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RESEARCH ARTICLE

The Role of Local Government Financial Performance in Reducing Unemployment Through Economic Growth In Bengkulu Province

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Abstract
This study analyzes the impact of local government financial performance on economic growth and unemployment rates, while also investigating the mediating role of economic growth. A quantitative approach is employed, utilizing panel data from 10 districts/cities in Bengkulu Province over the period of 2020–2024, resulting in a total of 50 observations. The data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The findings indicate that local government financial performance has a significant negative effect on economic growth and a significant positive effect on the unemployment rate. Furthermore, economic growth does not exert a significant effect on the unemployment rate and does not mediate the relationship between local government financial performance and unemployment. These results suggest that the main hypotheses proposed in this study are not supported by the empirical data. Improvements in regional fiscal performance have not been translated into productive economic activities and job creation. This study provides empirical evidence regarding the limitations of stewardship assumptions in local fiscal management, indicating that enhanced fiscal performance does not automatically lead to inclusive economic growth or a reduction in unemployment. Practically, the findings suggest that local governments should enhance the quality of spending allocation and strengthen productive sectors that support job creation.

Keywords
Local Financial Performance; Economic Growth; Unemployment Rate.

1 | INTRODUCTION

Unemployment remains a formidable challenge for development, significantly affecting public welfare, income distribution, and the sustainability of regional economic growth. The expectation that economic growth will lead to increased employment opportunities and lower unemployment rates does not always hold true across various regions. This inconsistency raises important questions about the effectiveness of current policies and strategies aimed at fostering job creation. Bengkulu Province exemplifies this complexity. Data from the Central Statistics Agency (BPS) in 2025 reveals that the unemployment rate decreased from 3.65% in 2021 to 3.11% in 2024, only to rise again to 3.24% in early 2025. During the same timeframe, the region's economic growth remained stable at approximately 4% to 5%. This scenario suggests that economic growth is not translating into job creation as one would expect, indicating a troubling disconnect between economic indicators and employment outcomes.

From the perspective of public sector accounting, the financial performance of regional governments is crucial for driving economic development and generating jobs. Effective financial management reflects a government's capability to handle revenues and expenditures wisely, directing fiscal resources toward productive initiatives. According to Governance Theory articulated by Davis *et al.* (1997), local governments are tasked with managing public resources responsibly to generate value for the community and enhance overall welfare. Regional financial performance is typically assessed through various indicators, including fiscal independence, effectiveness, efficiency, and harmony ratios. Improved fiscal management should, in theory, stimulate economic activity through strategic spending, infrastructure development, and fostering a favorable investment climate. These factors are essential for job creation and reducing unemployment rates. However, the evidence surrounding this relationship is inconsistent.

Some studies indicate a positive relationship between regional financial performance and economic growth, suggesting that effective fiscal management can indirectly support job creation (Erwina & Badrudin, 2020; Ratnawati & Sari, 2023). Conversely, other research points out that fiscal performance does not consistently lead to economic growth or a decrease in unemployment (Alexandri, 2022; Wati & Hapsari, 2022; Irewole, 2024). This divergence in findings underscores the need for a deeper examination of the mechanisms linking financial performance, economic growth, and unemployment. Moreover, much of the existing research has approached these relationships in isolation, often relying on a narrow set of fiscal performance indicators. There is a clear need for studies that integrate local government financial performance, economic growth, and unemployment into a cohesive framework. This gap is particularly evident at the local government level in Indonesia, where such integrative analyses remain scarce.

To address this issue, the current study seeks to investigate the effects of local government financial performance on economic growth and unemployment, while also assessing whether economic growth mediates this relationship. Utilizing panel data from 10 regencies and cities in Bengkulu Province over the period from 2020 to 2024, this research employs Structural Equation Modeling–Partial Least Squares (SEM-PLS) for analysis. The anticipated findings aim to provide valuable insights into the effectiveness of local fiscal management in promoting inclusive economic development and reducing unemployment. By examining the interplay between financial performance, economic growth, and employment, this research aspires to enhance understanding of how local governments can leverage their financial resources for the benefit of their communities.

The practical implications of this research are significant. Local governments play a critical role in shaping economic policies and implementing fiscal strategies that can directly influence employment outcomes. Understanding the dynamics of financial performance and its impact on economic growth and unemployment allows policymakers to develop more targeted strategies for job creation and sustainable economic development. Furthermore, this study emphasizes the necessity of sound fiscal management practices. Local governments must prioritize the efficient allocation of resources to sectors with high potential for job creation. This may involve investing in infrastructure projects, supporting small and medium-sized enterprises (SMEs), and enhancing the overall business environment to attract investment.

The findings of this research could inform the design of local economic development initiatives aimed at tackling unemployment. By identifying specific financial performance indicators that correlate with job creation, local governments can tailor their fiscal policies to address the unique challenges faced by their regions. In summary, the relationship between local government financial performance, economic growth, and unemployment is intricate and multifaceted. While economic growth has the potential to create jobs, the experience in Bengkulu Province illustrates the necessity for a nuanced understanding of how financial performance influences economic outcomes. This study aims to bridge existing gaps in research and provide actionable insights that can guide local governments in their quest to enhance public welfare and foster sustainable economic growth.

2 | BACKGROUND THEORY

2.1 Stewardship Theory

This study is grounded in Stewardship Theory developed by Davis *et al.* (1997). Stewardship Theory assumes that organizational managers act as stewards who prioritize collective and organizational interests over personal interests. In the public sector context, local governments function as stewards responsible for managing public resources effectively, efficiently, and accountably to improve public welfare. From this perspective, regional financial management should not be evaluated solely based on administrative compliance or fiscal achievement but also based on its ability to generate broader development outcomes. Therefore, local government financial performance is expected to support productive economic activity, stimulate economic growth, and ultimately improve labor market conditions.

2.2 Financial Performance and Economic Growth

This study conceptualizes local government financial performance as a formative construct. A formative approach is adopted because each ratio captures a different aspect of fiscal governance and collectively shapes the overall quality of financial performance, represented by four dimensions: The independence ratio reflects the local government's ability to finance public activities through Locally-Owned Revenue (PAD) rather than relying on central government transfers. Higher fiscal independence indicates greater regional flexibility in determining development priorities. The effectiveness ratio reflects the government's ability to realize targeted revenues. Higher effectiveness indicates stronger fiscal capacity and better implementation of revenue policies. The efficiency ratio measures the extent to which local expenditures are managed relative to available revenues. Efficient financial management demonstrates the government's ability to optimize limited resources and reduce unproductive spending. The harmony ratio reflects the composition and priorities of local expenditure allocations, particularly the balance between operational and capital expenditures. A higher allocation to productive expenditures is expected to create a stronger long-term economic impact. These four indicators represent complementary dimensions of local government financial performance and provide a broader assessment than using a single ratio. According to stewardship theory, local governments are responsible for transforming public resources into economic and social outcomes. Better financial performance enables governments to improve infrastructure provision, strengthen public services, and encourage productive investment. From an economic growth perspective, financial performance contributes to regional output through expenditure allocation and development financing. Productive budget allocation is expected to stimulate business activity and increase Regional Gross Domestic Product (GDP). Previous studies have found that stronger regional financial performance can positively influence economic growth (Erwina & Badrudin, 2020); (Ratnawati & Sari, 2023); (Runtunuwu & Mazela, 2023). Therefore, the following hypothesis is formulated.

H1: Regional government financial performance has a positive effect on economic growth.

2.3 Financial Performance and Unemployment Rate

From the perspective of Stewardship Theory, effective and efficient regional financial management enables the government to expand economic development and create jobs. Fiscal independence, revenue effectiveness, efficient budget management, and a productive proportion of spending are expected to encourage employment and reduce unemployment. Previous research has shown that regional financial performance negatively impacts the unemployment rate (Amin *et al.*, 2023); (Putra, 2025); (Rumbobiar & Sukmadilaga, 2023). Therefore, the following hypothesis is formulated.

H2: Regional government financial performance negatively impacts the unemployment rate.

2.4 Economic Growth and Unemployment Rate

According to Okun's Law and Keynesian theory, higher economic growth will increase labor demand, thus tending to decrease the unemployment rate (Mankiw, 2021); (Ball *et al.*, 2017). Increased economic activity encourages production expansion and the creation of new job opportunities. Empirical findings also indicate that economic growth negatively impacts the unemployment rate (Amin *et al.*, 2023; Erwina & Badrudin, 2020). Therefore, the following hypothesis is proposed:

H3: Economic growth negatively impacts the unemployment rate.

2.5 The Mediating Role of Economic Growth

Economic growth theory explains that sound regional financial management can increase economic activity through the provision of infrastructure, public services, and productive investment. Furthermore, increased economic growth will expand job opportunities and reduce unemployment. Thus, economic growth has the potential to act as a transmission mechanism explaining the relationship between regional government financial performance

and the unemployment rate. Previous research has found that economic growth mediates the effect of regional financial performance on unemployment (Putra, 2025; Rumbobiar & Sukmadilaga, 2023). Therefore, the following hypothesis is formulated.
H4: Economic growth mediates the effect of regional government financial performance on the unemployment rate.

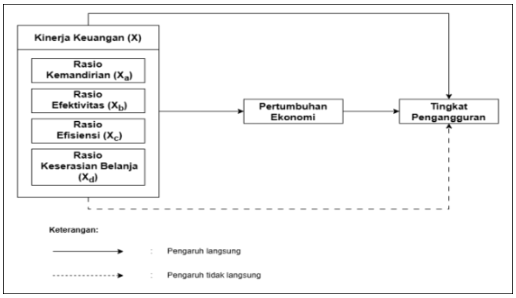

Figure 1. Research Framework

3 | METHOD

This study employs a quantitative approach with a causal explanatory design to examine the relationships among local government financial performance, economic growth, and unemployment rates. The research model was developed based on Stewardship Theory, which assumes that local governments manage public resources to achieve broader economic and social outcomes. The unit of analysis consists of panel data from 10 districts/cities in Bengkulu Province during the 2020–2024 period, resulting in 50 observations. The study applies a census approach because all districts/cities within the population were included in the analysis. Secondary data were obtained from official government publications. Data on local government financial performance were collected from Budget Realization Reports published by the Directorate General of Fiscal Balance (DJPK, 2024) Ministry of Finance of the Republic of Indonesia. Data on economic growth and unemployment rates were obtained from Statistics Indonesia (BPS, 2025).

This study uses Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS version 4. The selection of SEM-PLS requires clarification because the dataset has a panel structure. Unlike panel regression, SEM-PLS does not explicitly estimate regional fixed effects or time effects. However, SEM-PLS was chosen for several methodological reasons. First, the objective of this study is not to estimate regional heterogeneity across districts/cities or identify temporal effects but to examine causal relationships among latent constructs and mediation mechanisms. Second, local government financial performance is conceptualized as a formative construct composed of several indicators (independence ratio, effectiveness ratio, efficiency ratio, and expenditure harmony ratio). SEM-PLS is considered more appropriate because it can directly estimate formative measurement models, whereas conventional panel regression generally requires prior index construction or separate variable treatment. Third, SEM-PLS has advantages in handling relatively small sample sizes and simultaneously estimating measurement and structural models. With 50 observations and mediation analysis requirements, SEM-PLS provides flexibility for evaluating both construct formation and structural relationships. Therefore, this study treats the panel observations as pooled observations and focuses on explaining inter-variable relationships rather than estimating panel-specific effects.

The analysis was conducted in two stages. The first stage evaluates the measurement model (outer model) to assess indicator contribution to the formative construct. The second stage evaluates the structural model (inner model) to test direct and indirect relationships among variables. Table 1 presents the operational definition and measurement of variables used in this study.

Table 1. Operational Definition of Variables

No	Variable Name	Indicator	Measurement	Unit	Data Source
1	Local Government Financial Performance (X)	Independence Ratio	$\frac{\text{PAD}}{\text{Total Pendapatan}} \text{ x } 100\%$	Ratio	DJPK
		Effectiveness Ratio	$\frac{\text{Realisasi PAD}}{\text{Target PAD}} \text{ x } 100\%$	Ratio	DJPK
		Efficiency Ratio	$\frac{\text{Realisasi Belanja}}{\text{Realisasi Pendapatan}} \text{ x } 100\%$	Ratio	DJPK

No	Variable Name	Indicator	Measurement	Unit	Data Source
		Harmony Ratio	Belanja Modal $= \frac{\text{Realisasi Belanja Modal}}{\text{Total Belanja Daerah}} \text{ x } 100\%$	Ratio	DJPK
2	Economic Growth (M)	GRDP Growth Rate	$\frac{\text{PDRB}_t - \text{PDRB}_{t-1}}{\text{PDRB}_{t-1}} \text{ x } 100\%$	Ratio	BPS
3	Unemployment Rate (Y)	Unemployment Rate	$\frac{\text{Pengangguran}}{\text{Total Angkatan Kerja}} \text{ x } 100\%$	Ratio	BPS

Table 1 presents the operational definitions of key variables utilized in this study. The first variable, Local Government Financial Performance (X), is assessed through four indicators: the Independence Ratio, Effectiveness Ratio, Efficiency Ratio, and Harmony Ratio, all measured as percentages based on various financial metrics from DJPK. The second variable, Economic Growth (M), is represented by the GRDP Growth Rate, calculated using data from BPS. Lastly, the Unemployment Rate (Y) is determined by the ratio of unemployed individuals to the total workforce, also sourced from BPS.

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 Descriptive statistics

Descriptive statistics were derived from a comprehensive analysis of 50 observations of district and city governments in Bengkulu Province. The study focused on several key variables, including financial performance, which was assessed through the independence ratio, effectiveness, efficiency, and harmony of spending. Additionally, the analysis included economic growth indicators and the unemployment rate within the province. This descriptive approach provides valuable insights into the financial health of local governments and their impact on economic conditions and employment levels in the region.

Table 2. Descriptive statistics

	Mean	Median	Min	Max	Standard deviation	Excess kurtosis	Skewness
Independence Ratio	0.064	0.060	0.019	0.181	0.037	2.891	1.740
Effectiveness Ratio	0.929	0.866	0.242	3.254	0.398	22.994	3.998
Efficiency Ratio	0.998	0.998	0.909	1.185	0.042	6.728	1.499
Harmony Ratio	0.149	0.144	0.082	0.275	0.037	1.244	0.727
GRDP	0.061	0.064	-0.051	0.235	0.052	2.059	0.641
Unemployment Rate	0.034	0.032	0.017	0.068	0.010	2.656	1.477

The independence ratio shows a low level of variation, with an average indicating that most regions still have a low level of fiscal independence and are dependent on central government transfers. The effectiveness ratio has the highest variation, indicating differences in the ability of regions to realize revenue targets, although the level of effectiveness is generally considered good. The efficiency ratio indicates that regional financial management is relatively efficient because the realization of expenditure tends to be balanced with revenue, although there are still some regions that are not optimal. Meanwhile, the harmony ratio has low variation and indicates that the proportion of capital expenditure is still relatively small, so that budget allocations are not fully directed to activities that drive economic growth. Economic growth as measured by GRDP shows a generally positive condition, although there are disparities between regions marked by some areas experiencing economic contraction. While the unemployment rate is relatively low to moderate, there are still differences between regions in the ability to create jobs.

4.1.2 Results of Measurement Model Evaluation (Outer Model)

Statistic The outer weight indicates the relative contribution of each indicator in forming the latent construct. A t-statistic value > 1.96 (α = 5%) or a p-value < 0.05 indicates that the indicator used has a significant contribution in forming the construct. Based on data analysis, the outer weight value is obtained as can be seen in Table 3.

Table 3. Outer Weight

	Original sample (O)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Description
Independence Ratio <- Financial Performance	0.833	0.272	3.062	0.002	Significant
Effectiveness Ratio <- Financial Performance	-0.199	0.169	1.180	0.238	Not Significant
Efficiency Ratio <- Financial Performance	-0.019	0.249	0.076	0.939	Not Significant
Harmony Ratio <- Financial Performance	0.379	0.190	1.994	0.046	Significant

Results indicate that the Financial Performance construct is largely formed by the Independence Ratio and the Harmony Ratio, while the Effectiveness Ratio and the Efficiency Ratio do not provide a statistically significant contribution. However, in the context of formative constructs, insignificant indicators are considered for elimination if they have adequate outer loading values. Based on the statistical results of the outer model, the Effectiveness Ratio and Efficiency Ratio indicators show insignificant values. Both indicators have relatively low outer loading values (<0.5), namely -0.361 for the Effectiveness Ratio and 0.188 for the Efficiency Ratio. These results indicate that the contribution of both indicators to the Financial Performance construct is very weak empirically. In addition to the significance test of the outer weight and evaluation of the outer loading, the formative construct must also meet the assumption of no multicollinearity between indicators. Based on the data analysis, the outer VIF values obtained are as shown in Table 4.

Table 4. VIF

	Original sample (O)	Keterangan
GRDP	1.000	Free of multicollinearity
Independence Ratio	1.078	Free of multicollinearity
Effectiveness Ratio	1.138	Free of multicollinearity
Efficiency Ratio	1.067	Free of multicollinearity
Harmony Ratio	1.149	Free of multicollinearity
Unemployment Rate	1.000	Free of multicollinearity

Based on the data from Table 4, all indicators in the Financial Performance construct have very low VIF values, ranging from 1.067 to 1.149. This value is far below the critical limits of 3.3 and 5, indicating no signs of multicollinearity between indicators. However, the evaluation of the structural model in this study is more focused on indicators that have a significant and relevant contribution, namely the Independence Ratio and the Harmony Ratio, as the main constructs of Regional Government Financial Performance, as can be seen in Table 5.

Table 5. Outer Weight

	Original sample (O)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Keterangan
Independence Ratio <- Financial Performance	0.879	0.126	6.952	0.000	Significant
Harmony Ratio <- Financial Performance	0.394	0.202	1.951	0.026	Significant

Table 5, presents the measurement results of the structural model following the removal of the effectiveness ratio and efficiency ratio from the assessment of regional government financial performance. This adjustment allows for a more focused analysis of the remaining financial performance indicators.

4.1.3 Structural Model Evaluation Results (Inner Model)

This study uses a one-tailed hypothesis testing type. The structural model describes the relationship between local government financial performance and unemployment rates, both directly and through economic growth (GDP) as a mediator. The results of the internal model testing are then presented to provide an empirical overview of the relationships between variables and the model's ability to explain the phenomena studied.

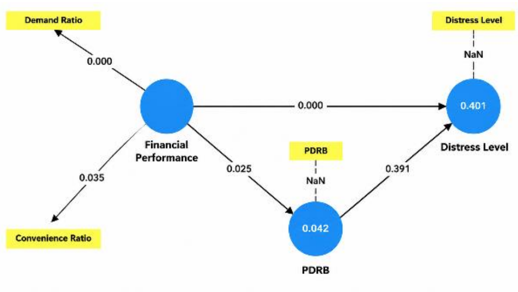

Figure 2. Inner Model

The first step in the structural model evaluation process is assessing the R^2 value. The R^2 value describes the proportion of variance in the endogenous construct that can be explained by the exogenous construct. The higher the R^2 value, the better the model is at explaining the variability of the endogenous construct (Henseler *et al.*, 2009). Based on the data analysis, the coefficient of determination (R^2) value was obtained, as shown in Table 6.

Table 6. Value of the Coefficient of Determination (R^2)

	R-square	R-square adjusted	Description
GRDP	0.042	0.022	Weak
Unemployment Rate	0.401	0.376	Moderate

The test results show an R-square value for GRDP of 0.042, with an adjusted R-square of 0.022. This finding indicates that regional financial performance, as measured by the independence and harmony ratios, can only explain 4.2% of the variation in economic growth, with the remaining 95.8% influenced by factors outside the model. Therefore, the model's predictive ability for GRDP is considered weak. Meanwhile, the R-square value for the unemployment rate of 0.401, with an adjusted R-square of 0.376, indicates that regional financial performance and economic growth together can explain 40.1% of the variation in the unemployment rate. These results indicate that the model has moderate explanatory power for the unemployment variable.

Table 7. Summary of T-Statistic and P-value of Direct Effect Structural Path

	Original sample (O)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Desc
Financial Performance -> GRDP	-0.204	0.105	1.953	0.025	Significant
Financial Performance -> Unemployment Rate	0.638	0.128	5.003	0.000	Significant
GRDP -> Unemployment Rate	0.027	0.097	0.277	0.391	Not Significant

Table 7 summarizes the T-statistic and P-value results for the direct effects within the structural path model. The analysis indicates that financial performance significantly impacts both GRDP and the unemployment rate, with T-statistics of 1.953 (p = 0.025) and 5.003 (p = 0.000), respectively. Conversely, the relationship between GRDP and the unemployment rate is not significant, with a T-statistic of 0.277 (p = 0.391).

Table 8. Summary of T-Statistic Values and P-values of Structural Paths of Influence

	Original sample (O)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Desc
Financial Performance -> GRDP -> Unemployment Rate	-0.005	0.023	0.239	0.406	

Table 8 summarizes the T-statistic values and P-values for the structural paths of influence. The analysis shows that the path from financial performance to GRDP and then to the unemployment rate yields an original sample value of -0.005, with a T-statistic of 0.239 and a P-value of 0.406, indicating no significant effect.

4.2 Discussion

The results indicate that local government financial performance has a significant negative effect on economic growth. This finding contradicts the initial hypothesis and stewardship assumptions, which suggest that better fiscal management should enhance regional economic performance. According to Stewardship Theory, local governments are expected to manage public resources in ways that yield broader economic and social benefits (Davis *et al.*, 1997). However, the empirical findings reveal that improvements in financial performance indicators did not correlate with stronger productive economic activity. A crucial explanation for this lies in the composition and quality of regional expenditures. During the observation period, operational expenditure averaged 39.86%, while capital expenditure accounted for only 14.96%. This indicates that regional fiscal capacity was primarily allocated to routine administrative functions rather than productive development spending. Although financial performance may appear favorable from an administrative perspective evidenced by improved revenue realization, fiscal discipline, or budget management it does not automatically lead to economic expansion when expenditure allocations are dominated by non-productive uses. This finding supports the argument that fiscal outcomes depend not only on budget size but also on the quality and allocation priorities of expenditures (Erwina & Badrudin, 2020; Alexandri, 2022).

Capital expenditure is vital for creating long-term economic capacity, as it supports infrastructure development, public facilities, and investment attractiveness. Productive public spending can stimulate regional output and generate multiplier effects across economic sectors. In contrast, limited capital expenditure hampers the government's ability to promote productive investment and economic growth (Mankiw, 2021). Therefore, improved financial performance does not necessarily translate into higher economic growth. This finding aligns with Wati & Hapsari (2022) and Putra (2025), who concluded that stronger regional financial performance does not always yield the expected economic outcomes. The second finding reveals that local government financial performance has a significant positive effect on unemployment. This result contradicts the proposed hypothesis and theoretical expectations, which suggest that stronger fiscal performance should promote job creation through productive expenditure and regional economic expansion (Davis *et al.*, 1997). However, the findings show that improvements in fiscal indicators were not accompanied by expenditure patterns conducive to employment generation.

Again, expenditure quality is a critical factor. The dominance of operational expenditure implies that additional fiscal capacity was more likely directed toward maintaining government administration rather than expanding economic opportunities. The relatively small allocation to capital expenditure limited the development of economic infrastructure and productive sectors capable of generating labor demand. Consequently, improvements in financial performance did not lead to job gains and were associated with higher unemployment rates. These findings align with Wati and Hapsari (2022) and suggest that administrative fiscal achievements should not be automatically interpreted as developmental success. The results further indicate that economic growth does not significantly affect unemployment. This finding suggests that the economic expansion during the observation period was not sufficiently inclusive to enhance labor absorption. According to Okun's Law, economic growth and unemployment are theoretically expected to move in opposite directions, as increasing production generally raises labor demand (Ball *et al.*, 2017). Similarly, Keynesian theory posits that higher aggregate demand stimulates production expansion and job creation (Mankiw, 2021). However, both perspectives imply that the employment effects of growth depend on the structure and quality of the economic expansion. Growth concentrated in sectors with low labor intensity may increase output without substantially boosting employment opportunities. Thus, economic growth does not always lead to lower unemployment rates (Irewole, 2025).

The insignificant relationship identified in this study suggests that economic growth in Bengkulu Province may not have been sufficiently employment-oriented. However, since this study does not include a sectoral GRDP analysis, the findings do not allow for direct conclusions regarding which sectors contributed most to regional growth. Therefore, the interpretation of jobless growth should be approached cautiously, indicating that economic expansion was not accompanied by proportional employment creation rather than reflecting specific sectoral dynamics. This interpretation is consistent with previous findings that growth does not automatically reduce unemployment (Rumbobiar & Sukmadilaga, 2023; Putra, 2025; Irewole, 2025). Furthermore, the mediation test shows that economic growth does not mediate the relationship between local government financial performance and unemployment. This finding indicates that the expected transmission mechanism in regional development theory did not function effectively in the context of Bengkulu. Fiscal improvement alone was insufficient to generate employment-oriented growth, as the quality and allocation of regional expenditures proved more decisive than mere administrative financial achievements. These findings suggest that the effectiveness of regional fiscal policy depends not only on revenue performance but also on whether expenditures translate into productive economic activities (Erwina & Badrudin, 2020).

Practically, these findings imply that local governments need to shift their financial management orientation from merely achieving fiscal indicators to enhancing expenditure quality and development outcomes. Increasing the proportion of productive expenditure, strengthening infrastructure investment, supporting labor-intensive sectors, and encouraging private economic activity may enhance the transmission from fiscal performance to economic growth and job creation. From a theoretical perspective, this study provides empirical evidence on the limits of stewardship assumptions in local fiscal management. Improvements in local government financial performance do not automatically yield expected development outcomes when fiscal management is dominated by routine expenditures and insufficient productive investment.

5 | CONCLUSIONS AND FUTURE WORK

This study examined the effect of local government financial performance on unemployment through economic growth in 10 districts/cities of Bengkulu Province during the 2020–2024 period. The results show that local government financial performance has a significant negative effect on economic growth and a significant positive effect on unemployment. In addition, economic growth does not significantly affect unemployment and is unable to mediate the relationship between financial performance and unemployment. These findings indicate that the main hypotheses proposed in this study are not supported by the empirical data. Improvements in local government financial performance were not translated into stronger economic growth or better employment absorption. This suggests that favorable fiscal performance indicators do not automatically generate expected development outcomes when regional spending remains insufficiently oriented toward productive activities. From a theoretical perspective, this study provides empirical evidence on the limits of stewardship assumptions in local fiscal management. The findings suggest that administrative improvements in fiscal performance alone are insufficient to achieve economic and social outcomes unless accompanied by expenditure quality and productive budget allocation.

The findings imply that local governments should not focus solely on achieving fiscal performance indicators but also strengthen the quality of expenditure allocation. Increasing productive expenditure, improving capital spending effectiveness, supporting infrastructure development, and encouraging labor-intensive economic activities may enhance the contribution of fiscal management to economic growth and employment creation. This study is limited to district/city governments in Bengkulu Province and uses a relatively limited set of fiscal and macroeconomic indicators. Future research is encouraged to incorporate additional explanatory variables such as private investment, human capital, education level, sectoral economic structure, and expenditure quality indicators. Further studies may also expand the observation period and compare alternative analytical approaches, including panel regression or mixed-method designs, to better capture regional and temporal dynamics.

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