ANALYSIS OF THE INFLUENCE OF REGIONAL FINANCIAL INDEPENDENCE, PERCAPITA INCOME AND THE NUMBER OF POOR PEOPLE ON HUMAN DEVELOPMENT INDEX IN INDONESIA

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Abstract

The human development index is an important indicator to measure success in efforts to build human quality of life. Human development emphasizes the fulfillment of a life worthy of man. The government is making efforts to improve the quality of the population as a resource, both from aspects of education such as subsidies contained in the law, in terms of health and economic perspectives that can be seen from the income of the community. In this study, the authors analyzed how the influence of regional financial independence, percapita income and the number of poor people as an effort in the process of improving human development in each province in Indonesia. The research data was taken from 34 provinces in Indonesia with a period from 2014-2018 through the Central Statistics Agency. Through chow test and hausman test, this study used panel data analysis with Fixed Effect Model (FEM) approach. The results of partial or t-tests showed that regional financial independence had a significant effect on the human development index with a statistical t-value of 3,100864 and a probability of $\alpha <$ 0.05, Per capita GDP data has a significant effect on the human development index with a statistical t-value of 5,131457 and a probability of $\alpha <$ 0.05, and the number of poor people has a significant effect on the human development index with a statistical t-value of -16,10742 and a probability of $\alpha <$ 0.05. Simultaneous test results or F-test showed a statistical F-value of 74,08607 with a probability of $\alpha < 0.05$ which means that together independent variables have a significant effect on dependent variables. Through the R^2 test results obtained a value of 0.952502 means variables of regional financial independence, percapita income and the number of poor people are able to explain the effect on the human development index in each province in Indonesia by 95 percent

Keywords: Regional Financial Independence (KKD), Perkapita Income (GDP perkapita), Number of Poor People (JPM), Human Development Index (HDI), Fixed Effect Model (FEM)

INTRODUCTION

The concept of Human Development is that humans are the real wealth of the nation. The human development index (HDI) is an index established by the United Nations Development Program (UNDP) in 1996 to measure people's welfare. Human development as a measure of overall development performance is formed through a three-dimensional approach, namely a long and healthy life, knowledge and access to resources needed to achieve a decent life. Humans are the real wealth of the nation. It is appropriate if humans become the main goal in development. The importance of human development becomes a necessity in the development of a region. According to UNDP, human development is formulated as an effort to expand choices for the population (enlarging the choices of the people) and at the same time as the level achieved from these efforts (BPS, 2018).

According to the Central Statistics Agency (BPS) the Human Development Index (IPM) has several benefits:

1. HDI is an important indicator to measure success in efforts to build the quality of human life.
2. HDI can determine the ranking or level of development of a region/country.
3. For Indonesia, HDI is strategic data because it is a measure of government performance.

The benefits of HDI are very important because they have strategic value and are needed by many groups, especially the government as reference material in determining various government policies. One of the government policies is the determination of regional balancing funds through the General Allocation Fund (DAU), where one of the allocators is the HDI. In addition, HDI is also used to assess the success of human development performance. The increase in the HDI value of a region is certainly strongly influenced by the internal policies of each region, one of which is a policy in terms of finance that supports community development in each of these provinces.

The current government seems to be very concerned about human development. This is indicated by the inclusion of the Human Development Index (IPM) as one of the allocators of the general allocation fund (DAU) to address the regional financial gap (fiscal gap). Other allocators are area, population, gross regional domestic product and construction cost index.

Since the implementation of regional autonomy, regional governments are expected to be able to assist the central government in carrying out their duties properly, including in financial management so that regions are more independent in running their government. Regional financial independence shows that local governments are able to finance their own government activities, development, and services to the community who have paid taxes and levies as revenue needed by the region.

Furthermore, to measure the financial capacity of local governments is to analyze the financial ratios of the APBD that have been determined and implemented. As with other regions in Indonesia, the main problem faced by autonomous regions is the low revenue of PAD, while on the other hand, the potential for natural and human resources is quite abundant and has the potential to be developed. In addition to Original Regional Revenue as a source of finance in each region, the central government also provides balancing funds as an allocation to regions (autonomous) to fund regional needs in the context of implementing decentralization, in this case funding of a national priority contained in the allocation of the Special Allocation Fund. (DAK). The financial capacity of a region can be seen from the size of the PAD obtained from the region concerned. In relation to the granting of greater regional autonomy to regions, Regional Original Revenue is always seen as one of the indicators or criteria for measuring the dependence of a region on the center. The higher the value of the ratio of PAD to total income, the better the financial independence of the region.

Regional financial independence shows the ability of local governments to self-finance government activities, development, and services to the community who have paid taxes and levies as a source of revenue needed by the region, which is indicated by the amount of regional original income to regional income originating from other sources. The greater the value of the independence ratio of a region, the higher the level of regional independence in financing its own activities. With the creation of regional financial independence, regional governments will be able to finance regional development for the welfare of the community.

In addition to the regional financial independence variable, the rate of economic growth is also a variable studied in influencing the Human Development Index. Regional financial independence and economic growth towards human development are one of the targets of local governments in the successful implementation of regional autonomy. One indicator of the progress of a region apart from adequate infrastructure is the economic strength of the region. The economy influences people's daily lives. One indicator of the level of welfare of the population of an area is the GRDP Per Capita. Considering that economic growth is calculated from GRDP growth, this model will take into account income per capita in explaining the behavior of HDI. GRDP is the net value of final goods and services produced by various economic activities in an area in a period. while Per Capita Income is often used as an indicator of development. The higher the Per Capita income of an area, the greater the potential source of regional revenue because the greater the income of the people in the area. This also means that the higher the GDP per capita, the more prosperous the population in an area will be.

A person or family can be said to be poor or living in poverty if their income or their access to goods and services is relatively low compared to most people in the economy. In addition, poverty can be seen as an absolute level of income or standard of living.

Referring to government regulations in the regional autonomy law regarding the decentralization principle

RESEARCH METHOD

The scope of this research is focused on analyzing the influence of regional financial independence, special allocation funds on the human development index in 34 provinces.

Data analysis technique

The data analysis method used in this study is quantitative with a panel data analysis model or pooled data. Panel data is a combination of time series data and cross section data.

The use of this quantitative analysis is used to determine how much influence Regional Financial Independence (KKD), Economic Growth (PE) and Number of Poor Population (JPM) have on the Human Development Index. In the structural model, the model can be described as follows:

$$IPM_it = \beta_0 + \beta_1 KKD_it + \beta_2 LPE_it + \beta_3 JPM_it + \varepsilon ...(3.2)$$

Where:

IPM = Human Development Index

KKD = Regional Financial Independence

LPE = Economic Growth Rate
JPM = Number of Poor Population
β_0 = Intersep
β_1- β_3 = Coefficient of independent variable
i = Provinces in Indonesia
t = Year
ε_{it} = Error Correction Term

RESULT AND DISCUSSION

T Test

The t-statistic test aims to determine the effect of the independent variables on Regional Financial Independence, Economic Growth and the Number of Poor Population partially on the dependent variable, namely the Human Development Index in 34 provinces in Indonesia..

Table 1. T Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	68.03492	1.812227	37.54217	0.0000
KKD	0.046704	0.015061	3.100864	0.0024
PK	0.169282	0.032989	5.131457	0.0000
JPM	-0.637499	0.039578	-16.10742	0.0000

Sumber: Eviews

Table 1 is the result of testing the independent variables, namely Regional Financial Independence, Economic Growth and the Number of Poor Population partially on the dependent variable, namely the Human Development Index in 34 Provinces in Indonesia in 2014 - 2018.

This study uses = 5% or = 0.05.

If written in equation then the result is:

$IPM_{it} = 68{,}03492 + 0{,}046704\ KKD_{it} + 0{,}169282\ PK_{it} - 0{,}637499\ JPM_{it} + \varepsilon_{it}$

IPM_{it} = Regional Human Development Index i period t
KKD_{it} = Regional Financial Independence Ratio in region i period t
PK_{it} = Per capita income in area i period t
JPM_{it} = Ratio of the Number of Poor Population in area i period t
β0 = Intersep
β1, β2, β3 = Coefficient of independent variable

From these equations, the following conclusions can be drawn:

a. The constant is 68,03492, which means that if the regional financial independence, per capita income and the number of poor people are zero, then the human development index in 34 provinces in Indonesia is 68,03492.
b. The coefficient of regional financial independence variable shows a positive direction, which means that if the ratio of regional financial independence increases, it will have an impact on increasing the human development index. The t-statistic value in this variable is 3.100864 and the probability shows a value

of 0.0000 which is smaller than the confidence level = 5% (0.0024 > 0.05) so this can prove that the Regional Financial Independence variable has a significant effect on Human Development Index in 34 Provinces in Indonesia 2014 – 2018 which means H1 is accepted and H0 is rejected.

c. The coefficient of the per capita income variable shows a positive direction so that if the per capita income variable increases it will increase the human development index. The t-statistic value is 5.131457 and the probability shows a value of 0.0000 which is smaller than the confidence level = 5%, this means that the income per capita variable has a significant effect on the Human Development Index in 34 Provinces in Indonesia in 2014 - 2018 which means accepting H1 and reject H0.
d. The variable coefficient of the number of poor people shows a negative direction, which means that if the number of poor people decreases, the human development index will increase. The t-statistic value is -16.10742 with a probability of 0.0000 which is smaller than the confidence level = 5% (0.000 < 0.05) then this can prove that the variable number of poor people has a significant effect on the human development index in 34 provinces in Indonesia in 2014 – 2018 which means accepting H1 and rejecting H0.

F Test

To test whether the independent variables have a simultaneous effect on the dependent variable, the F-test is used by looking at the probability and F-statistics.

Table 2. F Test Result

R-squared	0.952502	Mean dependent var	69.17149
Adjusted R-squared	0.939645	S.D. dependent var	4.149458
S.E. of regression	1.019408	Akaike info criterion	3.066166
Sum squared resid	138.2126	Schwarz criterion	3.748663
Log likelihood	-223.6241	Hannan-Quinn criter.	3.343116
F-statistic	74.08607	Durbin-Watson stat	1.798389
Prob(F-statistic)	0.000000		

Sumber: Eviews

From the regression results in Table 2, the F-Statistic value is 74.08607 with a probability of 0.000000 which means it is smaller than = 5%. The probability value of the F-Statistic is smaller than = 5%, then H1 is accepted and H0 is rejected so that it can be concluded that together the variables of regional financial independence, per capita income and the number of poor people have a significant effect on the dependent variable, namely the human development index in 34 Provinces in Indonesia in 2014 - 2018.

Determination Test (R^2)

According to Gujarati and Porter (2012), the coefficient of determination (R2) is used to measure the goodness of fit of a regression line. This value shows how much influence the independent variables together are able to provide an explanation of the dependent variable, where the value of the coefficient of determination (R2) is between 0 to 1 (0

R2 1). The smaller R2 is close to 0, meaning the smaller the influence of the independent variable on the dependent variable. Conversely, if R2 is getting closer to 1, it shows the stronger the influence of the independent variable on the dependent variable.
Based on the results of the panel data regression analysis in Table 2, the coefficient of determination is 0.952502. This means that around 95 percent of the human development index in 34 provinces in Indonesia for the period 2014-2018 can be explained by the variables of regional financial independence, per capita income and the number of poor people. While the remaining 5 percent is explained by other variables not examined in this study.

Interpretation of Analysis Results

Based on the statistical calculations that have been carried out, it can be concluded that the resulting regression is good enough to explain the effect of the regional financial independence ratio, economic growth and population on the human development index in 34 provinces in Indonesia over a period of 5 years, namely the period 2014 to 2018 but not all the variables studied had a positive and significant effect. Of the three variables studied, the variable number of poor people is an interesting variable to note because the decline in the number of poor people has a major contribution to human development in 34 provinces in Indonesia. The government needs attention so that it can support government policies in each region in order to reduce the number of poor people in each region.
The lowest Human Development Index score among 34 provinces in Indonesia is East Nusa Tenggara (0.129527%), West Sulawesi province (0.133174%), Central Sulawesi province (0.156859 %), Gorontalo province (0.178692 %) and Papua province (1.005751 %). Meanwhile, the highest Human Development Index in five provinces in Indonesia is DKI Jakarta (12.897270%), DI Yogyakarta Province (8.359649%), Central Java Province (7.984705%), Riau Islands Province (7.958088%), and Riau Province (5.817753%). . The Human Development Index figure is obtained with the assumption that the variables of regional financial independence, per capita income and the number of poor people are zero.
The results of the significance of the variables of regional financial independence, per capita income and the number of poor people show their significance in influencing the human development index in Indonesia. The direction of regional financial independence that shows a positive direction means that it is in accordance with the implementation of regional autonomy which aims for the benefit of the community and the welfare of its people as regulated in Law Number 32 of 2004. The direction of per capita income that shows a positive direction is in accordance with the opinion of Professor Kuznets who stated that the characteristics of growth The economy is characterized by an increase in per capita income which can describe the level of welfare of its people. The direction of the number of poor people showing a negative direction is in accordance with the opinion of Todaro and Smith who stated that one of the impacts of poverty is poor health facilities and services, relatively less relevant educational facilities that can affect the human development index.

CONCLUSION AND SUGGESTION

Conclusion

1. Regional financial independence has a significant effect on the human development index in 34 provinces in Indonesia. This means that the more independent a region is, the region is considered capable of meeting its financial needs and government intervention on a small scale. The higher the regional financial independence, the greater the contribution that the community makes in paying regional taxes and levies, both of which are components of PAD.
2. Per Capita income has a significant effect on the human development index in 34 provinces in Indonesia. Through an increase in income and living standards of the population, it will have a good impact on encouraging an increase in people's welfare in terms of economy, education and health as an indicator of the human development index.
3. The number of poor people has a significant effect on the human development index in 34 provinces in Indonesia. Poor health, minimal education are the causes of poverty. Because the poor people can not get better access to increase the value of human itself. The more the number of poor people will increasingly affect the overall human development index in a region or country.

Suggestion

1. Local governments in this case each province in Indonesia must be able to explore the potential of their respective regions in order to increase the amount of PAD. The role of regional finance will be able to increase regional readiness to encourage the realization of a more real and responsible regional autonomy. The large contribution of PAD can make the region use its finances in expenditure posts whose use can be directly felt by the community.
2. Per capita income as a basis for evaluating the level of community welfare in a region needs special attention from the central government. The higher the per capita income of an area, the higher the expenditure or purchasing power of the community because the income is the same, so that it can improve the quality of human resources and accelerate the development process.
3. The government is expected to continue to provide efforts to reduce poverty in this case efforts to reduce the number of poor people. Poverty alleviation will improve people's quality of life. Poverty is an obstacle in promoting human development.
4. For further research, it is recommended to examine other variables that are considered to have an influence on the human development index such as income inequality, number of health and education units, population growth and government spending.

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