

How Regional Income Affects Poverty Reduction: A Study of Central Java (2017-2020)

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Abstract

Poverty remains one of the most pressing development challenges in Central Java, where regional disparities and limited fiscal capacity continue to hinder the effectiveness of poverty alleviation programs. Despite substantial transfers from the central government, inefficiencies in fund allocation combined with low fiscal independence at the local level have slowed progress in reducing poverty. This study examines the impact of regional fiscal instruments and macroeconomic factors on poverty levels across 34 districts and cities in Central Java from 2017 to 2020. Using panel data and the Feasible Generalized Least Squares (FGLS) method, supported by diagnostic tests to ensure the model meets the BLUE (Best Linear Unbiased Estimator) criteria. The findings reveal that Regional Original Income (PAD), Other Legitimate Income, and Gross Regional Domestic Product (GRDP) per capita play a role in reducing poverty, although the effects of PAD and Other Legitimate Income are only marginally significant. By contrast, Balancing Funds from the central government are positively and significantly associated with higher poverty rates, suggesting inefficiencies in their distribution and utilization. The Open Unemployment Rate is found to have no significant effect on poverty during the study period. Taken together, these results underscore the importance of strengthening local fiscal capacity, enhancing the efficiency of central government transfers, and promoting inclusive economic growth as integral components of long-term poverty reduction strategies in the region.

Keywords: Balancing Funds, Central Java, Gross Regional Domestic Product, Poverty Rate, Regional Original Income.

1. Introduction

It is crucial to delve deeper into the factors that affect the poverty rate in Central Java. In this regard, the determinants encompass a range of fiscal and economic factors, including Regional Original Income (PAD), balancing funds (such as general and special allocation funds), other legitimate income, Gross Regional Domestic Product (GRDP), and unemployment rate. These factors, whether directly or indirectly, shape the fiscal capacity of local governments to deliver public services and implement poverty alleviation initiatives while also mirroring the actual economic conditions that impact community income.

Sinaga et al. (2023) emphasize that PAD and regional expenditure have a significant impact on poverty reduction by enhancing the region's ability to provide social services and support local economic development. On the other hand, Seymour & Turner (2002) suggest that intergovernmental transfer funds are crucial in reducing fiscal disparities, enabling less affluent regions to continue providing essential basic services to vulnerable populations.



Furthermore, Suryadarma et al. (2006) from SMERU demonstrate that regional economic growth, as indicated by GRDP, has the potential to substantially reduce poverty if it is inclusive, particularly when accompanied by extensive job creation. They emphasize that high unemployment can hinder the transmission of growth benefits to impoverished groups, making it crucial to integrate employment considerations into poverty reduction strategies.

There is a noticeable gap in previous research that requires attention. Earlier studies failed to explore the interaction between financial tools and economic factors across the 34 regions of Central Java. They also overlooked the effectiveness of government funding in alleviating poverty. This research addresses that gap by employing the Feasible Generalized Least Squares (FGLS) method, which offers improved data handling compared to older techniques. The study investigates the influence of financial and economic factors on poverty in Central Java from 2017 to 2020. By analyzing local financial and economic trends, it sheds light on the impact of financial policies on poverty at the local level.

This research stands out because it uniquely integrates financial and economic factors within a local context, which is uncommon for Central Java despite its regional diversity. By utilizing FGLS along with comprehensive tests, this study delivers more dependable results for policy-making. This dual emphasis on context and methodology makes the research both original and valuable for academic discourse and practical policy recommendations.

2. Literature Review

2.1. Poverty Levels

To fully comprehend the complexity of poverty, it is essential to examine the various definitions proposed by scholars and global organizations. According to Sen (1999) poverty extends beyond just a lack of income; it represents a deprivation of fundamental capabilities necessary for a fulfilling life. This view shifts the emphasis from solely economic measures to a more human-centered and multifaceted perspective. Similarly, the Islam (2002) describes poverty as a state of welfare deprivation encompassing multiple dimensions, including low income and the inability to access essential goods and services necessary for a dignified life.

Todaro & Smith (2015) describe poverty as a condition where individuals or communities lack the financial means and necessities to meet a minimum living standard. Supporting this notion, Alkire & Foster (2011) introduced the multidimensional poverty approach, highlighting that poverty arises when a person simultaneously faces various forms of deprivation, such as in health, education, and living standards. These diverse perspectives suggest that poverty is a multifaceted issue that cannot be understood from a single viewpoint but must be considered holistically, taking into account economic, social, and human capability factors.

2.2. Regional Original Income

In examining regional fiscal issues, Regional Original Income, known as Pendapatan Asli Daerah (PAD), serves as a crucial measure of a local government's fiscal strength and autonomy. PAD encompasses all income generated by a region from its local economic resources, including regional taxes, fees, income from the management of regionally owned assets that are separated, and other legitimate local revenues. As noted by Halim (2007), PAD indicates a region's ability to fund its public expenditures independently, thereby minimizing its reliance on central government transfers. Similarly, research by Sihombing et al. (2025), suggests that an increase in PAD is positively associated with a region's ability to deliver public services and reduce disparities between regions. Furthermore, Adisasmita (2011) highlights

that enhancing PAD can bolster fiscal autonomy and expedite local economic growth, particularly in areas with abundant resource potential.

2.3. Balancing Funds

In the context of fiscal decentralization, the balancing fund serves as the primary tool used by the central government to promote regional autonomy, particularly in addressing fiscal imbalances among regions. This fund is characterized as a financial transfer from the central to regional governments, intended to meet regional needs within the framework of decentralization and to ensure equitable financial capacity across regions. As noted by Mardiasmo (2009), the balancing fund comprises the Revenue Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK), each playing a crucial role in bolstering regional finances. Similarly, Tadjoeeddin et al. (2001), the government allocates fiscal balance funds to redistribute wealth from provinces rich in resources to less affluent areas and to Jakarta, which results in uneven regional development. Additionally, research by Wau & Mendrofa (2022), suggests that the effective utilization of the balancing fund can improve the quality of public services and accelerate economic development at the local level.

2.4. Other Legitimate Income

Within the framework of Regional Original Income (PAD), aside from primary elements like taxes and levies, there exist additional legitimate income components that supplement regional fiscal resources. These other legitimate revenues encompass all local income that does not fit into the categories of regional taxes, levies, or income from the separate management of regional assets, yet still have a legal foundation and the potential to aid in financing regional development. As noted by Halim (2007), this category may include income from asset sales, interest earnings, fines, and other receipts that may be either sporadic or continuous. Furthermore, Dewi et al. (2025), assert that the income generated from these sources is significantly influenced by the potential of each region.

2.5. Gross Regional Domestic Product

In the realm of regional economic analysis, the Gross Regional Domestic Product (GRDP) serves as the primary metric for evaluating a region's economic performance over a specified period. GRDP represents the aggregate gross value added by all business entities within a region, encompassing the primary, secondary, and tertiary sectors, while excluding depreciation and interregional transfers. According to Statistics Indonesia, GRDP can be reported at either current or constant prices, each illustrating the nominal economic size and the actual economic growth of a region over time. Additionally, Arsyad (2010), notes that GRDP is a crucial foundation for development planning, assessing community economic welfare, and evaluating the effectiveness of regional fiscal policies.

2.6. Unemployment

To understand the employment dynamics within a nation, it is essential first to comprehend how unemployment is defined in various international sources. Unemployment refers to the condition in which individuals who are part of the labor force are actively seeking work but cannot find it. As noted by unemployment signifies a labor market imbalance, where the supply of labor surpasses the demand from employers. Additionally, Elsby et al. (2010), suggest that unemployment not only highlights the lack of available jobs but also reflects the dynamic processes of job separation (ending employment) and job acquisition (securing employment), which are significantly affected by macroeconomic conditions, market adaptability, and labor regulations. In this regard, unemployment is both a social issue and a

structural economic challenge that necessitates suitable policy measures. Therefore, understanding unemployment is crucial for developing effective strategies that promote economic growth and community well-being.

2.7. Previous Research

2.7.1. Regional Original Income and Poverty

Triwulandari et al. (2023) found that Regional Original Income (PAD) has a significant impact on poverty levels in Tulungagung Regency. An increase in PAD plays a vital role in reducing poverty, highlighting its importance in addressing local economic challenges and improving community welfare. Similarly, Sutrisno & Taufiqqurrachman (2025), the study shows that both LOR and the balance fund help reduce poverty in Papua. It concludes that more funds from the central government and better management of LOR can improve community welfare. Therefore, local governments should improve their financial management and focus on programs that reduce poverty effectively. Zulfatoni, & Firmansyah (2024) also found that Regional Original Income (PAD) has a significant impact on reducing poverty rates in West Nusa Tenggara Province (NTB). Their study suggests that an increase in PAD has a positive contribution to community welfare, aiding in poverty alleviation in the region through various development initiatives.

2.7.2. Balancing Funds and Poverty

Zulfatoni, & Firmansyah (2024) discovered that balancing funds are pivotal in significantly reducing poverty levels in West Nusa Tenggara Province (NTB). Their research indicates that both local original income and balancing funds have a positive influence on poverty reduction. According to Isfianadewi et al. (2024) the study highlights that in Yogyakarta, balancing funds contributes to poverty alleviation by optimizing resource allocation. Effective public finance management supports the achievement of SDG outcomes, particularly in reducing poverty, promoting economic growth, and enhancing social equity through tailored fiscal strategies. Triwulandari et al. (2023) suggest that balancing funds have a significant negative impact on income inequality in Indonesia, which is associated with poverty reduction. Proper allocation of these funds can improve regional welfare and reduce disparities, thereby potentially addressing poverty issues.

2.7.3. Other Legitimate Income and Poverty

When effectively managed and directed towards initiatives that address the needs of the impoverished, alternative legitimate revenue sources can play a role in reducing poverty. Although these sources of funding are typically smaller and less predictable than Regional Original Revenue (PAD) (Halim, 2007) or balancing funds, they can enhance the financial capacity of local governments to support a range of social protection programs. These programs might include cash transfers, subsidies for healthcare and education services, or the development of essential infrastructure in underdeveloped regions.

Additionally, the flexibility of these other legitimate revenue streams enables regions to design innovative programs aimed at economically empowering the poor, such as vocational training, support for small enterprises, and labor-intensive projects. Rahmadewi (2018), in her study, discovered that these revenue streams, along with PAD and balancing funds, influence poverty reduction through capital expenditure.

2.7.4. Gross Regional Domestic Product and Poverty

Falah & Rahmawati (2024) found that GRDP per capita has a significant negative impact on poverty in East Java Province, affecting it both in the short and long term. As GRDP per capita increases, reflecting higher income levels, it enhances welfare and the ability to meet basic needs, thereby contributing to poverty alleviation. According to Tuharea et al. (2024) research indicates that Gross Regional Domestic Product (GRDP) has a significant impact on poverty levels in Central Maluku Regency. The study found that GRDP, along with education and health, partially influences poverty, with each variable showing probability values of less than 0.01%. Saputri et al. (2023) demonstrated that Gross Regional Domestic Product (GRDP) has a negative and significant effect on poverty across five regencies in Central Java from 2010 to 2021. This suggests that as GRDP grows, poverty levels tend to decline, highlighting the role of economic growth in reducing poverty.

2.7.5. Unemployment and Poverty

Bžanová & Kováč (2024) explored the connection between unemployment rates, long-term unemployment, and the risk of poverty in Slovakia. Their study found that unemployment, especially when prolonged, increases the likelihood of economic vulnerability and poverty due to insufficient income and limited job opportunities. Renahy et al. (2018) conducted a literature review that demonstrated the significant contribution of unemployment to poverty and material deprivation, while highlighting the protective role of the unemployment insurance (UI) system in mitigating these adverse effects on poverty and public health. Ngubane et al. (2023) investigated the relationship between economic growth, unemployment, and poverty, concluding that high unemployment rates lead to increased poverty over time. In contrast, robust economic growth can reduce poverty levels in South Africa.

3. Methods

The study employed quantitative techniques using panel data from 34 regencies and cities in Central Java Province, including Semarang City, Salatiga City, Surakarta City, Magelang City, Tegal City, Pekalongan City, Blora Regency, Grobogan Regency, Sragen Regency, Karanganyar Regency, Wonogiri Regency, Sukoharjo Regency, Brebes Regency, Tegal Regency, Pemalang Regency, Pekalongan Regency, Batang Regency, Kendal Regency, Temanggung Regency, Semarang Regency, Demak Regency, Jepara Regency, Kudus Regency, Pati Regency, Rembang Regency, Klaten Regency, Magelang Regency, Wonosobo Regency, Purworejo Regency, Kebumen Regency, Banjarnegara Regency, Purbalingga Regency, Banyumas Regency, and Cilacap, spanning the years 2017 to 2020, with a total of 136 observations. The data, sourced from the Indonesian Central Bureau of Statistics (BPS), encompassed information on poverty, regional income, and macroeconomic indicators. The estimation model applied was the Feasible Generalized Least Squares (FGLS), which utilizes the Best Linear Unbiased Estimator (BLUE) to manage issues of heteroscedasticity and autocorrelation.

$$\begin{aligned} \text{Poverty Rate}_{it} &= \beta_0 + \beta_1 \text{Ln Regional Original Income}_{it} + \beta_2 \text{Ln Balancing Fund}_{it} \\ &+ \beta_3 \text{Ln Other Legitimate Income}_{it} + \beta_4 \text{Open Unemployment Rate}_{it} \\ &+ \beta_5 \text{Ln Gross Regional Domestic Product}_{it} + \varepsilon_{it} \end{aligned}$$

The dependent variable in this study is the poverty rate, as defined by the BPS, which quantifies the percentage of individuals living in poverty across various cities and regencies in

Central Java. The independent variable encompasses Regional Original Income (PAD), expressed in natural logarithmic form, representing the revenue generated from local resources to achieve fiscal autonomy for regional government programs and public services, thereby diminishing reliance on the central government. Regional Original Income (PAD) comprises regional taxes, levies, and profits from Regionally Owned Enterprises. Other Legitimate Income, also expressed in natural logarithmic form, pertains to income sources beyond Regional Original Income and Balancing Funds, which are irregular, such as grants or income from Regional Public Service Agencies.

The Balancing Fund, presented in natural logarithmic form, is derived from the decentralized State Budget (APBN) to support regional needs. It aims to address fiscal disparities between regions and includes revenue-sharing funds, general allocation funds, and special allocation funds. The Open Unemployment Rate (TPT) represents the percentage of unemployed individuals within the labor force. At the same time, the Gross Regional Domestic Product (GDP) per capita, also in natural logarithmic form, represents the gross value added by all production units in a region divided by its population. This independent variable was selected to investigate the regional fiscal factors and macroeconomic indicators influencing poverty levels in Central Java.

4. Results and Discussion

4.1. Research Results

This study aimed to examine the influence of regional fiscal instruments namely Regional Original Income (PAD), Other Legitimate Income, Balancing Funds, the Open Unemployment Rate, and Gross Regional Domestic Product (GRDP) per capita on poverty reduction in Central Java during the period 2017–2020. This restatement underscores the alignment between the research objectives and the findings presented.

Table 1. Diagnostic Test

Classic Assumption Test	Ordinary Least Squares (OLS)	Feasible Generalized Least Squares (GLS)
Kolmogorov-Smirnov Test against theoretical distribution	0.0593 (p-value 0.725), normally distributed	normally distributed
Variance Inflation Factor (VIF)	4.93 (p-value 0.0265), There is multicollinearity	non multicollinearity
Breush-Pagan/Cook Weisberg test for heteroskedasticity	4.93 (p-value 0.0265), There is heteroscedasticity	homoscedasticity
Woolridge test for autocorrelation in panel data	73.689 (p-value 0.0000), There is autocorrelation	non autocorrelation

A diagnostic test is essential for verifying certain assumptions and ensuring the results are valid and reliable. These assumptions pertain to the normality of residuals, the equal spread of errors (homoscedasticity), the absence of autocorrelation, and the absence of multicollinearity. If these assumptions are not met, the results can be biased or inefficient. In such cases, alternative methods, such as Feasible Generalized Least Squares (FGLS), may be necessary. Therefore, it is crucial to examine the results of diagnostic tests to select the most suitable method for estimation.

The Combined Kolmogorov-Smirnov test yields a statistical value of 0.0593 and a p-value of 0.725. Since this p-value exceeds the 0.05 significance level, the residuals in both the

Ordinary Least Squares (OLS) and Feasible Generalized Least Squares (FGLS) models are typically distributed normally.

The Breusch-Pagan/Cook-Weisberg test yields a chi-square statistic of 4.93 with a p-value of 0.0265. As this p-value is below 0.05, the OLS model encounters heteroscedasticity, indicating non-constant variance in the residuals. The F-statistic is 73.689, with a p-value of 0.000, suggesting autocorrelation in the OLS model's residuals, as indicated by the p-value being less than 0.05. A VIF value of 3.94 suggests that the overall correlation level is within acceptable limits, below the critical threshold of 10, allowing the model to be used without removing variables in both the OLS and GLS models.

When classical assumptions, such as heteroscedasticity and autocorrelation, are violated, the Feasible Generalized Least Squares (FGLS) method is preferred over Ordinary Least Squares (OLS). FGLS considers the variance structure and error correlation to provide efficient and valid test estimates, making it the Best Linear Unbiased Estimator (BLUE) as it satisfies the classical assumption tests of normality, heteroscedasticity, non-multicollinearity, and non-autocorrelation.

Based on the test results, FGLS is a more suitable method than OLS in this case. FGLS addresses issues in the OLS model and enhances the accuracy of the results. It handles problems like heteroskedasticity and autocorrelation. So, FGLS is the best choice for making reasonable and fair estimates.

Table 2. Feasible Generalized Least Squares Estimation

Dependent Variable: Poverty Rate	
Independent Variable	Coefficient (Standard Error)
Ln Regional Original Income	-1.6081* (0.8496337)
Ln Other Legitimate Income	-2.022573* (1.092333)
Ln Balancing Fund	7.256704*** (1.980738)
Open Unemployment Rate	0.1591399 (0.1316934)
Ln Gross Regional Domestic Product per Capita	-3.871923*** (0.6630777)
Number of obs	136
Adjusted R-squared	0.4534
Wald chi2	122.4***

*Significant at the 10% level, **significant at the 5% level, and ***significant at the 1% level

The study employs Table 2, Feasible Generalized Least Squares on panel data to investigate the influence of regional income and macroeconomic factors on poverty rates across 34 cities and regencies in Central Java from 2017 to 2020, covering 136 observations. The adjusted R-squared value of 0.4534 indicates that the independent variable in the error-corrected model explains 45.34% of the variation in the dependent variable.

The model's overall estimation results are significant, as demonstrated by a Wald statistic of 122.40 at a 1% significance level. Consequently, the independent variables in the model further clarify variations in poverty rates. The regional original income variable exhibits a negative correlation with poverty rates, with a coefficient of -1.6081, indicating that a 1% increase in regional original income is expected to result in a 1.6081% reduction in the poverty rate. However, this effect is only marginally significant at the 10% level, warranting cautious interpretation. Other legitimate income also negatively correlates with poverty, with a

coefficient of -2.0226 at the 10% level, which is marginally significant. The estimation results imply that higher regional original income and other legitimate income are associated with lower poverty rates, although the significance is not robust at the 5% level. Additionally, balancing funds from the central government has a positive and significant impact on poverty, with a coefficient of 7.2567 and a 1% significance level. A 1% increase in balancing funds correlates with a 7.2567% rise in the poverty rate.

This finding contradicts the intended purpose of balancing funds, which is to enhance public services. Ineffective utilization of balancing funds will exacerbate poverty, which is inconsistent with inclusive economic development. Moreover, the open unemployment rate was not statistically significant about the poverty rate, indicating that it does not significantly affect poverty. The most impactful variable in reducing poverty was income per capita, with a coefficient of -3.8719 and a 1% significance level. A 1% increase in revenue per capita is estimated to reduce poverty by 3.8719%, aligning with the theory that economic growth aids in poverty alleviation.

The research findings suggest that local governments can play a more effective role in poverty reduction by achieving regional fiscal independence, particularly through the utilization of regional own-source income and other legitimate sources of revenue. To address the needs of impoverished populations, local governments must enhance the effectiveness of their balancing funds. However, economic growth remains a crucial factor in poverty reduction, and effective intervention from local governments is necessary to ensure that regional economic development is inclusive and benefits people experiencing poverty.

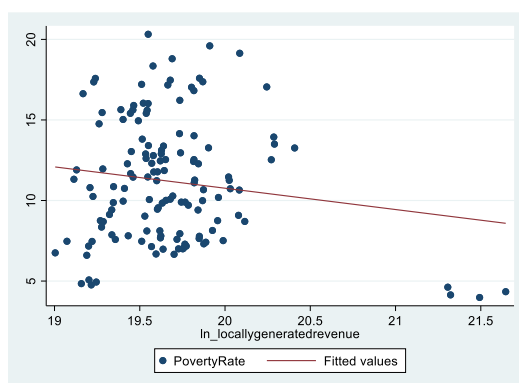


Figure 1. Correlation between Balancing Funds with the Poverty Rate in Central Java province in 2017-2020

To assess the effectiveness of regional fiscal instruments in reducing poverty, a visual analysis of the relationship between budgetary variables and poverty rates offers valuable initial insights. Figure 1, which depicts the relationship between the natural logarithm of balancing funds and poverty rates, reveals a positive correlation, as indicated by the upward-sloping trend line. This suggests that increases in balancing funds received by local governments from the central government are associated with higher poverty rates. This finding suggests that the distribution of these funds has not been entirely effective in achieving poverty reduction goals, possibly due to suboptimal allocation, mis-targeting, or the limited effectiveness of public spending financed by these funds.

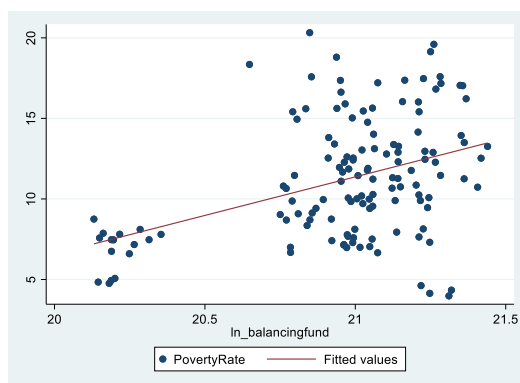


Figure 2. Correlation between Regional Original Income with the Poverty Rate in Central Java province in 2017-2020

In contrast, Figure 2, illustrating the relationship between the logarithm of Regional Original Income (PAD) and poverty rates, shows a negative correlation. The downward-sloping trend line indicates that the higher a region's PAD, the lower its poverty rate. This suggests that increasing local own-source revenue, which reflects fiscal independence, enables local governments to provide better and more targeted public services, thereby contributing to lower poverty rates.

Thus, these findings suggest that while transfers from the central to local governments play a crucial role in regional financial structures, their effectiveness in reducing poverty remains questionable. On the other hand, strengthening fiscal capacity through the optimization of PAD contributes more significantly to poverty reduction. Therefore, it is essential for local governments not to rely solely on balancing funds, but also to continually strive to increase regional original income as part of a comprehensive long-term poverty alleviation strategy.

4.2. Discussion

As a reminder of the research objective, this study set out to provide empirical evidence on the extent to which local fiscal capacity and macroeconomic performance influence poverty reduction in Central Java. Re-emphasizing this aim ensures that the interpretation of findings remains closely aligned with the study's purpose.

The empirical findings should be understood in relation to the study's primary objective, which is to assess how local fiscal capacity and broader macroeconomic conditions influence poverty reduction in Central Java. The results indicate that PAD and Other Legitimate Income are negatively associated with poverty, although this association is only marginally significant. This suggests that while greater fiscal autonomy can support poverty alleviation, its effectiveness depends on strengthening institutional capacity.

The results of this research indicate that Regional Original Income (PAD) has a negative correlation with poverty rates, though the effect is only slightly significant at the 10% level. This finding supports Halim (2007) assertion that PAD represents a region's fiscal ability to fund its public expenditures independently, thereby decreasing dependence on central transfers. Similarly, studies by Putih & Primandhana (2024); Triwulandari et al. (2023); and Zulfatoni, & Firmansyah (2024) also demonstrated that increases in PAD significantly aid in reducing poverty. Although the statistical significance in this study is limited, the findings still underscore the potential of PAD to enhance fiscal autonomy, allowing local governments to provide more effectively targeted public services. The study also reveals that other legitimate income has a negative relationship on poverty, albeit with marginal significance at the 10% level. This is consistent with the conclusions of Rahmadewi (2018) who highlighted that this

revenue category can be an effective supplementary fiscal tool for poverty alleviation, mainly when directed towards social, educational, and health-related initiatives.

A surprising and somewhat contradictory discovery is that Balancing Funds from the central government has a positive and statistically significant impact on poverty rates. Essentially, larger transfers from the central government correlate with rising poverty levels. This finding contradicts the theoretical expectations outlined by Mardiasmo (2009) who suggest that balancing funds is intended to mitigate fiscal inequalities and promote regional development. It also contrasts with empirical research by Saputri et al. (2023) and Zulfatoni, & Firmansyah (2024) which demonstrated that these transfers effectively reduce poverty when managed efficiently. The results of this study may indicate problems such as misallocation, inadequate targeting, or inefficient spending, which hinder the effectiveness of intergovernmental fiscal transfers in combating poverty. Conversely, Gross Regional Domestic Product (GRDP) per capita exhibits a strong and significant negative correlation with poverty, aligning with the theoretical framework of Todaro & Smith (2015), this outcome aligns with earlier empirical studies by Falah & Rahmawati (2024); Saputri et al. (2023); Tuharea et al. (2024) all of which emphasize the importance of economic growth in alleviating poverty. An increase in GRDP per capita indicates better income levels and overall welfare, which improves the population's capacity to fulfil basic needs and rise out of poverty.

In this study, the Open Unemployment Rate does not show a statistically significant impact on poverty. This outcome contrasts with the findings of Bžanová & Kováč (2024) and Ngubane et al. (2023) who observed that prolonged unemployment increases economic vulnerability and the risk of poverty. The lack of significance in this study might be due to the unique local conditions in Central Java, where unemployment effects could be mitigated by informal work, labor migration between regions, or existing social protection systems. Overall, the study aligns with the multidimensional view of poverty proposed by Sen (1999) and Alkire & Foster (2011), highlighting that reducing poverty requires more than just economic growth or income redistribution.

Successful poverty alleviation hinges on the ability of local governments to effectively utilize their fiscal tools, especially PAD and other legitimate revenues, to implement targeted and inclusive development initiatives. Additionally, the findings warn against relying too heavily on intergovernmental transfers without addressing the efficiency, transparency, and targeting of fund allocation. Enhancing local fiscal capacity and ensuring the efficient use of public resources are essential for making regional economic growth more inclusive and beneficial for the impoverished.

5. Conclusion

This study aimed to investigate the impact of regional fiscal capacity and key macroeconomic factors, including Regional Original Income (PAD), Other Legitimate Income, Balancing Funds, the Open Unemployment Rate, and Gross Regional Domestic Product (GRDP) per capita, on poverty levels in Central Java between 2017 and 2020. Restating this objective is important to ensure that the findings remain clearly aligned with the original research purpose. The study's results reveal that Regional Original Income (PAD) and Other Legitimate Income have a negative correlation with poverty, indicating that regions with higher fiscal autonomy generally experience lower poverty rates. However, these effects are only slightly significant, necessitating cautious interpretation. Conversely, Balancing Funds from the central government exhibits a positive and statistically significant impact on poverty rates, implying that increased fiscal transfers might be linked to higher poverty levels. This

finding raises questions about the current effectiveness of intergovernmental transfers and highlights concerns regarding allocation efficiency and the quality of implementation. Additionally, Gross Regional Domestic Product (GRDP) per capita exhibits a strong and significant negative correlation with poverty, underscoring the importance of inclusive economic growth in reducing poverty. Meanwhile, the open unemployment rate does not have a statistically significant effect on poverty in the study area during the observed period.

Based on these insights, several policy recommendations arise. Firstly, local governments should enhance fiscal autonomy by increasing PAD and optimizing the collection and utilization of other legitimate revenues. This approach will reduce reliance on central government transfers and enable more customized and effective public services for the impoverished. Secondly, the central government should reform the design and execution of balancing funds by refining targeting mechanisms, strengthening monitoring and evaluation, and improving local capacity for budget planning and program delivery. Thirdly, regional development strategies should focus on promoting inclusive economic growth, particularly by encouraging investment and job creation in sectors with high labor absorption potential. Fourthly, although unemployment did not have a significant direct impact on poverty in this study, employment policies remain essential for reducing vulnerability and fostering long-term welfare. Lastly, local governments should avoid excessive dependence on intergovernmental transfers and instead concentrate on establishing a resilient, self-sustaining fiscal base to support sustainable poverty reduction initiatives. These measures are vital for ensuring that regional economic development is inclusive, effective, and directly benefits those most in need.

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