

The Influence of Expenditure Capital Level, Regional Dependence Level and Independence Level on Growth of The Regional Human Development Index

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Abstract:

The goal of this study is to determine the relationship between the human development index and the quantity of regional capital investment, the degree of regional dependence, and the degree of regional financial independence. The Human Development Index (HDI) is the dependent variable, whereas the degree of regional financial independence, the degree of regional financial interdependence, and the degree of capital spending are independent factors. The panel data analysis in this study makes use of the fixed effect model (FEM) methodology. The results show that the degree of regional financial dependence, degree of regional financial independence, and degree of capital investment all considerably and favorably influence the Human Development Index (HDI). It partially depicts how the degrees of regional financial dependence, financial independence, and capital spending have a significant and beneficial impact on the Human Development Index (HDI).

Keywords: regional financial independence, capital expenditure, human development index.

Introduction

The goal of development is to promote communal wellbeing. Diverse national development initiatives are focused on achieving prosperity through fair development in all regions, especially those that frequently still experience income distribution issues. The central government grants regional governments authority in the form of regional autonomy in order for society to advance. According to Law No. 23 of 2014, Article 1 Paragraph 6, regional autonomy is the right, authority, and responsibility of autonomous regions to manage and administer governmental matters and

the interests of local communities within the framework of the Unitary State of the Republic of Indonesia. In order for autonomous regions to manage their own governments, including their own regional finances, it is necessary to devolve part of the central government's authority to those regions. Increasing communal wellbeing is essentially the purpose of regional autonomy. It is envisaged that regional autonomy, in place since 2001, will be able to get through numerous regional government roadblocks to manage regional resources as effectively as possible in order to improve community welfare (Gujarati, 2012).

Another goal of implementing regional autonomy is to free up the central government and encourage the ability of regions to explore the potential of their resources in order for regions to become more independent to improve the welfare of their communities through human development, especially for districts and cities as the driving force behind the implementation of these policies. By fostering human development, which is represented in an elevated Human Development Index (HDI), areas are able to enhance the wellbeing of their local populations. With an HDI score of 57.25, Papua New Guinea has the lowest HDI score. West Papua Province comes in second-lowest with an HDI score of 61.73. East Nusa Tenggara (NTT) is the province with the third-worst ranking, which has an HDI value of 62.67. The HDI value of the three provinces is still far below the HDI figure for DKI Jakarta, which is ranked highest with an HDI of 78.99. The scores for these three provinces are also still below the average Indonesian HDI score of 69.55. Looking at the large differences between provinces with the highest and lowest HDI values shows that there is still a large gap in the welfare of the people in these provinces. This shows that the regional governments of these provinces, especially those ranked in the bottom three, are still unable to improve the welfare of their people to the maximum (Sugiarto et al., 2023).

Province that taken as object in this study is included in one of the lowest rankings when viewed from the HDI value. This province located on the southeastern border of Indonesia. Flores Island, Sumba Island, Timor Island, Alor Island, Lembata Island, Rote Island, Sabu Island, Adonara Island, Solor Island, Komodo Island, and Palue Island are just a few of the islands that make up this province. On the western side of the island of Timor, near Kupang, is where the capital is situated. This province is made up of over 550 islands. The western portion of the island of Timor is home to this province. The former 27th province of Indonesia, East Timor, which became the independent state of Timor Leste in 2002, is located in the eastern section of the island. This province is located in an area not far from the islands of Java and Bali, which are the mother islands of all economic activity, but in fact this province of still has quite serious problems in terms of the welfare of its people when seen from its HDI value, which is very different from the provinces in the Java-Bali region (Asriani et al., 2020).

Literature Review

In essence, human development is very important in national and regional development policy strategies. Emphasis on the importance of increasing human resources in development is a necessity for all regions. Therefore, a region's population quality has a significant impact on how well development management is carried out there. One of the key elements in the effectiveness of development management in a region is the availability of funds. Because every regional development must have funding to support the implementation of its programs in order for them to be successful and the development's objectives to be met. Financial variables can also be used to gauge how well an area will be able to exercise its autonomy (Yenni et al., 2021). With an ever-decreasing degree of dependency on the central government, regions are anticipated to be able to finance the operation of their regional administration. A significant degree of central control over the process of regional development characterizes the reality of the fiscal relationship between the center and the regions. This relationship can be seen by contrasting the volume of center-provided subsidies (grants) with the low PAD (original regional income) to total regional income ratio. Fiscal decentralization is measured by the PAD to total regional revenue ratio (Arifin et al., 2023). This means that the growth in regional original income (PAD), which is used as a gauge and benchmark for the implementation of regional autonomy, shows the region's financial competence or independence. If PAD becomes the mainstay of regional development financing sources that are overseen by the regions and experiences consistent growth, it will have an effect on raising the independence of financial resources owned by regional governments in government administration, development, and services to the community as well as reducing dependence on funding from the central government (Mahmudi, 2010).

The regional government's continued reliance on central government funding for services to the community as well as for government administration and development may be a sign that regional governments have limited ability to explore financial resources from their own regions to improve services to the community. This is a problem faced by regions in their efforts to realize financial independence, which provides great ability for regions to manage their financial resources optimally according to regional development needs in order to realize improved services and community welfare (Setiawati, 2007). Public sector expenditure, or capital expenditure, is related to increasing welfare, which is reflected in human development. For instance, it is anticipated that investments in the health sector will be able to improve life expectancy and lower the mortality rate among pregnant women and infants as a part of human development (Yani, 2013). An area's inhabitants are more prosperous when they have a longer life expectancy. Although, if we look closely, the government's allocation of public expenditure is still relatively lower compared to the routine budget allocation, there are still many regions that have low welfare. This is the responsibility of regional governments in their efforts to meet development needs in their regions by optimizing regional revenue sources so as to meet financing needs in the public sector (Arifin et al., 2023).

Methodology

In this research, there are four variables, consisting of one dependent variable and three independent variables. To choose the number of samples that would be used in this investigation, purposeful sampling was performed. In this study, 21 districts or cities took part. The data for this study were obtained through secondary data sources using cross-sectional and time series data formats. The data sources required for this study are the Central Statistics Agency (BPS), the Directorate General of Financial Balance, Ministry of Finance (DJPB Kemenkeu), as well as supplemental documents. The research's dependent and independent factors were taken into account when adjusting the data that was gathered. Panel data is a research methodology. When using panel data processing, the PLS method and the Fixed Effect Model approach are first contrasted in order to establish the best panel data selection method. The PLS approach model will be examined if the findings produced demonstrate that the PLS model is approved. If the fixed effect model approach is accepted, then carry out another comparison with the fixed effect model approach. The analysis in this research uses an econometric model to get an overview of the relationship between the variables used. In this research, data processing was computerized through the Eviews.

Case studies

Original regional income and total regional revenue are compared to determine the degree of regional financial independence. This ratio aims to determine the level of regional independence in funding regional requirements by looking at local revenue streams and reducing reliance on transfer payments from the federal government in order to achieve fiscal decentralization. The quantity of local original income (PAD) rises with the extent of financial independence in a region. The development of public facilities and infrastructure within a region or city is funded by a regional government fund known as PAD. It affects HDI both immediately and over time since some PAD is designed to finance the requirements of fundamental community service facilities and infrastructure that have not yet attained specific criteria or to promote faster regional growth, particularly human development. Because of its stunning natural surroundings, particularly its beaches and hilly regions, the province boasts enticing tourism attractions. Due to the abundance of tourist destinations, income from the tourism industry can boost regional income, particularly from local taxes and levies.

The quantity of tax revenue has up to this time shown a rather considerable gap in the division of taxation authority between central and regional governments, based on the participation of regional taxes and regional levies. However, because funding is required in the majority of areas, this disparity does not significantly affect the growth of local original income (PAD). In reality, regions only have a PAD of less than 10%, and this ranges widely between 10% and 50% in each region. This study shows that the level of regional financial independence has a positive and significant impact on the Human Development Index (HDI). The value of the human development index shows that if the level of regional financial independence measured by the amount of original regional money received by the

regional government to fund regional requirements is higher, it can improve the welfare of the community. The results of previous research that looked at how local original revenue and the level of fiscal independence affected the human development index through capital spending in districts and cities of North Sumatra Province support the conclusions of the current study. In this study, it was discovered that the level of financial independence might increase the human development index.

The degree of regional financial dependence is determined by the ratio of transfer payments to the total income produced by a region. This ratio aims to express how reliant on the federal government the regional government is. The capacity of each region to finance its operations varies. As a result, there is a financial difference between some regions and others. The government therefore distributes cash from the APBN to finance regions in the framework of developing regional autonomy in order to close this deficit. Regions with low local original income (PAD) typically receive more transfer money than those with high PAD. The degree of regional financial dependence is determined by the ratio of transfer payments to the total income produced by a region. This ratio aims to express how reliant on the federal government the regional government is.

This study found that the level of regional financial dependence has a positive and significant impact on the Human Development Index (HDI). The welfare of the community can therefore rise as well, as evidenced by an increase in the value of the human development index, if the level of regional financial dependency, as measured by the amount of transfer money received by the regional government to fund regional requirements, grows. An prior study that looked at the effects of fiscal balancing on the district/city human development index in the province of West Papua from 2008 to 2012 supports the conclusions of this study. This study found that increasing the local governments' balance funds can increase the human development index. The degree of regional financial dependence is determined by the ratio of transfer payments to the total income produced by a region. This ratio aims to express how reliant on the federal government the regional government is. Theoretically, balancing funds and the human development index are closely related, according to another research. However, in practice, decentralization only allows local original income to finance up to 20% of regional government spending; the remaining 80% is covered by regional revenue sources. Balancing the budget produces government.

The research's estimation findings also demonstrate that, in terms of growing HDI, the coefficient for the degree of regional dependency is less significant than the coefficient for the degree of regional independence. In comparison to the central transfer monies they get, local governments have more freedom to handle their initial regional income in budget management, the author claims. Because within the central transfer fund, there is a general allocation fund (DAU), which is the largest fund transferred by the central government and is budgeted more for routine spending, while for funding programs in strategic sectors such as increasing HDI, there are special allocation funds (DAK), whose proportion is still lower compared to DAU. Therefore, regional governments must maximize their efforts in exploring sources of regional revenue and allocate them according to the needs of the community in their region so that they can improve community welfare. As a result, regional governments should develop policies that can maximize local original income based on regional potential. The tiny amount that PAD contributes to regional income either shows that regional fiscal independence is still minimal or that regional government fiscal dependence on the federal government is still significant.

Capital expenditure level ratio by comparing capital expenditure with total regional expenditure. In the context of adopting fiscal decentralization, this ratio is meant to calculate the level of capital expenditure provided by regional governments. According to this study, the Human Development Index (HDI) is significantly and positively impacted by the level of capital spending. This means that if the level of capital spending is higher, it can improve community welfare as represented by the value of the human development index, as shown by the amount of realized capital expenditure allocated by the regional government to support regional requirements. A prior study that shows how the capital expenditure/public expenditure ratio affects the human development index supports the conclusions of this study. The research's estimation results also show that, in comparison to the coefficients for the level of regional independence and the level of regional reliance, the coefficient value for the level of capital expenditure has the least impact on the rise in HDI. The author claims that this is because, when measured against total regional spending, the realization of capital expenditure is still low. In fact, as transfer income from the central government rises, the budget for spending should rise as well, allowing regional income to be allocated as much as possible for spending that directly impacts public service quality and community welfare.

Conclusion

At a 95% confidence level, there is a positive and substantial association between regional financial independence and the Human Development Index (HDI). The degree of regional financial dependence on the federal government is positively and significantly correlated in the model. This suggests that increasing reliance has a large positive impact on the Human Development Index (HDI). Capital investment amount and other factors are positively and significantly correlated. Capital spending has a beneficial impact on the Human Development Index (HDI). Regional funding sources are still heavily influenced by the central government. As it can be shown from PAD's small contribution to regional revenue that the level of regional fiscal independence is still low, regional governments should create policies that can maximize regional original income based on regional potential. Therefore, the use of these funds in the regions should be focused on initiatives that stimulate regional economic development, which can ultimately have an impact on community welfare as reflected in the HDI. The HDI is influenced positively by the level of independence, dependency, and capital expenditure. For municipal administrations, the lack of independence poses a severe challenge. Each city or district must therefore be able to look at ways to boost regional income, including through the already-existing tourism industry. To ensure that local revenue and transfer funds are used in accordance with development goals and to enhance community welfare, the central government and the community must supervise their usage. This also applies to the distribution of capital expenditures. This research still needs to be further developed because there are still many aspects that can be studied further in regional finance, especially to increase the Human Development Index.

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