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Analysis of the Influence of Fiscal Capacity and Economic Growth on the Human Development Index

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Abstract

This study aims to examine the impact of fiscal capacity and economic growth on the Human Development Index (HDI) in Southeast Sulawesi Province during the 2020-2022 period. A quantitative approach was used, using secondary data from the Central Statistics Agency and other relevant sources. The analysis method employed is multiple linear regression to assess the relationship between fiscal capacity, economic growth, and HDI. The analysis results indicate that fiscal capacity does not have a significant partial effect on HDI, with a t-value significance of 0.483 (> 0.05). This suggests that while fiscal capacity exists, the budget allocation has not been effectively channeled toward sectors that directly enhance quality of life, such as education, healthcare, and welfare. On the other hand, economic growth shows a significant positive effect on HDI, with a t-value significance of 0.000 (< 0.05). Economic growth improves the population's access to education, healthcare, and welfare. When considered, fiscal capacity and economic growth have a significant combined effect on HDI, with an F-value significance of 0.000 (< 0.05). However, more than fiscal capacity is needed, likely due to inefficiencies in budget allocation.

Keywords: Fiscal Capacity, Economic Growth, Human Development Index, Gross Regional Domestic Product.

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Introduction

Current national development has experienced a significant shift, where the focus is no longer only at the central level but has developed into a regional development phenomenon (Suparmoko, 2020). This phenomenon occurs because the resolution of various development problems at the national level, such as high unemployment rates, poverty, and disparities, is highly dependent on the accumulation of development performance at the regional level. Each province, district, and city have a crucial role in contributing their development performance to national progress (Nasrida et al., 2023). Thus, national development performance will directly reflect success or failure in overcoming regional development challenges. Solid and sustainable regional development will be a strong foundation for achieving inclusive and

equitable national development goals (Anwar, 2014).

The increasingly prominent role of regions has the consequence that the ability and role of each district and city in managing development will significantly affect the overall performance of national development (Mahadiansar et al., 2020). Regions with effective policies, good governance, and optimal utilization of resources will be able to contribute significantly to achieving national development targets. Conversely, regions that experience stagnation or decline in development will burden national progress (Hariyadi, 2021). Therefore, the central government needs to continue strengthening coordination and synergy with local governments, provide the necessary support, and ensure that national policies can be implemented effectively at the regional level. Successful national development reflects harmonious and sustainable regional development performance (Siwu, 2019).

The provision of public services is a crucial priority for local governments as part of their efforts to enhance community welfare (Rachmad et al., 2023). This initiative represents a direct governmental response to various societal needs. When high-quality public services are delivered, they lead to a more productive population, improving overall well-being (Ali & Saputra, 2020). Enhancements in public service quality have far-reaching effects, including a rise in the Human Development Index (HDI), which reflects advancements in education, healthcare, and living standards. The Human Development Index (HDI) is a crucial indicator used to assess a country's or region's development progress based on three key dimensions: life expectancy, literacy, education levels, and a decent standard of living (Mahroji & Nurkhasanah, 2019). The HDI is a comparative tool to evaluate the quality of human development across various countries, offering insights into how well a country or region addresses its citizens' basic needs. This metric is vital in the development context, as it goes beyond measuring economic growth to consider broader aspects of well-being (Primandari, 2019).

According to Darnawaty and Purnamasari (2019), the success of a region's development can be measured through infrastructure development or economic growth and the quality of its people. Humans are the main actors in the development process and the ultimate goal of all development efforts. In other words, sustainable development must focus on improving the quality of human life as the center of all development policies and programs (Putri et al., 2015). Regency/City governments that are independent in resource management and development financing will be better able to create an environment conducive to human development. Regions with good fiscal capacity can allocate budgets effectively to critical sectors such as health, education, and the economy, all of which contribute to increasing the HDI (Harahap et al., 2024).

According to data from the Central Statistics Agency (BPS), Indonesia's Human Development Index (HDI) in 2023 reached 74.39, reflecting an increase of 0.62 points (0.84 percent) compared to the previous year's figure of 73.77. Between 2020 and 2023, Indonesia's HDI grew at an average rate of 0.72 percent annually (BPS, 2023). In Southeast Sulawesi Province, the HDI in 2023 reached 72.94, marking a rise of 0.56 points (0.77 percent) from the previous year's 72.38. Over the 2020–2023 period, Southeast Sulawesi's HDI increased by an average of 0.62 percent per year. The 2023 HDI improvements were seen across all dimensions, including life expectancy, education, and standard of living (BPS Sultra, 2023).

Table 1. Human Development Index in Southeast Sulawesi Province 2020-2022

Region	2020	2021	2022
Buton	65.98	66.32	67.23
Muna	69.02	69.17	69.61
Konawe	71.35	71.48	72.04
Kolaka	73.45	73.56	73.98
South Konawe	68.20	68.58	69.36
Bombana	66.05	66.25	66.81
Wakatobi	69.48	69.87	70.85
North Kolaka	69.31	69.50	70.39
North Buton	67.87	68.08	69.00
North Konawe	69.86	70.23	71.10
East Kolaka	67.02	67.76	68.73
Konawe Islands	65.41	65.73	66.69
West Muna	65.08	65.48	66.21
Central Buton	64.37	64.55	65.29
South Buton	64.93	64.99	65.44
City of Kendari	83.53	84.15	84.51
Baubau City	75.90	76.26	76.67
Southeast Sulawesi	71.45	71.66	72.23

Source: *BPS 2023*

To enhance the Human Development Index (HDI), regions must develop the ability to manage their authority independently, which largely depends on the strength of their fiscal capacity. A solid fiscal capacity enables regions to fund their expenditures without relying on central government assistance, allowing them to allocate budgets more effectively for development (Herdiyana, 2019). The central government typically focuses on reducing fiscal disparities and promoting equity so regions can provide public services tailored to local needs. However, many regions in Indonesia still need more fiscal capacity and independence, which hampers their ability to fulfill governmental and developmental functions (Nazikha & Rahmawati, 2021). Studies indicate that increased fiscal capacity significantly influences regional economic growth, technological advancement, and institutional development (Amanda, 2017).

Based on the data presented in Table 2, the fiscal capacity index in most districts/cities in Southeast Sulawesi Province during the 2020-2021 period is still relatively low. Of all the regions, only Konawe Regency was recorded as having a fiscal capacity in the medium category, with an index of 1,770 in 2020. However, in 2022, there was a significant increase in the fiscal capacity index in several districts/cities in the region. Konawe Islands Regency, for example, recorded the most significant spike, with a fiscal capacity index reaching 3.387, placing it the highest in Southeast Sulawesi (MOF, 2022). This increase reflects improvements in regional financial capacity to finance development activities and public services more independently, which can positively impact the region's economic growth and community welfare.

Economic growth is often a key indicator in assessing development's success, especially in improving human welfare. The main target of development is to achieve high economic growth because this growth reflects an increase in various economic sectors contributing to community welfare (Mirza, 2012). Economic growth reflects the results of development policies and programs implemented and shows the dynamics of change in a region's economy.

When economic growth is positive, it indicates an increase in economic activity and prosperity, while negative growth indicates an economic contraction that can hurt people's welfare (Awandari & Indrajaya, 2016). One way to measure economic growth is through Gross Regional Domestic Product (GRDP), which reflects the total value of goods and services produced by a region in a certain period. GRDP, which increases yearly, indicates that the region has succeeded in developing its economic sectors, which ultimately contributes to improving the quality of life of the people in the region (Gatari et al., 2024).

Table 2. Fiscal Capacity Index Per Province in Indonesia

Region	2020	2021	2022
Buton	0.368	0.442	1.351
Muna	0.385	0.749	1.040
Konawe	1.770	0.659	1.444
Kolaka	0.841	0.850	1.699
South Konawe	0.677	0.603	1.173
Bombana	0.476	0.641	1.898
Wakatobi	0.452	0.454	1.687
North Kolaka	0.365	0.469	1.498
North Buton	0.398	0.362	1.959
North Konawe	0.514	0.637	2.189
East Kolaka	0.544	0.490	2.236
Konawe Islands	0.366	0.410	3.387
West Muna	0.392	0.368	2.124
Central Buton	0.310	0.355	1.876
South Buton	0.373	0.399	1.719
City of Kendari	1.141	1.177	1.750
Baubau City	0.607	0.551	0.775
Southeast Sulawesi	0.587	0.566	1.753

Source: *Directorate General of Fiscal Balance 2023*

The economy of Southeast Sulawesi experienced significant challenges in 2020, marked by an economic contraction reflected in the Gross Regional Domestic Product (GRDP), which recorded a negative figure of -0.65 %. This decline was mainly due to the COVID-19 pandemic that hit the world, including Indonesia, causing severe disruptions to various economic sectors. However, with the government's efforts to combat the pandemic and economic recovery, the economy of Southeast Sulawesi has begun to show signs of improvement. In 2021, the province's GRDP grew positively again, reaching 4.10 %, signaling the beginning of a more robust economic recovery. This positive trend continued in 2022, when GRDP increased to 5.53 %, reflecting an increasingly solid recovery and increasing economic activity in various sectors. This growth shows that Southeast Sulawesi has succeeded in overcoming the impact of the pandemic and returning to a more stable growth path, providing hope for improving the welfare of the people in the province.

This study aims to analyze the effect of fiscal capacity and economic growth on the Human Development Index (HDI) in Southeast Sulawesi Province from 2021-2023. Through this analysis, it is hoped that it can be understood to what extent regional fiscal capacity contributes to improving the community's quality of life, as reflected in the HDI. In addition, this study also aims to evaluate the impact of economic growth on the Human Development Index, identifying whether the economic growth that has occurred in Southeast Sulawesi has

provided tangible benefits in improving people's welfare. This research will provide deeper insights for local governments and policymakers on the importance of strengthening fiscal capacity and encouraging economic growth as a strategic step in improving the quality of human development in the region.

Table 3. Gross Regional Domestic Product (GRDP) of Southeast Sulawesi 2020-2022

Region	2020	2021	2022
Buton	-0.54	2.62	5.76
Muna	0.07	3.18	5.90
Konawe	6.42	6.51	15.38
Kolaka	-3.40	4.21	2.42
South Konawe	-2.22	4.84	5.85
Bombana	0.56	3.50	5.11
Wakatobi	0.76	4.02	4.80
North Kolaka	0.40	2.66	3.85
North Buton	0.99	4.08	5.01
North Konawe	-0.72	4.59	5.07
East Kolaka	-0.31	4.83	4.47
Konawe Islands	-0.63	2.30	3.23
West Muna	0.42	4.09	4.08
Central Buton	3.07	3.12	3.86
South Buton	-0.71	2.29	3.90
City of Kendari	-1.30	3.86	4.94
Baubau City	-0.81	4.15	5.28
Southeast Sulawesi	-0.65	4.10	5.53

Source: *BPS 2023*

Literature Review

Human Development Index

The United Nations Development Programme (UNDP) created the Human Development Index (HDI), a crucial tool for assessing and comparing the general well-being of populations across various nations. The HDI is designed to provide a comprehensive assessment of the physical and intellectual quality of life by evaluating life expectancy, education levels, and economic living standards. This multidimensional approach reflects the UNDP's commitment to understanding development beyond economic growth. Life expectancy serves as a measure of physical well-being, capturing the health and longevity of a population. At the same time, education is assessed through literacy rates and the average number of years of schooling, representing the intellectual capacity of a population. The purchasing power of individuals gauges economic well-being, further broadening the scope of development evaluation (Muqorrobin, 2017).

The HDI is constructed from three core dimensions of human development: health, education, and income. According to Setiawan and Hakim (2008), these dimensions provide a snapshot of a country's economic, social, and health conditions. The health dimension is measured through life expectancy, offering insight into the healthcare system and quality of life. The education dimension, which includes literacy rates and average years of schooling, evaluates the intellectual growth and accessibility of education in a society. Per capita income, which reflects a nation's financial health and standard of living, is the final economic

dimension (Fretes, 2017). The HDI uses a scale ranging from 0 to 100, where 0 represents the lowest possible level of human development, and 100 indicates the highest level. This scale allows for an easily interpretable ranking of countries based on their progress in critical areas of human development. A higher HDI indicates a better overall quality of life, encompassing economic, social, and health dimensions, while a lower HDI reflects challenges in one or more of these areas.

HDI has gained widespread use by policymakers, governments, and international organizations because it offers a more nuanced picture of human development than traditional measures like Gross Domestic Product (GDP) alone. By including health and education alongside economic indicators, the HDI emphasizes that human development is not solely about economic growth but also about improving people's quality of life through better health services and access to education (Celsi, 2024). The HDI helps identify disparities and inequalities within and between countries, providing a foundation for targeted interventions to improve areas where development is lagging. In recent years, the importance of the HDI has been recognized in global development goals, particularly in aligning national development strategies with the United Nations' Sustainable Development Goals (SDGs). By incorporating critical aspects of human well-being, the HDI allows governments to track progress toward achieving these goals, particularly in areas like education, health, and poverty alleviation (Ali & Akram, 2020).

Fiscal Capacity

Fiscal capacity refers to the financial strength of a region, indicating its ability to generate revenue and manage financial resources independently. In Indonesia, regional budgetary capacity is crucial to assessing local governments' financial health and autonomy. According to BPK Regulation 120_PMK.07.2020, the fiscal capacity index is a tool that assesses how well a region manages its finances, specifically through Regional Original Revenue (PAD), tax revenue sharing, and income from natural resources (Lisna et al., 2013). This index is a critical metric in determining the financial resilience and flexibility of provinces and regencies/cities across the country. The elements contributing to fiscal capacity, such as PAD and shared revenue from taxes and natural resources, reflect a region's ability to generate income independently without over-reliance on central government transfers (Wondiwoi et al., 2017). A high fiscal capacity index indicates that an area can fund its development programs and public services effectively, thus promoting sustainable regional growth. Conversely, a low index suggests that the area may face challenges in financing its operations, necessitating more substantial support from the central government (Lisnawati, 2018).

Developing the Regional Fiscal Capacity Map is an essential step in improving the allocation of financial resources across Indonesia. This map is produced in two versions: one for provinces and the other for regencies/cities. Creating the map involves two primary steps: first, calculating the fiscal capacity for each province and regency/city, and second, determining the fiscal capacity index for these regions. These steps ensure that the fiscal capacity of each region is assessed fairly and transparently (Rahmawati & Nugraheni, 2020).

The fiscal capacity map serves as a strategic tool for the government to allocate financial resources in a manner that is fair and proportional to the needs and potential of each

region. By considering a region's fiscal capacity, the central government can develop more tailored budgetary policies that support regions in achieving financial independence and addressing specific economic challenges. This approach ensures that areas with lower fiscal capacity receive the necessary support to develop sustainably. In comparison, regions with higher fiscal capacity can continue to build on their strengths and contribute more significantly to national development (Putri & Rahmawati, 2019). In addition to supporting the equitable distribution of financial resources, the fiscal capacity index also helps local governments identify areas for improvement in their revenue generation strategies. By analyzing their fiscal capacity index, local governments can develop targeted interventions to increase revenue from taxes, improve the management of natural resources, and enhance overall financial governance (Arnan, 2017). This contributes not only to the economic health of the region but also to broader national development goals.

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Economic growth

Economic growth is a vital indicator used to assess the performance of a country's economy. In practical terms, it refers to increased economic activities, such as producing goods and services and developing infrastructure. This growth is usually measured by the rise in real national income over a specified period, demonstrating how the economy has expanded in output and efficiency (Charysa, 2013). Ma'ruf and Wihastuti (2008) define economic growth as a long-term rise in a country's capacity to supply an increasing variety of goods and services to its population. This growing capacity is closely tied to technological advancements and the necessary institutional and ideological adjustments. Their definition highlights three key components: first, economic growth manifests in the sustained increase in the availability of goods and services; second, technological progress plays a critical role in determining the speed and efficiency at which these goods can be provided; and third, to fully leverage technological advancements, institutional and ideological shifts are required to ensure innovations are effectively utilized.

In this study, economic growth is measured using Gross Regional Domestic Product (GRDP), which represents the total income generated by production factors involved in a region's production processes over a specific period, typically one year. This income includes wages, salaries, land rent, capital interest, profits, depreciation, and net indirect taxes, including taxes minus subsidies (Dama, 2016). GRDP is a crucial indicator of a region's economic performance, offering insights into the income generated across various economic sectors. It provides a comprehensive view of how different sectors contribute to overall economic development within the region. There are two main methods for calculating GRDP: constant price GRDP and current price GRDP. Constant price GRDP is calculated using the prices of goods and services from a specific base year, allowing for comparisons of economic growth over time without the influence of price fluctuations. This method provides a more accurate picture of natural growth by focusing on volume rather than price changes. On the other hand, the current price GRDP reflects the value of goods and services at the prices of the present year, offering a snapshot of nominal economic activity within a given year. While constant price GRDP is valuable for assessing real economic growth, current price GRDP helps understand the nominal changes in economic output (Wahyuningtyas et al., 2013). In recent years, GRDP has become increasingly crucial for evaluating regional economic

development, especially in emerging economies were rapid industrialization and urbanization drive growth. By examining GRDP, policymakers and researchers can better understand the structure and dynamics of a region's economy, identify key growth sectors, and develop strategies for promoting sustainable economic development (Ali & Akram, 2020).

Research Design and Method

Study Design

This study adopts a quantitative research design to analyze the impact of fiscal capacity and economic growth on the Human Development Index (HDI) in Southeast Sulawesi. By employing a correlational approach, the study seeks to determine the strength and direction of relationships between the independent variables (fiscal capacity and economic growth) and the dependent variable (HDI). Multiple linear regression analysis measures these relationships, providing insights into the individual and combined effects of the independent variables.

Sample Population

The sample for this research includes all 17 districts and cities within Southeast Sulawesi, utilizing secondary data obtained from publications by the Central Statistics Agency (BPS) of Southeast Sulawesi Province. The data covers the period from 2020 to 2022, resulting in 51 observations (17 districts/cities across three years). This sample comprehensively represents the province's economic and developmental trends during the specified period.

Data Collection Techniques and Instrument Development

Secondary data, sourced explicitly from official publications by the Central Statistics Agency (BPS), was utilized for this research. This data comprises time series and cross-sectional data, offering a robust dataset to examine the relationship between fiscal capacity, economic growth, and the HDI. Using published data ensures its reliability and validity for the intended analysis. Since the data is secondary, no additional instrument development was necessary for this study.

Data Analysis Techniques

Data analysis was conducted using SPSS 25.0 software, with multiple linear regression as the primary analytical technique. This method allows for assessing the independent variables' individual and combined effects on the dependent variable. Several statistical tests were performed to validate the findings, including the Partial Test (t-test) to evaluate individual variables' impacts, the Simultaneous Test (F-test) for combined effects, and the Determination Test (R-squared) to measure how much variance in the HDI is explained by the independent variables.

Results and Discussion

Result

This study uses data on fiscal capacity, economic growth, and the Human Development Index. The data was obtained from the Central Statistics Agency (BPS) website of Southeast Sulawesi and the Ministry of Finance of the Republic of Indonesia. Data can be viewed as average (mean), highest value, lowest value, and standard deviation.

Table 4. The Pearson Correlation Among Economic Indicators and Performances

	N	Minimum	Maximum	Mean	Std. Deviation
Fiscal Capacity	51	.31	3.39	0.9686	2.31073
Economic growth	51	-3.40	5.85	3.4299	2.70319
IPM	51	64.37	84.51	71.7800	2.24035
Valid N (listwise)	51				

Source: *Statistical Bureau Office, Processed 2024*

Based on Table 4, the Fiscal Capacity (X1) from the 51 data points shows a minimum value of 0.31 and a maximum value of 3.39. The average (mean) value for 2020-2022 is 0.9686, with a standard deviation of 2.31073. Since the mean is smaller than the standard deviation, it indicates a high data deviation, suggesting that the distribution of fiscal capacity values is uneven.

For Economic Growth (X2), the 51 data points reveal a minimum value of -3.40 and a maximum value of 5.85. The mean value for 2020-2022 is 3.4299, with a standard deviation of 2.70319. In this case, the mean exceeds the standard deviation, indicating a low data deviation and a more even distribution of values.

Regarding the Human Development Index (Y), the 51 data points show a minimum value of 64.37 and a maximum of 84.51. The mean for the period is 71.7800, with a standard deviation of 2.24035. Since the mean is larger than the standard deviation, the data deviation is low, indicating an even distribution of HDI values during 2020-2022.

The normality test determines whether the residuals or confounding variables in the regression model follow a normal distribution. This test was performed using the Kolmogorov-Smirnov (KS) test.

Table 5. Normality Test

One Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		51
Normal Parameters a,b	0E- 7	0E- 7
	1.95043813	.52782163
Most Extreme Differences	.163	.246
	.113	.246
	- .163	- .109
Kolmogorov-Smirnov Z		.632
Asymp. Sig. (2- tailed)		.817

a. Test distribution is Normal.
b. Calculated from data.

The data follows a normal distribution if the probability (sig) is more significant than 0.05. The SPSS 25 test yielded a significance value of 0.817, more significant than 0.05. Therefore, it can be concluded that the data is usually distributed.

Table 6. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Fiscal Capacity	.613	1.629
	Economic growth	.558	1.789

Table 6 shows the results of the multicollinearity test; there is a tolerance value of> 0.1 and a variance Inflation Factor (VIF) value of < 10. Fiscal capacity obtained tolerance < 0.1 (0.613 < 0.1), VIF < 10 (1.629 < 10). Economic growth obtained tolerance < 0.1 (0.558 < 0.1), VIF < 10 (1.789 < 10). It can be stated that there is no multicollinearity.

Table 7. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.736 a	.541	.512	2.20034	1.927

The Durbin-Watson value in the table is 1.927. Since this value falls within the range of 0.987 to 3.461, it indicates no autocorrelation in this study.

Heteroscedasticity can be detected using the Glejser test. The residual variance is homogeneous if the significance value for all variables is more significant than 0.05.

Table 8. Heteroscedasticity Test Results

Variables	Tolerance
Fiscal Capacity (X1)	0.098
Economic Growth (X2)	0.517

Table 8 shows that the significance values for both variables are more significant than 0.05: 0.098 for fiscal capacity (X1) and 0.517 for economic growth (X2). This suggests no evidence of heteroscedasticity, and the regression results can be deemed reliable for decision-making. Regression analysis was conducted to assess the impact of fiscal capacity (X1) and economic growth (X2) on the human development index (Y), both separately and simultaneously.

Table 9. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	2.273	29,592		.76	.939
Fiscal capacity (X1)	.162	.224	.245	.723	.483
Economic growth (X2)	0.11	.002	.011	4.00	.000

a. Dependent Variable: Human development index (Y)

In Table 7, the regression coefficients are known, and the regression model obtained is as follows:

$$Y = 2.273 + 0.162X1 + 0.11\ X2$$

The constant value of 2.273 represents the Human Development Index (HDI) in Southeast Sulawesi Province before accounting for fiscal capacity and economic growth effects. According to the analysis model, if the fiscal capacity variable (X1) increases by one Likert scale unit while economic growth (X2) remains constant, the HDI (Y) is expected to increase by 0.162. Conversely, if the economic growth variable (X2) increases by one Likert scale unit while fiscal capacity (X1) remains constant, the HDI (Y) is projected to rise by 0.11.

In this study, the F test is employed to evaluate the overall significance of the independent variables' combined effect on the dependent variable, assessing their impact collectively in a simultaneous context.

Table 10. Simultaneous Test Results (F Test)

ANOVA[a]

Model	Sum of Square	Df	Mean Square	F	Sig
Regression	41.551	2	13.850	3.581	.000[a]
Residual	43.258	48	3.933		
Total	84.480	50			

a. Predictor: (Constant), economic growth (X2), fiscal capacity (X1)
b. Dependent variable: human development index (Y).

Table 10 shows that the F sig value <α 5% (0.000 < 0.05) Ho is rejected and Ha is accepted. It can be stated that fiscal capacity and economic growth simultaneously significantly affect the human development index in Southeast Sulawesi province in 2020-2022.

The t-test is used to test the significance of the relationship between variables X and Y and whether variables X1 and X2 really affect variable Y separately or partially.

Table 11. Partial Test Results (t-test)

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	2.273	29,592		.76	.939
Fiscal capacity (X1)	.162	.224	.245	.723	.483
Economic growth (X2)	0.11	.002	.011	4.00	.000

a. Dependent Variable: Human development index (Y)

From the results of the statistical analysis contained in Table 11, it can be concluded that:

For the fiscal capacity variable, the t-test results show a significance value (t sig) greater than α at 5% (0.483 > 0.05). Thus, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected, indicating that fiscal capacity does not significantly impact the Human Development Index in Southeast Sulawesi Province.

For the economic growth variable, the t-test results reveal a significance value (t sig) less than α at 5% (0.000 < 0.05). Therefore, the alternative hypothesis (Ha) is accepted, and

the null hypothesis (Ho) is rejected, suggesting that economic growth significantly affects the Human Development Index in Southeast Sulawesi Province.

The coefficient of determination (R^2) assesses how well the model explains the variation in the dependent variable.

Table 12. Test of determination coefficient

Model Summary

Model	R	R Square	Adjusted R Square	Std Error of Estimate
1	,736 [a]	,541	,512	2,20034

According to Table 12, the coefficient of determination (R^2) from the Adjusted R Square column is 0.512, meaning that 51.2% of the variation in the Human Development Index is explained by the independent variables (fiscal capacity and economic growth). The remaining 48.8% of the variation is attributed to other factors not included in this study.

Discussion

The Influence of Fiscal Capacity on the Human Development Index

The results of this study indicate that fiscal capacity does not significantly impact the Human Development Index (HDI) in Southeast Sulawesi Province. The null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected. This suggests that, despite being an essential factor in local government financial management, fiscal capacity only partially affects regional human development when analyzed individually. While fiscal capacity is crucial for generating revenue and supporting local development, its influence on improving human development indicators, such as health, education, and economic welfare, appears to be limited. Several possible explanations account for fiscal capacity's lack of significant impact on HDI. First, although local governments may have sufficient fiscal capacity, the allocation of funds may not be optimized for sectors that directly influence human development, such as health, education, and social welfare. Instead, regional governments may prioritize physical infrastructure projects, which, while necessary, may not immediately translate into improvements in human development indicators. Consequently, allocating financial resources to projects that do not directly impact HDI may explain the absence of a significant relationship between fiscal capacity and human development.

Factors such as the quality of governance, policy effectiveness, and community participation in development initiatives may also contribute to the limited influence of fiscal capacity on HDI. More than high fiscal capacity is required if local governments need more effective strategies to prioritize programs that support human development. The misalignment between financial capability and the execution of targeted programs can result in inefficiencies in achieving human development goals. As a result, even regions with substantial fiscal resources may experience challenges in enhancing HDI due to poor program implementation and lack of strategic planning. The findings of this study are consistent with prior research highlighting the complex relationship between fiscal capacity and human development. Previous studies, such as those by Rahmawati and Nugraheni (2020), have shown that fiscal capacity does not automatically lead to improvements in human development, especially when governance and policy effectiveness are lacking. Similarly, Setiawan and Hakim (2018) found that robust governance frameworks and policy alignment

must accompany fiscal resources to make a meaningful impact on human development. Studies that found a positive link between fiscal capacity and HDI, like Putri and Rahmawati (2019), often stress the importance of targeted investments in the health and education sectors. This suggests that the intelligent allocation of funds is vital to improving human development.

The practical implications of this study suggest that local governments must focus on not only increasing fiscal capacity but also on improving the effectiveness of resource allocation. Local policymakers should prioritize investments in sectors that directly impact human development, such as healthcare and education, to ensure that fiscal capacity contributes to improvements in HDI. Additionally, enhancing governance practices and ensuring community involvement in development planning can maximize the benefits of fiscal capacity for human development outcomes. This approach can lead to more efficient use of financial resources and better alignment with human development objectives.

The Influence of Economic Growth on the Human Development Index

The results of this study reveal that economic growth significantly impacts the region's Human Development Index (HDI) during the specified period. The acceptance of the alternative hypothesis (Ha) and the rejection of the null hypothesis (Ho) indicate that economic growth plays a crucial role in enhancing the quality of life as measured by HDI when analyzed independently. This finding underscores the positive relationship between economic growth and human development, suggesting that economic improvements directly translate into better living conditions, increased access to services, and overall societal welfare. The significant influence of economic growth on HDI highlights how an increase in economic activities can lead to higher production of goods and services, higher income levels, and improved access to public services such as education and healthcare. In this regard, economic growth acts as a driving force behind human development. When the economy expands, it creates more opportunities for the government to invest in social and economic infrastructure, leading to improved quality of life for the population. Therefore, sustained economic growth not only fosters economic prosperity but also contributes to achieving better outcomes in terms of human development.

This finding aligns with the theoretical framework that links economic growth with improvements in human well-being. The economic development theory suggests that economic growth is necessary for enhancing human capabilities, as it provides the resources needed to improve education, healthcare, and living standards (Todaro & Smith, 2020). In this study, the positive impact of economic growth on HDI reflects this theory, as the region's economic expansion during the 2020-2022 period likely facilitated better access to essential services and increased the overall quality of life. Economic growth helps raise the HDI, a critical measure of human development, by fostering higher income levels and improving public services. Comparing the results of this study with previous research further supports the consistency of these findings. For instance, Rahmawati and Nugraheni (2020) found a strong correlation between economic growth and HDI, particularly in regions where governments effectively utilize their growing resources to enhance public services. Similarly, Putri and Rahmawati (2019) emphasized that economic growth positively influences human development, especially when accompanied by targeted investments in education and healthcare. These previous studies reinforce the current research results, as both highlight the

importance of sustainable economic growth in driving improvements in human development indicators. Conversely, studies that have found a weaker relationship between economic growth and HDI, such as Setiawan and Hakim (2018), often cite poor governance and inefficient resource allocation as limiting factors, suggesting that more than economic growth is needed with effective government intervention.

From a practical standpoint, the results of this study highlight the importance of sustained economic growth as a critical driver of human development. Policymakers in the region should focus on strategies that foster economic expansion and ensure that the benefits of growth are equitably distributed among the population. By investing in education, healthcare, and social welfare, governments can leverage the positive impacts of economic growth to improve HDI and overall societal well-being. This underscores the critical role of government policy in channeling the resources generated by economic growth toward sectors that directly impact human development. In conclusion, the findings of this study emphasize that while economic growth is a powerful tool for improving human development, its effectiveness is maximized when coupled with strategic investments in critical areas that enhance the quality of life for the population.

The Influence of Fiscal Capacity and Economic Growth on the Human Development Index

This study's results indicate that when considered together, fiscal capacity and economic growth significantly impact the region's Human Development Index (HDI). The rejection of the null hypothesis (Ho) and the acceptance of the alternative hypothesis (Ha) demonstrate that these two variables, in combination, significantly influence the quality of life as measured by HDI. This finding highlights the interplay between fiscal management and economic performance in shaping human development outcomes in Southeast Sulawesi. Budgetary capacity and economic growth are interrelated factors in regional development. Fiscal capacity measures the ability of local governments to manage their finances and provide essential public services. Higher fiscal capacity enables better funding for development programs that directly improve public welfare, such as education, healthcare, and social infrastructure. On the other hand, economic growth reflects the region's overall economic progress, contributing to improving societal well-being. The synergy between effective financial management and sustainable economic growth is crucial for enhancing HDI, as both elements work together to foster a higher standard of living and greater access to essential services.

Although fiscal capacity and economic growth significantly impact HDI when considered jointly, the individual effect of fiscal capacity on HDI is not significant. This suggests that budgetary capacity alone is insufficient to drive improvements in human development, likely due to suboptimal budget allocation. If financial resources are not effectively directed toward critical sectors such as education and healthcare, their impact on human development may be limited. Moreover, if a region's economy heavily relies on specific industries, such as mining, which may not broadly benefit the population, the influence of fiscal capacity on overall welfare may be constrained. Limited budgetary autonomy and a heavy reliance on central government transfers can also reduce the effectiveness of budgetary capacity in improving the quality of life (Wahyuningtyas et al., 2020).

This outcome aligns with the theory of fiscal decentralization, which posits that local governments with greater fiscal capacity are better positioned to meet the needs of their populations, provided that resources are efficiently allocated and managed (Oates, 2018). However, the study also highlights the importance of economic growth as a complementary factor. Economic development provides the necessary foundation for generating revenue for local governments to implement programs that improve human development. The combination of sound fiscal management and economic growth thus offers a more comprehensive approach to enhancing HDI than either factor alone. Compared to previous studies, this research is consistent with findings that emphasize the importance of economic growth in driving human development. For example, Rahmawati and Nugraheni (2020) found that regions with strong economic growth tend to experience higher improvements in HDI, mainly when local governments can allocate fiscal resources toward human development initiatives effectively. However, studies like those by Setiawan and Hakim (2019) suggest that fiscal capacity alone might not produce significant results for HDI improvement without targeted investments and efficient governance. These findings highlight the need for a balanced approach incorporating economic growth and fiscal capacity.

Conclusions

This study reveals that fiscal capacity does not significantly influence the Human Development Index (HDI) in Southeast Sulawesi Province. This finding suggests that although fiscal capacity is essential in local government financial management, its influence on improving human development indicators such as health, education, and economic welfare is limited when analyzed individually. On the other hand, this study also found that economic growth significantly impacts HDI, emphasizing that increased economic activity directly contributes to improved quality of life and access to public services.

These findings corroborate the theoretical framework linking economic growth to improved human well-being and suggest the need for more effective fiscal management strategies. The managerial implication of this study is the need for local governments to increase fiscal capacity and improve resource allocation effectiveness. Local governments should prioritize investment in sectors that directly impact human development, such as health and education, to ensure that fiscal capacity contributes to improvements in HDI. In addition, improving governance practices and ensuring public participation in development planning can maximize the benefits of fiscal capacity for human development outcomes.

Future research could explore other factors that may moderate or mediate the relationship between fiscal capacity, economic growth, and HDI. For example, future studies could investigate how governance quality and policy effectiveness affect fiscal capacity's ability to improve HDI. In addition, future research could also focus on the effect of more specific budget allocations in the health and education sectors and their effect on HDI, which could provide deeper insights into how fiscal resources should be allocated to get the most out of human development.

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