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The Effect of Fiscal Balance Transfers and Poverty Level on the Human Development Index (HDI) with Capital Expenditure as an Intervening Variable in Districts/Cities in East Java Province (2019-2021)

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ABSTRACT: *In Indonesia, the growth of human development value continues to increase every year. The government implements regional autonomy policies with the freedom to develop each region according to their respective potentials, with the hope that the region can increase regional income. However, poverty still dominates in Indonesia. Poverty can have a serious effect on human development because poverty is a complex problem. The government must change the composition of expenditure and then allocate it to useful things, in order to increase capital investment so that public confidence increases and can reduce poverty levels. This study aims to examine the effect of fiscal balance transfers channeled by the government to the regions and the poverty level that still dominates in Indonesia on the Human Development Index through Capital Expenditure. This type of research is quantitative research using secondary data of fiscal balance transfers and capital expenditures that have been audited by DJPK through the website www.djpk.depkeu.go.id and statistical data, namely the poverty rate and HDI from BPS through the website www.bps.go.id. The research sample criteria are all districts / cities in East Java in 2019-2021 with multiple linear regression analysis SPSS version 25. The test results show that fiscal balance transfers and poverty levels affect the human development index. The sobel test found that capital expenditure can only mediate fiscal balance transfers on the human development index, while the poverty rate does not.*

Keywords: *fiscal balance transfers, poverty rate, human development index, capital expenditure.*

I. INTRODUCTION

The Human Development Index (HDI) is a comparative measurement of life expectancy, literacy, education, and living standards for all countries around the world.

The government's commitment to building the HDI is included in the mandate of the Preamble of the 1945 Constitution which reads "advancing the general welfare and intellectual life of the nation." The goal of human development in Indonesia is more emphasized on the fulfillment of universal education, improving health and eradicating poverty. In Indonesia, the growth of HDI value continues to increase from year to year. East Java Province has implemented regional autonomy by developing potential through regional own-source revenues (PAD), fiscal balance transfers and other legal revenues, which are then allocated for capital expenditure. There are three types of fiscal balance transfers General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). Local governments can make changes to the composition of

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expenditure which is the right step as an effort to increase capital investment which will have an impact on increasing public confidence.

The Human Development Index consists of three dimensions, including the health index, education index and expenditure index. It can be said that the level of poverty depends on the HDI itself. The government must pay close attention to these three dimensions, in order to improve the quality of life in the fight against poverty. Because poverty can have a serious effect on human development. To improve the problem of poverty, it needs to be financed by the APBD in East Java Province. The sources of funds that can be used are fiscal balance transfers and regional own-source revenue (PAD). Then it will be allocated for development related to improving the quality of life of the community.

Fiscal balance transfers and regional own-source revenue (PAD) are the main factors in determining regional development. Both from fiscal development (infrastructure) and non-physical development (human development), which is reflected in the welfare of the community as seen from the Human Development Index (HDI) in the Regency / City in East Java Province from 2019 to 2021. To investigate the effect of fiscal balance transfers and poverty levels on the human development index (HDI) through capital expenditure, the following questions are supposed:

1. Do fiscal balance transfers affect capital expenditure in East Java Province?
2. Does the poverty rate affect capital expenditure in East Java Province?
3. Does capital expenditure affect the Human Development Index (HDI)?
4. Can fiscal balance transfers affect the Human Development Index (HDI)?
5. Does the poverty rate affect the Human Development Index (HDI)?
6. Do fiscal balance transfers affect the Human Development Index (HDI) with capital expenditure as the intervening variable?
7. Does the poverty rate affect the Human Development Index (HDI) with capital expenditure as the intervening variable?

II. MATERIAL AND METHODS

2.1. Description of the context and material

The Human Development Index (HDI) is a comparative measurement of life expectancy, education and living standards for all countries around the world. Based on the statement of the Central Bureau of Statistics (BPS) quoting the contents of the first Human Development report (HDR) in 1990, human development is a process to increase the choices that humans have. Among these choices, the most important choices are to live a long and healthy life, to be knowledgeable, and to have access to the resources needed to live properly. According to the United Nations Development Program (UNDP), to ensure the achievement of human development goals there are 4 main things that need to be considered, namely, productivity, equity, sustainability, empowerment (UNDP, 1995).

Capital expenditure is budget expenditure to be paid to acquire fixed assets and other assets that have benefits ≥ 12 months. In Government Regulation No. 71 of 2010, defines capital expenditure as all costs incurred from the State / Regional cash account reducing the Budget Balance Over in the fiscal year period and not recovered by the government. In other words, capital expenditures are investment expenditures in the form of costs recognized on the balance sheet Febriana (2015) explains that based on the Goods and Services Procurement Portal, capital expenditures are expenditures made in the context of capital formation that are in the nature of adding fixed assets or other assets that provide benefits for more than one accounting period, and include maintenance costs that are in the nature of maintaining / increasing the useful life, increasing the capacity and quality of assets.

Based on Government Regulation No. 55 of 2005, fiscal balance transfers are funds derived from APBN revenues allocated to regions to fund regional needs in the context of implementing decentralization. Also explained in Law No. 23/2014, transfer revenues as in paragraph (1) letter b, one of which is Central Government transfers consisting of fiscal balance transfers. In general, fiscal balance transfers are funding

sourced from the APBN which is allocated to regions to finance regional needs. Fiscal balance transfers consist of three parts, namely, General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). DAU is a fund that comes from the APBN and is then allocated with the aim of financial equality between regions to finance expenditure needs in the context of decentralization. DAK is derived from the APBN and allocated to regions to finance special needs that are regional affairs and in accordance with national priorities while taking into account the availability of funds in the APBN. DBH are funds originating from the APBN and then allocated to the regions based on percentage figures to meet regional needs in the context of implementing decentralization. DBH consists of 2 parts, namely: Tax DBH and Natural Resources DBH.

Poverty is a condition of economic inability to meet the average standard of living of people in an area. This condition is usually characterized by the low ability of income to meet basic needs, such as clothing, food and shelter. The condition of the community is said to be poor based on the ability of income to meet the standard of living. In principle, the community's standard of living is not only the fulfillment of food needs, but also the fulfillment of health and education needs. A decent place to live is one of the standards of living or can be acted as a standard of community welfare in each region. Kiha et al (2021) state that poverty is not only related to the problem of low levels of income and consumption, but also to low levels of education, health, powerlessness to participate in development and as a problem related to human development. Poverty can be divided into four forms, including: absolute poverty, relative poverty, cultural poverty, and structural poverty.

The theory used in this research is agency theory. Agency theory focuses on 2 individuals, namely the agent and the principal. The principal will rely on the agent in responsible decision-making.

1.2. Evaluation Methods

The research design used in this study is to use a quantitative approach. The type of data used in this study is secondary data. In this study, the population used is all districts / cities in East Java Province in 2019-2021 consisting of 29 districts and 9 cities. The sample used is the poor population in the Regency / City of East Java Province. The data collection technique used in this research is the documentation method and library studies. And the analysis used in this study is multiple linear regression analysis. The following tests were used to test this research :

2.2.1 Multiple Linear Regression Test

Multiple linear regression analysis is a linear relationship between two or more independent variables and the dependent variable. The function of this analysis is to determine the direction of the relationship between the independent variable and the dependent variable. The multiple linear regression model used to test the hypothesis in this study is as follows :

1. **IPM = α + β1 DP + β2 TK + e**
2. **BM = α + β1 DP + β2 TK + e**
3. **IPM = α + β1 DP + β2 TK + β3BM + e**

Description :

HDI : Human Development Index
BM : Capital Expenditure
DP : Fiscal Balance Transfers
TK : Poverty Level
A : Constant
β : Regression coefficient (increase or decrease value).
E : Error

2.2.2 Classical Assumption Test

a. Normality Test

The normality test serves as a tester in the regression model on the dependent variable and the independent variable whether the two variables have normal data values or not. If the data is not normally distributed, the statistical test becomes invalid for a small sample size.

b. Multicollinearity Test

Multicollinearity test is a situation where there is a perfect or close linear relationship between independent variables in the regression model (Mardiatmoko, 2020).

c. Heterocedacity Test

Heterocedacity is a condition where there is an inequality of variance from the residuals for all observations in the regression model (Mardiatmoko, 2020)

d. Autocorrelation Test

Autocorrelation is a situation where in the regression model there is a correlation between residuals in period t and residuals in the previous period (t-1) (Mardiatmoko, 2020).

2.2.3 Hypothesis Test

a. F test

This F test is carried out to determine whether the elements of the independent variables included in the regression model have a significant or joint effect on the dependent variable or not.

b. T test

The t test is conducted to determine how much the independent variable partially affects the dependent variable.

c. Coefficient of Determination (R square)

Determination analysis is a measure that shows how much the independent variable contributes to the dependent variable (Mardiatmoko, 2020). A small R2 value means that the ability of the independent variables to explain the variation in the dependent variable is limited. Meanwhile, an R2 value close to one means that the independent variables can provide the information needed to predict the dependent variable quite well.

d. Sobel Test

This sobel test is used to determine whether the mediating variable has an influence and mediates the relationship between the independent variable and the dependent variable. The following is the formula for the sobel test :

$$S_{ab} = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

Description:

Sab : Sarge standard error of indirect effect

b : Intervening variable path with the dependent variable

a : Independent variable path with Intervening variable

sa : Standard error of coefficient a

sb : Standard error coefficient b

III. RESULT

a. Multiple Linear Test Results

In the 1st model, the constant value is 2.329, so the value of the dependent variable is 2.329. The DP variable has a coefficient value of 4.133, meaning that if DP increases, HDI will also increase. The TK variable has a coefficient value of -4.053, meaning that if TK increases, HDI will decrease.

In the 2nd model, a constant value of -15.920 is obtained, so the value of the dependent variable is -15.920. The DP Fund variable has a coefficient value of 1.579, meaning that if DP increases, BM will also increase. The TK variable has a coefficient value of -0.150, meaning that if TK increases, BM will decrease.

In the 3rd model, a constant value of 64.816 is obtained, so the value of the dependent variable is 64.816. The DP variable has a coefficient value of -2.066, meaning that if DP increases, the HDI mediated by BM will

decrease. The TK variable has a coefficient value of -3.464, meaning that if TK increases, the HDI mediated by BM will decrease. The BM variable has a coefficient value of 3.925, meaning that if BM increases, HDI mediated by BM will increase.

b. Classical Assumption Test

1. Normality Test

In this study, a normality test was used using the CLT (Central Limit Theorem) test. The CLT criterion is that if the observation is large enough (n> 30), then the normality assumption can be ignored. In this study n amounted to 114, meaning 144> 30, so the assumption of normality can be ignored or the data is normally distributed because it is a large sample.

2. Multicollinearity Test

Based on the results of the multicollinearity test, the tolerance value> 0.10 and VIF < 10. The following are the results of the multicollinearity test :

- In the 1st model, the DP variable was found to be : Tolerance (0.327) and VIF (3.063). On the TK variable: Tolerance (0.327) and VIF (3.063). This means that the DP and TK variables do not occur symptoms of multicollinearity.
- In the 2nd model, the DP variable was found to be : Tolerance (0.327) and VIF (3.063). On the TK variable: Tolerance (0.327) and VIF (3.063). This means that the DP and TK variables do not occur symptoms of multicollinearity.
- In the 3rd model, the DP variable was found to be : Tolerance (0.161) and VIF (6.197). On the TK variable: Tolerance (0.308) and VIF (3.249). On the BM variable: Tolerance (0.326) and VIF (3.067). This means that the variables DP, TK and BM do not occur symptoms of multicollinearity.

3. Heteroscedasticity Test

In this study, the Spearman RHO test was used where in this test what is seen is the sig value. (2-tailed) must be (> 0.05), then there are no symptoms of heteroscedasticity and vice versa. . The following are the results of the heteroscedasticity test :

- In the 1st model the value of Sig. (2-tailed) on the DP and TK variables is 0.631 and 0.267. It can be concluded that there are no symptoms of heteroscedasticity.
- In the 2nd model the value of Sig. (2-tailed) on the DP and TK variables of 0.940 and 0.550. It can be concluded that there are no symptoms of heteroscedasticity.
- In the 3rd model, the value of Sig. (2-tailed) on the DP, TK and BM variables are 0.378, 0.544 and 0.517. It can be concluded that there are no symptoms of heteroscedasticity.

4. Autocorrelation Test

In this study, the Durbin-Watson (D-W) test was used with the criteria for the DW> DU and DW < 4-DU values. The following are the results of the autocorrelation test :

- In the 1st model, information: k2 on DU (1.7303), DW (2.046), 4-DU (2.2697). Then 2.046 (> 1.7303) and 2.046 (< 2.2697). This means that there are no autocorrelation symptoms in model 1.
- In the 2nd model, information: k2 on DU (1.7303), DW (1.983), 4-DU (2.2697). Then 1.983 (> 1.7303) and 1.983 (< 2.2697). This means that there are no autocorrelation symptoms in model 2.
- In the 3rd model, information: k3 at DU (1.7488), DW (1.860), 4-DU (2.2512). Then 1.860 (>1.7488) and 1.860 (>2.2512). This means that there are no autocorrelation symptoms in model 3.

c. Hypothesis Test

1. F test

The F test has been done by looking at the Significant probability value <0.05 (α = 5%). If the Sig. value is greater than α then simultaneously the regression model can be called fit. The following are the results of the F test :

- In the 1st model, a significance value of 0.000 <0.05 is obtained, meaning that the independent variable simultaneously affects the dependent variable.
- In the 2nd model, a significance value of 0.000 <0.05 is obtained, meaning that the independent variable simultaneously affects the dependent variable.

- In the 3rd model, the significance value of 0.000 <0.05 means that the independent variables simultaneously affect the dependent variable.

2. Determination Coefficient Test (R2)

Based on the results of the adjusted R square Adj R2 test in each model, namely m-1 = 0.354, m-2 = 0.668, and m-3 = 0.432 or by m-1 = 35.4%, m-2 = 66.8%, and m-3 = 43.2%. It can be concluded that the dependent variable can be explained by the independent variables in each model, namely 35.4% in m-1, 66.8% in m-2, and 43.2% in m-3. While the remaining 64.6% (m-1), 33.2% (m-2), and 56.8% (m-3) are explained by other variables outside this research model.

3. T test

The T test is carried out by looking at the Significance probability value (<0.05). If the sig value exceeds the predetermined value, the independent variable partially has a significant effect on the dependent variable. The following are the results of the T test :

- In the 1st model, the DP variable has a t-count value greater than the t-table (2.557 < 0.059) with a significance value smaller than 5% (0.012 > 0.05). The TK variable has a t-count value smaller than the t-table (-6.426 > 0.059) with a significance value smaller than 5% (0.000 > 0.05). This means that hypotheses 4 and 5 are accepted.
- In the 2nd model, the DP variable has a t-count value greater than the t-table (10.657 < -4.400) with a significance value smaller than 5% (0.000 > 0.05). The TK variable has a t-count value greater than the t-table (-2.595> -4.400) with a significance value smaller than 5% (0.011> 0.05). This means that hypotheses 1 and 2 are accepted.
- In the 3rd model, the BM variable has a t-count value greater than the t-table (4.045 < 1.617) with a significance value smaller than 5% (0.000 > 0.05). The DP variable has a t-count value that is smaller than the t-table (-0.959 < 1.617) with a significance value greater than 5% (0.340 < 0.05). The DP variable has a t-count value that is smaller than the t-table (-5.689 < 1.617) with a significance value smaller than 5% (0.000 > 0.05). This means that hypotheses 3 and 7 are accepted while hypothesis 6 is rejected.

4. Sobel Test

The data is taken from the results of the coefficient table data processing in models 2 and 3. The following are the results of the sobel test in this study :

- Sab = √(-2.066)2 (0.148)2 + (1.579)2 (2.155)2 + (0.148)2 (2.155)2
  = √ 0,089 + 11,577 + 0,097
  = √ 11,763
  = 3, 429

The result obtained is 3.429 < 1.96, meaning that Capital Expenditure (BM) mediates the Fiscal Balance Transfers (DP) on the Human Development Index (HDI).

- Sab = √(-3.464)2 (0.058)2 + (-0.150)2 (0.609)2 + (0.058)2 (0.609)2
  = √ 0,035 + 0,008 + 0,001
  = √ 0,044
  = 0,209

The result obtained is 0.209> 1.96, meaning that Capital Expenditure (BM) does not mediate the Poverty Level (TK) on the Human Development Index (HDI).

IV. DISCUSSION

According to the results that have been obtained after conducting various tests, the following hypothesis is obtained:

1. In accordance with table VIII.2 t test, that the significance value of the DP variable is 0.000> 0.05, so that the DP variable has a positive and significant effect on BM. The study supports the hypothesis proposed and supports research conducted by Turot (2017), which states that the Balance Fund has a positive and significant effect on capital expenditure. This shows that the Balance Fund can influence capital expenditure because the government is able to allocate balance funds effectively.

2. In accordance with table VIII.2 of the t test, that the significant value of the TK variable is 0.011> 0.05, so that the TK variable has a significant effect on BM. This study supports the hypothesis proposed and supports research conducted by Mustaqimah et al (2017), which states that capital expenditure has an impact on increasing physical capital by 3.45% and increasing income inequality. With an increase in capital expenditure, it has a positive impact on increasing per capita expenditure and can then reduce poverty. This depends on the government in overcoming poverty. If government programs are on target then poverty will decline, and vice versa. In this case, poverty affects capital expenditure in a positive way, meaning that the government has been able to put the program right on target.

3. In accordance with table VIII.3 of the t test, that the significant value of the BM variable is 0.000> 0.05, so that the BM variable has a positive and significant effect on HDI. The study supports the hypothesis proposed and supports research conducted by Zakaria (2018), Tarumingkeng et al (2018), and Handayani & Wioyanti (2021), which essentially states that capital expenditure has a positive and significant effect on HDI. in short, when capital expenditure increases, it will increase the value of HDI because if the government program is right on target, the welfare of the community will increase.

4. In accordance with table VIII.1 of the t test, that the significant value of the DP variable is 0.012> 0.05, so that the DP variable has a significant effect on HDI. This study supports the hypothesis proposed but does not support research conducted by Turot (2017), Rahmayati & Pertiwi (2028), and Kurniasari (2021). In these studies, it is said that DP has a positive negative effect on HDI, due to the differentiation in the allocation of funds for each type of DP. In this case, DP has a positive effect on HDI because its value meets the criteria. So if funding for each type of DP is maximized, it will have a positive effect on HDI.

5. In accordance with table VIII.1 of the t test, that the significant value of the TK variable is 0.000> 0.05, so that the TK variable has a significant effect on HDI. This study supports the hypothesis proposed and supports research conducted by Zakaria (2018), Tarumingkeng et al (2018), and Handayani & Woyanti (2021), which essentially states that if there is an increase in TK, it will reduce the HDI value. In conclusion, poverty is the cause of a low level of health because it can reduce community productivity which causes a decrease in income so that people's welfare decreases or the HDI level decreases.

6. In table VIII.3 of the t test, it shows that the significance value of the DP variable exceeds the criteria, namely 0.340 <0.05, so that the DP variable has no significant effect on HDI through BM. This does not support the hypothesis proposed and does not support the research conducted by Kurniasari (2021), which states that DP has an influence on HDI through BM but on each type. However, in this study it has no effect because the value does not meet the criteria. Fiscal balance transfers have no effect on HDI through capital expenditure because fiscal balance transfers are a special budget, fiscal balance transfers are more for funding regional facilities rather than spending on regional needs.

7. Based on the data processing results obtained, H7 is accepted. In tabek VIII.3 t test, the significance value of TK is 0.000> 0.05, so that the TK variable has a significant effect on HDI through BM. This study supports the hypothesis proposed but there is no research that discusses the effect of TK on HDI through BM. The researcher concluded that TK has a negative impact on HDI even through BM, because the rise and fall of HDI depends on the high and low TK. If TK is high, HDI will decrease and BM will have no effect on reducing TK.

V. CONCLUSION

This study aims to determine the effect of Fiscal Balance Transfers and Poverty Level on the Human Development Index through Capital Expenditure as an intervening variable in Regency / City in East Java Province in 2019-2021. This study uses quantitative methods using secondary data in the form of time series data. In this study using a sample of all districts / cities in East Java. There are 38 districts / cities with a period of 3 years, so the total is 144 samples. The technique used in this study is to use multiple linear regression analysis methods. The following are the conclusions of the research results:

Fiscal Balance Transfers have a positive and significant effect on Capital Expenditure, so hypothesis 1 is accepted. Poverty Level has a significant effect on Capital Expenditure, so hypothesis 2 is accepted. Capital expenditure has a positive and significant effect on the Human Development Index, so hypothesis 3 is

accepted. Fiscal Balance Transfers have a significant effect on the Human Development Index, so hypothesis 4 is accepted. Poverty Level has a significant effect on Human Development Index, so hypothesis 5 is accepted. Fiscal Balance Transfers do not have a significant effect on Human Development Index through Capital Expenditure, so hypothesis 6 is rejected. Poverty Level has a significant effect on Human Development Index through Capital Expenditure, so hypothesis 7 is accepted.

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