fund with capital expenditure. Balanced Budget has a significant influence on Capital Expenditure. (Rianti et al., 2020). Higher quantity of intergovernmental transfers fund and the level of the region's autonomy in finance have affects in enhancing the HDI as a dimension of public welfare. (Nugraha & Amelia, 2017).

**The Effect of General Allocation Funds on Economic Growth**
The research results exhibit that the General Allocation Fund has a positive and significant effect on economic growth in (t+1) period, however has a positive and significant effect on economic growth in (t+2) period. General Allocation Fund is a kind of government-level transfer fund that is supposed to substitute transfers in the form of subsidies for autonomous areas and the Presidential Instruction. DAU absorption is not yet significant in (t+1) period so it will take time for DAU to extend economic growth and proven in (t+2) period.

The research findings is not consistent with the results of research carried out by Tahar, Afrizal dan Zakiya (2011) that the Local Government Revenue (PAD) and General Allocation Fund (DAU) that is promoted by regional independent do not have significant effect toward the economic growth. The research findings support the results of research performed by Jolianis (2016). The research carried out by Setiyawati & Hamzah (2007) was indicated that general fund allocation have directly significant influence on the economic growth, however have indirectly significant impact on the poverty and the unemployment.

**The Effect of General Allocation Funds on Poverty Level**
The research results exhibit that the General Allocation Fund has a positive and significant effect on poverty levels in (t+1) period however has a negative and insignificant effect on poverty level in (t+2) period. The absorption of general allocation funds is still not significant, consequently the government must prioritize the allocation of general allocation funds and capital expenditures in regions that are directly in contact with the public interest, such as infrastructure or facilities that can stimulate economic growth and minimize poverty levels. It takes time for the DAU to be completely absorbed and have an affect on lowering poverty. Still, the General Allocation Fund may be used by regions for unproductive regional operations that are not associated to infrastructure improvement that can enhance economic growth so that it does not have a direct effect on public welfare.
which in turn can't decrease the poverty level (Isramiwarti et al., 2017).

The research findings support the results of research performed by Jolianis (2016). The research conducted by Setiyawati & Hamzah (2007) was indicated that general fund allocation have directly significant effect on the economic growth, but have indirectly significant effect on the poverty and the unemployment. General Allocation Fund has a positive and not significant impact on poverty. (Rasu et al., 2019).

**The Effect of Special Allocation Funds on Economic Growth**

The research results show that the Special Allocation Fund consistently has a positive and significant effect on economic growth both in (t+1) period and (t+2) period. The Special Allocation Fund given to local governments have been used to empower local potentials with specific needs, for example, viewed from the quantity of poor villages, low economic growth under the national average, and fiscal needs. The Special Allocation Fund had a function in encouraging economic activities following the local economic characteristics and potential. The Special Allocation Fund have been directed for offering education, offering skills training, and enhancing local infrastructure. The greater the DAK, the greater the funds that can be used to empower regional potential, the higher the regional economic growth.

The research findings support the results of research carried out by Jolianis (2016). Meanwhile the special allocation fund partially does not have a significant impact on local expenditure (Aziza & Sumardjo, 2020). Research conducted by Hidayah & Hari Setiyawati (2014) confirmed that Specific Allocation Fund had no significant effect toward Direct Expenditure. Research conducted by Sarkoro & Zulfikar (2016) confirmed that Local Government Expenditure, General Allocation Fund, Special Allocation Fund and Original Local Government Revenue have a positive significant effect on the Human Development Index simultaneously.

**The Effect of Special Allocation Funds on Poverty Level**

The research results exhibit that the Special Allocation Fund has a negative and significant effect on the poverty level in (t+1) period and has a negative and insignificant impact on the poverty level in (t+2) period. The allocation of the Special Allocation Fund tends to enlarge the fixed assets owned by local governments to enhance public services and is directed to fund specific long-term activities that are expected to decrease poverty levels (Lisa et al., 2017). There are numerous programs that have been implemented, such as conditional food assistance program, assistance for poor students, household hope program, temporary direct community assistance. However, even though there have been many poverty reduction programs that have been carried out, it turns out that the quantity of poor people has not diminished significantly. This is because these programs can only minimize poverty in the short term but can't enlarge community productivity and minimize poverty in the long term.

The research findings support the results of research carried out by Jolianis (2016). Meanwhile the distinct allocation fund partially does not have a significant influence towards local expenditure (Aziza & Sumardjo, 2020). Research conducted by Hidayah & Hari Setiyawati (2014) showed that Specific Allocation Fund had no significant effect toward Direct Expenditure. Research conducted by Sarkoro & Zulfikar (2016) confirmed that Local Government Expenditure, General Allocation Fund, Special Allocation Fund and Original Local Government Revenue have a positive significant influence to the Human Development Index simultaneously. Special Allocation Fund has a positive and insignificant impact on poverty (Rasu et al., 2019).
The Effect of Regional Expenditure on Economic Growth

The research results exhibit that regional expenditure consistently has a negative and insignificant effect on economic growth both in (t+1) period and (t+2) period. The allocation of capital expenditures is not primarily based on regional needs for facilities and infrastructure for the community, however, is used for non-productive routine expenditures such as personnel expenditures, business trips, and maintenance expenditures so that they are unable to enlarge economic productivity and finally can’t affect regional economic growth. For development spending, it can be due to leakage or irregularities, fraud, and misuse of cash.

The research carried out by Arief et al., (2018) was indicated that local government capital expenditure has negative and insignificant impact on economic growth. The research carried out by Darwanis & Saputra (2014) was indicated that capital expenditures does not affect on the economic performance directly. The research carried out by Sodik & Nuryadin (2005) mentioned that direct home investments and inflation rate do not have an impact on to regional economic growth. The research carried out by Apriana & Suryanto (2010) indicated that capital expenditure did not significantly affect economic growth. Research conducted by Iskarno et al. (2014) was indicated that there was a significant positive effect between stage of education and infrastructure to economic growth.

The Effect of Regional Expenditure on Poverty Level

The research results exhibit that Regional Expenditure constantly has a positive and significant effect on the poverty level both in (t+1) period and (t+2) period. So far, regional spending policies have not been effective in lowering poverty. This is because the economic development that has been carried out so far is still exclusive in nature only takes into account elements of financial growth however does not take into account absorption labor force, leading to high unemployment and increasing poverty (Zakariya, 2016).

Research carried out by Iskarno et al., (2014) was indicated that there was a significant positive effect between level of education and infrastructure to economic growth. Government spending has a significant influence on the educational dimension (Rahmawati & Nur Intan, 2020). The suitable and efficient allocation of regional expenditures will be capable to decrease poverty levels. Research performed by Arief et al., (2018) was indicated that local government capital expenditure has negative and insignificant impact on labor absorption.

CONCLUSION

This study concludes that balancing funds have an effect on increasing economic growth (except DBH) and decreasing poverty levels although not as effective as PAD. In contrast, local expenditure does not have an effect on increasing economic growth and decreasing poverty levels.

This study supports the fiscal federalism theory, that the allocation of sources can be accomplished effectively by states and local governments. Balancing funds have an effect on increasing economic growth and decreasing poverty levels. Fiscal decentralization potentially has the power for poverty reduction when it was designated by greater financial autonomy of the local units with appropriate budgetary allocation, prioritization, accountability and responsiveness. Accountability and appropriate regulation may decrease some institutional setbacks such as corruption from the system (Agyemang-Duah et al., 2018).

The research findings support the results of research carried out by Hiktaop et al., (2020) which confirmed that fiscal decentralization positively affected the economic growth and the enchancment in
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public welfare, however negatively affected poverty. Fiscal decentralization has a positive and significant impact on improving community welfare. It means that the better the implementation of fiscal decentralization, the higher the level of community welfare (Zahari et al., 2018). The research findings do not support the results of research conducted by Siregar & Badrudin (2019) that fiscal decentralization has a significant effect on capital expenditure in districts’ APBD in Indonesia. Fiscal decentralization has no significant effect on economic growth and social welfare of districts in Indonesia (Siregar & Badrudin, 2019).
The rejection of hypothesis testing possibly caused by the weaknesses of local government control. Locally generated income, capital expenditure, and previous year’s internal control weaknesses positively influenced the weaknesses of local government control. Lack of supervision among revenues and expenditures diminished the local government internal control system quality. (Kiswanto et al., 2020). The use of general allocation funds needs to be monitored by certain institutions and prioritizing public interest (Basuki et al., 2019). Without a strong local government control through local government internal control system, a well planned program can not meet its effectiveness to expand economic growth and minimize poverty level.
The limitation in this study is that it only uses districts and cities in the province of Central Java as research objects, so that the results of this study are less generalizing. Suggestions for future research is to use any other dependent variable, such as unemployment level and human development index.
The government in districts/cities in Central Java needs to reorganize its financial development policies for poverty alleviation. Inclusive development is one of the development concepts that has the primary purpose of lowering poverty. Inclusive development should contain three important aspects, particularly success in increasing job opportunities to the community, success in supplying guarantees of equal access to sources economic power, and the availability of social safety nets (Zakariya, 2016).

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