American International Journal of Business Management (AIJBM)
*ISSN- 2379-106X, **www.aijbm.com** Volume 07, Issue 12 (**December- 2024**), PP 29-34*

The Effect of Regional Assets on Economic Growth and Poverty with Financial Performance as Moderation

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ABSTRACT: This study analyzes the role of regional assets in influencing economic growth and poverty in Indonesia, with financial performance as a moderating variable. Using data from 34 provinces in Indonesia in 2023, the research finds that regional assets significantly impact economic growth, while financial performance only moderates the effect of regional assets on poverty, not on economic growth. This study provides strategic recommendations to enhance the effectiveness of regional asset management in alleviating poverty and promoting economic growth.

KEYWORDS - Regional Assets, Economic Growth, Poverty

I. INTRODUCTION

Regional development is an integral part of national development so that the implementation of national development and regional development must work together to achieve development goals. National development generally aims to improve people's welfare. In achieving these goals, the government still faces various conditions that are not ideal, thus hampering the achievement of development goals. One of these non-ideal conditions is poverty, which is still relevant in various regions. Susilowati & Hadi (2017).

Saputra and Mudakir (2011) mention that poverty serves as a benchmark for evaluating the socio-economic conditions and success of government development programs in a region. High poverty levels can lead to various negative impacts, including social and economic problems. Poverty, as Hardinandar (2019) describes, is a condition where individuals cannot meet basic needs such as food, clothing, medicine, and shelter. Similarly, Oktaviana et al. (2021) emphasize that poverty itself is one of the measures for assessing the success of government development in a region.

Over the past decade, Indonesia has seen a declining trend in poverty, despite challenges such as the COVID-19 pandemic. As of March 2023, the number of people living in poverty stood at 25.90 million, or approximately 9.36% of the total population, down from 26.16 million in March 2022 (9.54%) and 26.5 million in September 2021. Before the pandemic, in 2019, poverty levels were even lower; however, they rose during the pandemic and have started to decline again since then.

This decline is attributed to several factors, including reduced unemployment rates, improved farmer exchange rates, and controlled inflation. Social assistance programs such as the Family Hope Program (PKH) and food aid initiatives have also played a significant role in easing the financial burden on poor households.

Apart from poverty, economic growth is another critical focus for regions, as it is often seen as an indicator of regional success in improving public welfare. Economic growth, reflected by increases in Gross Regional Domestic Product (GRDP), is a sign of progress. Pangiuk (2018) explains that economic growth enhances public welfare through social and economic development, which helps address poverty. Similar findings have been reported by Fathurohman et al. (2022), Triwulandari et al. (2023), Aradian (2005), and Datt & Ravallion (2002). Economic growth and poverty are highly significant and complex issues faced by many countries, including Indonesia.

Indonesia faces considerable challenges in balancing economic growth with poverty alleviation. Regional assets, including infrastructure, natural resources, and human capital, have the potential to boost economic growth and reduce poverty levels. However, managing these assets effectively often depends on financial performance, which varies across regions.

Previous studies, such as those by Haya, Fadilah, Rahayu, & Nasution (2022); Putri, Zamzami, & Rahmadi (2021); Sigit & Kosasih (2020); Soleh (2012); and Pananrangi (2012), have demonstrated that regional assets like natural resources, infrastructure, and human capital can influence economic growth and poverty, highlighting the need for government attention to maximize their potential.

Furthermore, financial performance plays a crucial role in shaping the relationship between regional assets, economic growth, and poverty. Financial metrics such as revenue, expenditures, and balance sheets affect a region’s ability to utilize its assets to stimulate economic growth and reduce poverty. Hence, each region must manage its assets effectively, particularly in terms of capital expenditures, to improve economic conditions. This aligns with findings from studies by Putri, Zamzami, & Rahmadi (2021); Sigit & Kosasih (2020); Rondonuwu et al. (2015); Lucky (2013); and Pananrangi (2012).

Given the persistence of poverty in Indonesia and the diverse findings of previous studies, this research aims to examine the influence of regional assets on economic growth and poverty, as well as the moderating role of financial performance in this relationship.

II. LITERATURE REVIEW

Economic theory defines investment as expenditures for purchasing capital goods and production equipment aimed at replacing and, primarily, adding to the capital stock within the economy that will be used to produce goods and services in the future.

Public expenditures are often driven by market failures. According to Rao (1998), these market failures occur due to: (1) Not all goods and services being traded, (2) Goods that cause externalities in production or consumption, creating a conflict between market prices and social valuations, with markets unable to meet desired conditions, (3) Certain goods exhibiting characteristics of increasing returns to scale. In such natural monopoly conditions, society may benefit from lower prices and higher output if the government acts as a producer or provides subsidies to private sectors to cover costs for optimal production, and (4) Asymmetric information between producers and consumers, particularly in service sectors like social insurance, can lead to increased moral hazards and adverse selection. Hence, government intervention is necessary to ensure income redistribution.

Chambers, as cited in Suryawati (2005), describes poverty as an integrated concept involving five dimensions: first, poverty itself; second, powerlessness; third, vulnerability to emergencies; fourth, dependence; and fifth, marginalization. Various conditions that prevent individuals from escaping poverty often make poverty permanent and hereditary. Chambers refers to this as the *poverty trap*. According to Mubyarto (1997), the powerlessness of the poor stems from their lack of assets as sources of income, coupled with a socio-economic structure that fails to provide opportunities for the poor to escape the cycle of poverty.

Siregar (2006) argues that economic growth is a necessary condition for poverty reduction. However, for growth to be sufficient, it must be effective in reducing poverty. This means that growth must reach all income groups, including the poor. Directly, this implies that economic growth needs to occur in sectors where the poor are employed, such as agriculture or labor-intensive industries.

To see the influence of regional assets on poverty and economic growth with financial performance as a moderating variable, this research forms the following hypothesis:
H1: Regional assets have an influence on economic growth in Indonesia
H2: Financial performance as a moderator in the influence of regional assets on economic growth in Indonesia
H3: Financial performance as a moderator in the influence of regional assets and economic growth on poverty in Indonesia.

III. METHOD

This study employs a quantitative method with a descriptive and associative approach. Data were sourced from official reports of the Central Statistics Agency (BPS) and DJKN of the Ministry of Finance. Regional assets, measured through capital expenditure, serve as the independent variable, while economic growth and poverty are the dependent variables. Financial performance, proxied by the effectiveness ratio, is used as a moderating variable. The sample for this study consists of 34 provinces in Indonesia in 2023 (cross-sectional data). Data analysis is conducted using the Moderated Regression Analysis (MRA) method with SPSS software.

IV. RESEARCH FINDINGS

Before processing the data using SPSS, a descriptive statistical analysis was conducted to provide an overview of the characteristics of each research variable. These characteristics are represented by the mean (average value), standard deviation, maximum value, and minimum value.

Table 1. Statistik Deskriptif

Variabel	Minimum	Maximum	Mean	Std. Deviation
Regional Assets	-1.87	5.07	3.5632	1.34276
Economic Growth	1.80	20.49	5.4024	3.02511
Poverty	4.25	26.03	10.0891	5.18351
Financial Performance	53.47	160.96	97.2956	16.93523

Source: Processed Data, 2024

Table 1 provides a summary of the dependent variable, Poverty, which has a minimum value of 4.25 and a maximum value of 26.03, with an average of 10.09 and a standard deviation of 5.18. Economic Growth has an average value of 5.40, a minimum of 1.80, and a maximum of 20.49. Meanwhile, Regional Assets have an average value of 3.56 with a standard deviation of 1.34.

Next, regression analysis was performed. However, before conducting the regression analysis, a classical assumption test was carried out to evaluate the feasibility of the research data. The results indicated that the data were normally distributed and free from heteroskedasticity and multicollinearity.

Table 2. The Effect of Regional Assets on Economic Growth with Financial Performance as a Moderating Variable

Variabel		B	t	Sig.
1	(Constant)	13.228	42.106	.000
	xa	-1.864	-51.350	.000
	kka	-.011	-3.512	.001
	ma	-.013	-.555	.583
	Uji F			.000
	R Square			.990

Source: Processed Data, 2024

Table 2 demonstrates the effect of regional assets on economic growth with financial performance as a moderating variable, as outlined in the equation below:

Economic Growth = 13.228 – 1.864 Regional Assets – 0.011 Financial Performance – 0.13 Moderation + e

The equation indicates that regional assets significantly influence economic growth, though the effect is negative. This implies that for every 1 Rupiah increase in regional assets, economic growth decreases by 1.864. This finding is supported by a significance value (sig.) of 0.000, which is below the 0.05 threshold, indicating that the hypothesis that regional assets affect economic growth is accepted. However, financial performance as a moderating variable fails to moderate the effect of regional assets on economic growth. This is evident from the sig. value of 0.583, which exceeds 0.05. Consequently, it can be concluded that the moderating variable does not effectively moderate the influence of regional assets on economic growth. The R^2 value of 0.990 shows a strong relationship between regional assets, economic growth, and financial performance as a moderating factor.

The regression results reveal a unique phenomenon where an increase in regional assets does not drive economic growth. This could occur because regional assets are not being optimized to support productive economic activities. For instance, government-owned land or buildings may remain underutilized instead of being leveraged for economic activities. Additionally, regional assets may not align with community needs, leading to strategic development plans that are less effective in delivering economic impact.

The finding that regional assets affect economic growth aligns with studies by Taufik and Rachmawati (2020), Putri and Akbar (2018), Hakim et al. (2019), Nugroho (2021), and Kurniawan and Sari (2017). These studies highlight how suboptimal utilization of regional assets exacerbates economic inequality and reduces productivity, thus negatively affecting economic growth.

Conversely, this study contrasts with findings from Rizki and Handayani (2019), Fahmi et al. (2020), Widodo (2018), Putrisno and Widiastuti (2021), and Yulianti and Hidayat (2017), which suggest that effective utilization and management of government assets can significantly increase community income and spur economic growth.

The finding that financial performance does not moderate the influence of regional assets on economic growth is supported by studies such as those by Syafruddin et al. (2020), Purwanto and Setiawan (2019), Firmansyah et al. (2021), Suryani and Hakim (2018), and Susanti and Wicaksono (2017). These studies argue that financial performance fails to act as a moderator because assets are often not utilized in line with economic development needs. Weak governance of regional assets, predominantly composed of non-productive assets, further explains this limitation. However, other studies, including Widjaja and Arifin (2020), Rachman et al. (2019), Iskandar and Putri (2018), Handayani and Nugroho (2021), and Fahmi et al. (2020), suggest that strong financial performance enables more effective management of regional assets, thereby contributing to economic growth, which contrasts with the findings of this research.

Table 3: The Effect of Regional Assets and Economic Growth on Poverty with Financial Performance as a Moderating Variable

Variabel		B	t	Sig.
1	(Constant)	28.901	5.600	.000
	xa	-1.211	-1.670	.106
	y1a	-.878	-2.269	.031
	kka	.027	3.278	.003
	ma	-2.227	-46.194	.000
	Uji F			.000
	R Square			.987

Source: Processed Data, 2024

The regression equation derived from Table 3 is as follows:
Poverty = 28.901 – 1.211 Regional Assets – 0.878 Economic Growth + 0.027 Financial Performance – 2.227 Moderation + e

The equation indicates that regional assets significantly affect poverty, with a negative direction of influence. Specifically, for every increase of 1 Rupiah in regional assets, poverty decreases by 1.211%. Similarly, an increase of 1% in economic growth reduces poverty by 0.878%. With financial performance as a moderating variable, the effect of economic growth on poverty remains negative, suggesting that financial performance strengthens the impact of regional assets and economic growth in reducing poverty. This is supported by a significance value (sig.) of 0.000, which is below the threshold of 0.05.

Good financial performance enables governments to manage resources more effectively, ensuring that increases in regional assets and economic growth directly contribute to poverty reduction. Budget allocations can be targeted toward programs that directly benefit the poor, such as providing affordable healthcare, education, and housing facilities. Additionally, revenues from economic growth can be directed to developing basic infrastructure, including access to clean water, electricity, and rural roads, benefiting marginalized communities. R^2 value of 0.987 indicates a very strong relationship between regional assets, economic growth, and poverty, with financial performance acting as a moderating factor.

The finding that financial performance moderates the relationship between regional assets and poverty aligns with studies by Bahl and Linn (1992), Musgrave and Musgrave (1989), Mikesell (2007), Martinez-Vazquez and McNab (2003), Chetty et al. (2011), Blöchliger and Égert (2013), and Barro (1990). These studies emphasize that sound financial governance enhances the relationship between asset investment and poverty reduction. However, other research, such as Stiglitz (2012), Piketty (2014), Hicks and Streeten (1979), Ravallion (2007), and Ali and Thorbecke (2000), argues that financial performance does not always address inequality, the root cause of poverty. Even with good financial performance, resources are often directed to elite interests, limiting the benefits for the poor. Good financial performance has the potential to moderate the impact of regional assets on poverty by promoting resource efficiency, pro-poor budget allocation, and redistributive policies. However, its success depends on inclusive implementation that prioritizes impoverished groups.

V. CONCLUSION

The analysis results show that regional assets significantly impact economic growth, but financial performance does not moderate this relationship. Furthermore, while regional assets and economic growth do not directly affect poverty, financial performance moderates their influence. This suggests that effective financial management can optimize the use of regional assets to reduce poverty.

This research suggests several strategic steps: such as regional governments need to increase the efficiency and effectiveness of capital spending to overcome infrastructure constraints, continuing to increase the effectiveness of Regional Original Income (PAD) should be focused on areas with high resource potential and budget allocation should be more evenly distributed to reduce inequality of development between regions. This research provides important insights into the role of regional assets and financial performance in economic development. With the right strategy, regional asset management can be the key to realizing inclusive and sustainable development in Indonesia.

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