

# The Determinant of Human Development in the Eastern Part of Indonesia

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## Abstract

*Improving human resource quality in Eastern Indonesia has become a primary concern in many development programs enacted in Indonesia. The KTI regions needed to catch up and often experienced development problems. Several challenges, such as the significant disparity in education and health facilities compared to the western part of Indonesia, have hindered the development process of KTI. This research aims to find the determinants of human development in KTI. We analyze the regional fiscal dependency ratio, employment level, allocation of DAU (general allocation fund) by the central government, and poverty gap level as determinants of the Human Development Index in KTI. Using the Fixed Effect panel data analysis, we found that the general allocation fund, employment, and fiscal dependency ratio are positively associated with HDI in KTI regions. In contrast, the poverty gap is negatively associated with HDI in KTI regions. Our empirical finding implies that central government transfers play an essential role in the human development process, while the poverty problem is one of the main obstacles to improving the human resources quality in KTI regions.*

## Keywords:

employment; fiscal dependency ratio; general allocation fund; human development; poverty

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## INTRODUCTION

Every country continues to pursue development in its area to seek prosperity and continuous improvement, not only for the nation and the regions but also for the community. The growth process in a region is determined not only by how much income the region can generate. Human resources also play a significant role in the region's growth. Human resources are total capital that can support the region's development process. Human capital is seen as a determining factor in a nation's development process and economic growth (Arisman, 2018; Ogundari & Awokuse, 2018; Raharti et al., 2020). A higher level of human resources quality will improve the regional development process and, hence, it will bring a society's welfare.

Government expenditure in supporting human development progress is determining factor in improving economic growth (Rizal & Fitrianto, 2021; Imandojemu & Babatunde, 2020; Butar & Rahmanta, 2021). United Nations Development Program (2019) also emphasized that human development is important to the region's development. The UNDP has introduced the Human Development Index (HDI), or the IPM in Indonesia, which includes health, education, and economic aspects as a precautionary measure of the society's quality of life that will determine the society's welfare. According to Ahmad et al. (2019), and Akay & Van (2017), the HDI was created to emphasize that people and their skills should be the primary criteria for assessing a country's overall development.

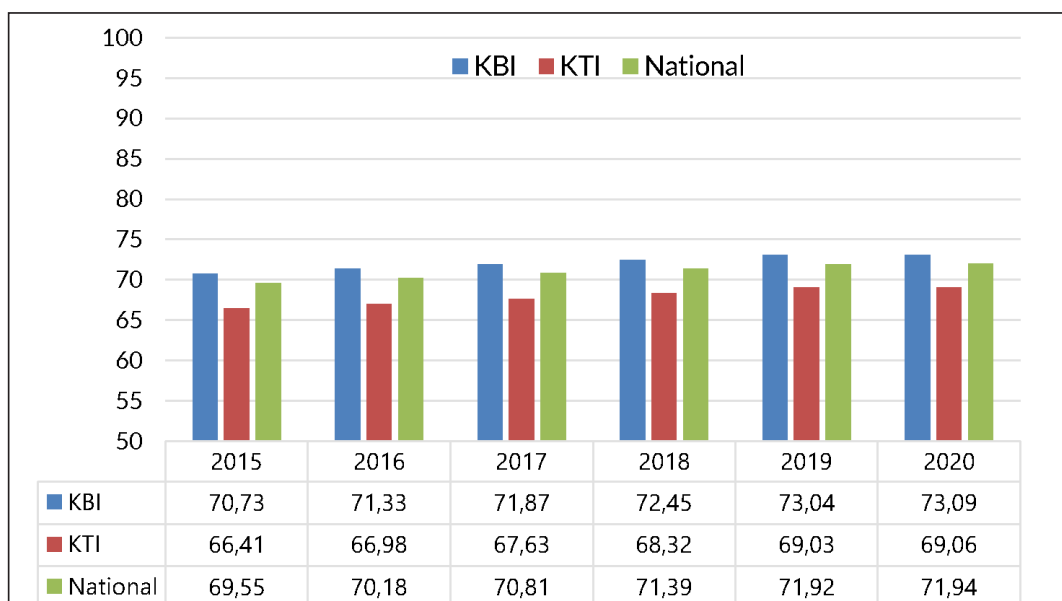
The eastern part of Indonesia (KTI) has become a focus of Indonesia's human development process. KTI needs to catch up in its three HDI sectors, and it needs more improvement to develop the quality of its human resources. Another problem that hinders the human development process in KTI is the apparent poverty incidents within KTI territory. Farida et al. (2021) show that poverty and development inequality are still apparent in eastern Indonesia. They also noted that lagging development and poverty leads to poor human resources quality in these regions. This problem subsequently hinders the human development progress of the KTI regions. For that reason, we want to explore the determinants of human resource development in eastern Indonesia.

Figure 1 shows how human development in the eastern part of Indonesia (KTI) lags behind the western part of Indonesia (KBI). From the national figure from 2015 to 2020, the lack of human quality in KTI was more concerning compared to the western part of Indonesia (KBI). The HDI gap between KTI and KBI showed that the quality of human resources in KTI needs to catch up to KBI and national figures. The average HDI in KBI was above national and KTI scores. On the other hand, The HDI score of KTI was under both KBI and national figures with an index value of 66.41(2015); 66.98(2016); 67.63(2017); 68.32(2018); 69.03(2019); and 69.06 (2020). The pandemic-led recession in the year 2020 has impacted the development in all sectors, including human resources. As the national economy dropped significantly during 2020, government programs in human development were

diverted to the economic recovery program. This condition is a drawback for human resources development in KTI.

Furthermore, the lag of human development conditions in KTI was caused by welfare and income distribution disparity. KBI has been the center for business and government activities; hence the national income is generated mainly from economic activities in KBI. This condition leads to a development gap between KBI and KTI. From 2015 to 2020, only two provinces in KTI have a human development index above the national HDI average: East Kalimantan and North Sulawesi. Based on Statistics Indonesia (BPS) data, the highest HDI in Eastern Indonesia was in East Kalimantan, with a score of 76.24 in 2020, while Papua has the lowest index, with a score of 60.44. East Kalimantan was the highest HDI score in KTI and even the 3rd highest in Indonesia. These differences in the development progress in both provinces are due to more extended life opportunities, better access to health and education facilities, and the economy that tends to improve. This condition was in contrast to human development in Papua, where the development process needed to support the advancement of education, access to health facilities, and improving living standards. This fact shows that within the KTI region, there is also a disparity in development progress.

Figure 1. The Comparison of the Human Development Index



Source: Statistics Indonesia 2021, processed

Bappenas has mapped the strategic development issue of human quality progress in Indonesia, especially in KTI and KBI. Through the Medium-Term National Development Plan, Bappenas (2015; 2019) has made a development direction to encourage the transformation and acceleration of regional development in KTI by supporting and improving its human resources. The leading indicators that can direct the advancement

of human quality are life expectancy (health sector), the average length of schooling (education sector), and per capita expenditure (economic sector). However, those indicators have hindered the growth of HDI in KTI. These conditions were caused by several factors, such as the inadequate supply of clean water, the low average length of schooling (up to 8 years), and the poor purchasing power of the people in KTI. So they were unable to meet their needs of life adequately.

Human development is critical for local governments in their efforts to implement decentralization. Local governments are responsible for funding public services for their community's welfare. Finance is the primary source of regional development funding to execute development programs. Therefore, regional finance is much needed to facilitate better services for people's welfare. In the regional funds' budgeting process, local governments are very dependent on regional revenues. The ability of regional funds to support the needs of regions independently reflects better regional independence, especially in financial performance (Canare & Fransisco, 2019). In the Eastern part of Indonesia, the fiscal independency of provinces tended to fluctuate. A low level of provincial fiscal independence, with an average of 39 percent, dominated almost all provinces.

Compared to 2015, regional financial independence in KTI decreased yearly from 51% to 35% in 2020. This condition represents local governments' inability to control their regional wealth. If the governments did not manage local resources very well, the regions would not earn local income to improve investment in capital expenditures to provide better public services. Low locally generated revenue will make regional finances depend on the central government. Thus, regional financial independence, which was still low in KTI, is the main reason for the lagging development of KTI. Previous research has shown mixed evidence of the relationship between fiscal dependency and the human development index. Local government fiscal independency can positively impact the quality of HDI (Mauludin & Dewi, 2020; Suhyanto et al., 2020; Hung & Thanh, 2022). While Digdowiseiso & Satrio (2022) concluded a contradictive result in which the level of regional fiscal independence has a negative impact on human development. It is then interesting to find more empirical evidence to know the relationship between fiscal dependence and human development progress in KTI regions.

Another aspect that may influence the human development index is the employment level. The number of active workers in KTI is important in boosting regional development (Izzah & Hendarti, 2021; Feriyanto, 2016). The more significant number of working people will subsequently generate more output, causing the gross domestic product to rise nationally and regionally. If GDP is increasing in regions, the per-capita income of society will also be higher since a GDP increase impacts the enhancement of the economy. However, data from the Statistic bureau of Indonesia shows that within 2015-2020, the total number of workers in KTI is still lower than in KBI. The proportion of KTI workers is about 20% of Indonesia's overall workers. However, Eastern Indonesia has low-quality workers, indicated by lower educational backgrounds. Most of the workers are junior school graduates or even lower. Other than that, at the beginning of 2020,

the number of employees decreased as the impact of the Covid-19 pandemic limited any economic activity, including workers. The total wages declined, and unemployment grew. The low number of active workers in KTI may affect the development progress of the region. Previous research has shown mixed evidence of the relationship between labor and HDI. Izzah & Hendarti (2021) and Feriyanto (2016) show a positive impact of labor on HDI, while Masiku et al. (2017) found an insignificant impact of labor on HDI.

In addition, the general allocation fund also plays an essential role in regional development. The regional government sees it as capital needed to undertake human development programs. As mandated in the decentralization regulation, the development program can be executed using the general allocation of funds from the central government to the regional government. As the Ministry of Finance Indonesia released, the general allocation fund (DAU) given to the provinces in KTI and KBI had a pretty different budget allocation, where the distribution was more significant in KBI than in KTI. Hence, the level of development quality would also certainly be different. As stated in Regional Transfer Funds Policy, the basic allocation of the general allocation fund is formed by civil servant salary. Referring to the SIMREG data by Bappenas, the number of civil servants in KBI was more extensive than in KTI. The difference in total civil servants between these two parts of Indonesia was 30.88% in KTI and 69.12% in KBI, which means the basic allocation of DAU in KBI was higher than in KTI. For that reason, that is the cause of the DAU proportion of KTI is lower than KBI, with the differences ranging from thousands of billions of rupiah.

The KTI area should be prioritized, considering its lagging development. Further, since the Covid-19 pandemic began in 2020, the government has had to shift the DAU allocation due to decreased state income. Thus, the allocation must be reallocated for handling COVID-19 in all regions in Indonesia. This DAU reduction increased each region's financial burden by refocusing the budget on coronavirus cases, influencing the quality of development progress. Looking at the conditions in each region should carry out the distribution of the DAU allocation. If the region's development is lagging, it should receive a higher amount of DAU when compared to regions with better development progress. Previous research has shown mixed evidence on the relationship between DAU and the human development index. Lestari et al. (2019) and Regina et al. (2020) concluded that the allocation of DAU positively impacts human development. While studies by Sembiring (2020) and Williantara & Budiasih (2016) found that the allocation of DAU did not significantly affect human development because the allocation from the central government was intended for personnel than capital expenditures. Pursuing further evidence of the relationship between DAU and human development in KTI regions is interesting.

Another obstacle to the region's development in Eastern Indonesia is the high poverty rate. The poverty depth index is closely related to the quality of human development (Ahmaddien, 2019; Kurniawan, 2017; Khikmah et al., 2020; Wahyuni et al., 2021). The findings of these studies have found that the implications of poverty

depth index reduction would improve the degree of human development because it can reflect the community's ability to access the development outcomes of the three HDI sectors in the regions. The data shows that the poverty gap index tends to fluctuate and be high in Eastern Indonesia. When the covid-19 pandemic spread widely in 2020, this situation increased the poverty gap in most provinces in KTI due to declining incomes and people's purchasing power. It certainly needs to be considered by the government to minimize the gap between people with low incomes. Provinces of KTI dominated the poverty incidence in Indonesia. This condition was in line with the problem of inequality between people experiencing poverty, which was still high in the KTI.

The HDI was developed to convey that human capabilities should be the ultimate indicator for evaluating a country's development. Al-Nasser & al Hallaq (2019) concluded that poverty in human life has a negative effect on the country's human development. Feriyanto (2016) observed that the number of workers positively impacts the human development index. Then, Sandjaja et al. (2020) found that the general allocation fund positively impacts human development in regencies and cities. Khairudin et al. (2020) also discovered that the ratio of regional financial independence significantly affects HDI.

With financial assistance and a large amount of labor, it should be possible to boost human development in KTI to levels comparable to KBI and national figures to diminish the disparity. However, in reality, the HDI in KTI remained the lowest and lagged with an average of 68 in 2020. A low fiscal independency ratio with an average of up to 39%, insufficient employment quantity in KTI by only 20.1% of Indonesia's workers, general allocation fund that was not evenly distributed to KTI despite the region's need for more financial support for its development, and poverty problems that have not been addressed so that development problems in KTI have not been fully resolved. Based on the problems stated above, this study aims to explore the relationship between the impact of the fiscal dependency ratio, employment, general allocation fund, and poverty gap level on the quality of human development in Eastern Indonesia.

This study will add empirical evidence to the broad literature on human development in emerging countries. The study's novelty lies in the effort to provide recent empirical evidence of HDI determinants in the eastern part of Indonesia, which still needs to be improved. Previous studies have elaborated on the association between central government transfer, poverty, and employment to economic growth (Martinez-Vazquez & McNab, 2003; Swasono, 2007; Gemmell et al., 2013; Anantika & Sasana, 2021). This study analyzes whether these factors also determine human development in Indonesia.

## **METHOD**

This study investigated human development issues in 17 Eastern Indonesia provinces comprising East, South, West, and Central Kalimantan, Papua and West Papua, East, and West Nusa Tenggara, Central, West, South-East, North and South Sulawesi, Maluku,

and North Maluku. We use the human development index as the dependent variable (Y) and fiscal dependency ratio (X1), employment (X2), general allocation fund (X3), and poverty gap level (X4) as the independent variables. The fiscal dependency ratio is measured by dividing the total transfer from the central government by the total regional income. The higher ratio of fiscal dependency shows a higher dependence of locals on the central government. The total transfer from the central government to the local government measures the General allocation fund. The number of citizens with age 15 years old and above who participate in productive activities to generate income or profit measures the employment variable. The poverty gap level is obtained from Indonesia's Statistical bureau data. This study used quantitative research with secondary data obtained from the Indonesia Statistical Bureau and DJPK Ministry of Finance. We use the data of the Human development index, fiscal dependency ratio, employment, and poverty gap index from 2015 to 2020.

We use panel regression analysis as the empirical strategy to explore the determinant of the Human Development Index in KTI regions. The panel regression is estimated by using the following model:

$$HDI_{it} = \alpha + \beta_1 FISCAL_{it} + \beta_2 EMP_{it} + \beta_3 GAU_{it} + \beta_4 P1_{it} + \varepsilon_{it}$$

Where:

$HDI_{it}$  : Human development index in the i-province at the t-period

$FISCAL_{it}$  : Fiscal Dependency ratio in the i-province at the t-period

$EMP_{it}$  : Employment in the i-province at the t-period

$GAU_{it}$  : General allocation fund in the i-province at the t-period

$P1_{it}$  : Poverty gap level in the i-province at the t-period

## RESULT AND DISCUSSION

Table 1 depicts the descriptive statistic estimate of dependent and independent variables. The total number of observations is 102, comprised of 17 provinces of eastern regions of Indonesia from 2015 to 2020.

Table 1. Descriptive Statistic of Determinant of HDI in Eastern Indonesia

	General Allocation Fund (in billions Rp)	Employment (in million )	Fiscal Dependency Ratio	Poverty Gap	HDI
Mean	1.401345	1.438040	60.78078	2.523431	67.91000
Median	1.338722	1.295798	64.29000	1.875000	68.43500
Maximum	2.625303	4.058595	84.50000	9.370000	76.61000
Minimum	0.057313	0.267023	24.80000	0.690000	57.25000
Std. Dev.	0.496285	0.921638	16.48812	1.976693	3.761716
Observations	102	102	102	102	102

The empirical result from panel OLS regression is presented in table 2. Column 2 to 4 shows the result of the fixed effect, common effect, and random effect approach, respectively. The result of R-Squares varies among the three approaches, with the highest R-Square resulting from the fixed effect model, 0.980. We obtain significant results from the FEM's regression results in column 2 for all independent variables.

**Table 2. Estimation Result of Determinant of Human Development Index in Eastern Part of Indonesia Regions**

Variable	Fixed Effect	Common Effect	Random Effect
General Allocation Fund	1.6941*** (0.2602)	-0,6509* (0.3921)	1.6923*** (0.4251)
Employment	2.4627** (1.2174)	0.2746* (0.1566)	0.9329* (0.5562)
Fiscal Dependency	0.0183** (0.0088)	-00003 (0.0125)	0.0262*** (0.0099)
Poverty Gap	-0.888*** (0.1124)	-1.3847*** (0.1234)	-1.0988*** (0.1443)
Region fixed effect	Yes	No	No
Constant	63.119***	71.943***	65.3755***
Observations	102	102	102
R <sup>2</sup>	0.980	0.599	0.674
Prob (F-test/ Chi <sup>2</sup> )	0.0000	0.0000	0.0000

\*, \*\*, \*\*\* Indicates significance at the 10%, 5%, and 1% levels, standard error in parentheses

The variable General Allocation Fund is significant at a 1% level and has a coefficient of 1.6941, which means that a one-unit increase in general allocation fund transfer from the central government will increase the HDI by about 1.6941 points. The findings of this study are in line with the research by Soejoto & Suyanto (2015), Regina et al. (2020), and Agus (2020), who concluded that the general allocation fund has a positive and significant impact on the Human Development Index. This result means that the general allocation fund has helped each province execute a better policy to improve the quality of human resources. The financial infusion is intended to improve development quality by accelerating essential public services and creating priority programs to catch up with the -more developed- western part regions. General allocation funds also play an essential role in promoting equitable development.

The employment variable has an impact on the human development index. The findings above are consistent with previous research by Eren et al. (2014), Maulida (2016), Lubis (2014), and Izzah & Hendarti (2021) that states an increase in workers (employment) will be able to improve the quality of the HDI because a higher labor participation rate will increase productivity and generate more output. These



workers will receive income for their hard work that is subsequently used to improve their living standards. Growth in the number of workers must be accompanied by an increase in the workforce quality so that human development in KTI can grow much more rapidly and contribute to the reduction of development inequality. In addition, this finding also supports the premise mentioned above stated by Amate-Fortes et al. (2016) and Wijaya et al. (2021), suggesting that higher employment will increase regional savings, that in turn will positively affect the region's development progress. Worker productivity will contribute to regional output and savings positively associated with regional growth. Subsequently, higher regional growth will help improve human development quality through better access to education and health facilities.

The variable of the fiscal dependency ratio shows a significant impact on HDI. Higher fiscal dependence means higher dependency of KTI provinces on the central government. However, it also means the central government is more concerned about KTI's development progress. Allocation of Funds from the central government has helped KTI develop more development programs and increase HDI. This result aligns with previous findings by Sofilda et al. (2015) and Agus (2020), showing that central government transfer has a positive and significant association with human development. This result confirms our hypothesis that the eastern part region of Indonesia still profoundly depends on central government transfer to finance their development program.

Central government transfers enable local governments to improve regional human development continuously. The positive association of the fiscal dependence ratio and human development index in KTI regions shows that the local government uses central government transfer to compensate for the region's inability to finance its development. Local government should maximize their effort to generate more local income and gain fiscal independence. Further, this also means that fiscal decentralization in eastern regions of Indonesia needs to be optimally executed (Farida et al., 2021).

The poverty gap level variable has a negative impact on human development in Eastern Indonesia. The research results are consistent with the finding of Wahyuni et al. (2021) and Al-Nasser & Hallaq (2019), who concluded that human development would decrease as the poverty gap increase. Poverty is a significant barrier to a region's development process. People living in poverty usually have limited access to education, health facilities, and other resources needed to maintain a decent living standard. The region's higher poverty gap index means more of its citizens live in poverty. A higher poverty problem will hamper the development progress of a region and eventually will also obstruct the improvement of human resources quality.

Further, the poverty problem may worsen if there is an inequality of income distribution within the region. Suppose the income distribution in the local community is carried out unevenly. In that case, the poverty level will spread, resulting in a lack of people's purchasing capacity to meet their basic needs. The Covid-19 pandemic has also

increased the gap in poverty due to a sudden drop in people's income, subsequently; it affects people's overall purchasing power to afford necessities. This problem will lead to the people's inability to access resources needed to maintain a decent living standard, such as job training, education, better nutrition, and health facilities. According to Joko et al. (2020) and Syofya (2018), high poverty will worsen human development since people experiencing poverty cannot access education and health care to improve their quality of life. This condition will result in the HDI's decline in Eastern Indonesia.

Apart from the fixed effect estimations explained in the above paragraph, column 2 and 3 in table 1 shows the estimation result of the common and random effect approach. In the common effect estimates, the fiscal dependency variable shows an insignificant result, while in random effect estimates, all variables are statistically significant. The variable's coefficients have the same signs and similar values for both fixed and random effect estimates. From the consistent result of both fixed and random effect estimates, the general allocation fund, employment, fiscal dependency ratio, and poverty gap are determinant factors of human development indicators in eastern regions of Indonesia.

## **CONCLUSION**

Based on previous analysis and research, the fiscal dependency ratio, employment, and general allocation of funds positively and significantly impact human development. This result means that the greater fiscal dependency, employment, and general allocation fund are associated with a high human development index. While the poverty gap has a negative and significant effect on human development, meaning that the higher poverty gap value is associated with a lower human development index in Eastern Indonesia from 2015 to 2020.

There are several research implications in this study. Firstly, the distribution of general allocation funds by the central government should be more evenly distributed following the region's basic needs. Secondly, the regional government maximizes and optimizes the budget, particularly during the Covid-19 pandemic. At the same time, transfers from the central government to the regions should also be allocated more significantly, anticipating the Covid 19 outbreak as a priority in Eastern Indonesia. Thirdly, optimizing regional wealth in Eastern Indonesia so that financial dependence on the government and the ability of regions to finance their development can be more balanced. Fourth, there is a need to provide programs for human resources to keep up with constantly updating knowledge and skills to respond to the increasing competitiveness of employment opportunities. Fifth, future research should elaborate more factors to explain human development in Indonesia to make future research findings more comprehensive.

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