

CHAPTER I

INTRODUCTION

1.1 Background

Economic development is an effort or process to make changes for the better with the aim of making the community welfare. Initially, the economic development of a country is said to be successful if the country is able to create the maximum possible increase in production which can result in high economic growth. Then the understanding of the development that has been successfully carried out by a country experiences a shift. The development of a country is considered successful not only in terms of the economic aspect, but also from the aspect of the quality of society or human resources in that country. Therefore, the measure of the success of a country's development to achieve prosperity apart from increasing income is also seen from the increase in the quality of human resources.

Human resources have an important role for the success of a country's economic development. In observing the progress of the country's economy, the quality factor of human development is another determinant that needs to be considered, especially for a country with an abundant population like Indonesia. Human Resources (HR) is one of the factors of production other than natural resources, capital, and technology that contribute to economic development. The achievement of human resources that can compete in the international market is seen from the success of a country's efforts in building the quality of its people. The United Nations Development Program (UNDP) has issued an index that can

describe the level of human development in all countries including Indonesia, namely the Human Development Index.

Human Development Index (HDI) illustrates the key to the success of human resources quality, namely a healthy life and a long life, knowledge, a having a decent standard of living. This means that a country with a high level of human development describes the conditions in which welfare is achieved for the majority of society, as well as the availability of adequate facilities for each individual to gain access to health, education, broaden knowledge, opportunities to improve welfare, and develop their potential.

Table 1.1
Human Development Index in Indonesia 2014-2018

Year	Human Development Index
2014	68.3
2015	68.6
2016	69.1
2017	69.4
2018	70.8

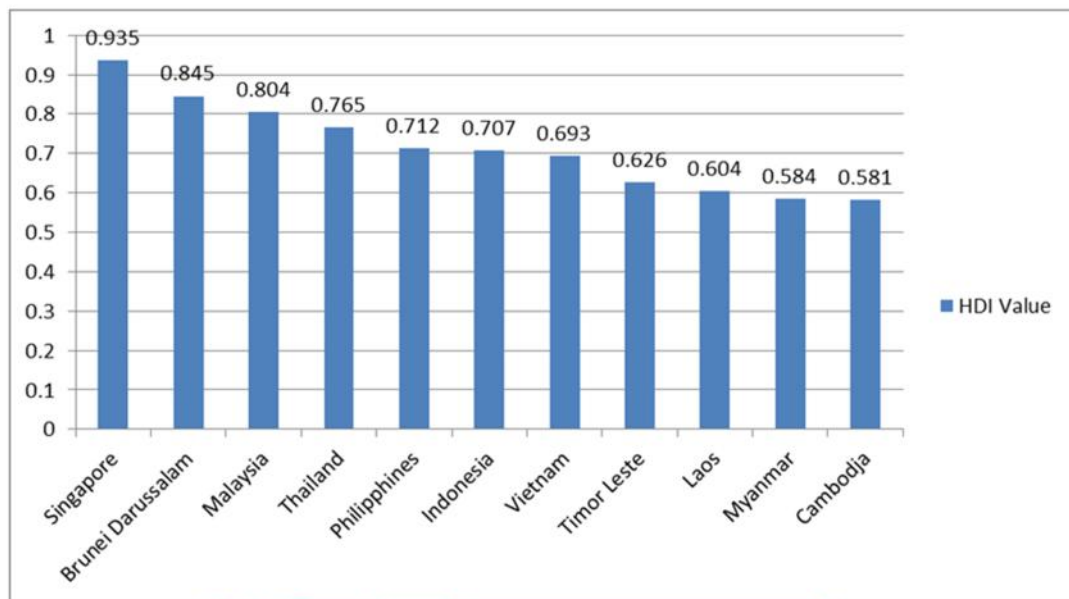
Source: BPS, 2019

In the table above, it is known that human development in Indonesia has increased from year to year. Despite the increase, in Southeast Asia in terms of human development index, Indonesia still lags behind Singapore, Brunei

Darussalam, Malaysia, Thailand and the Philippines. Both in ASEAN and in the world, Indonesia is in the middle rank. Indonesia is ranked 6th in ASEAN and 111th in the world out of 189 countries.

Graph 1.1

Human Development Ranking ASEAN Countries 2018

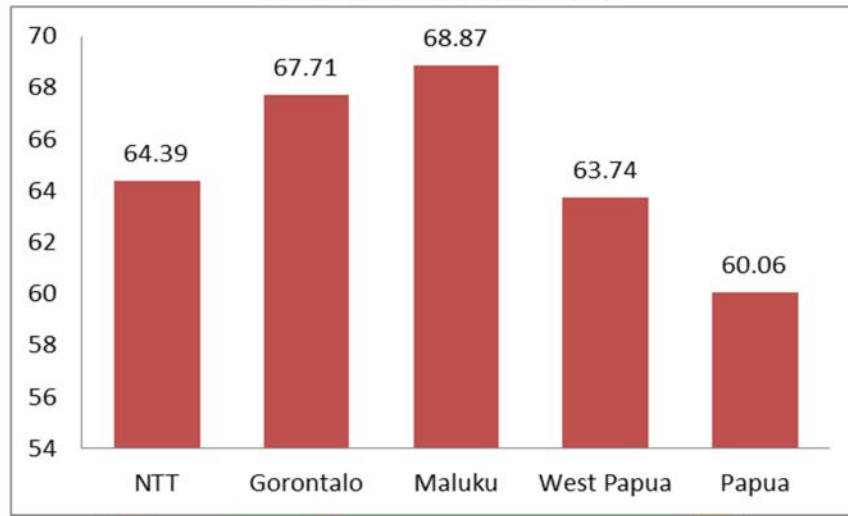


Source: UNDP Human Development Index Ranking

When viewed from around 189 countries (United Nations Development Program, 2018), the ranking of the Human Development Index achieved by Indonesia can be said to be quite good. Unfortunately, the increase achieved by Indonesia is still in the middle category. This can be seen from most regions in Indonesia, especially in Eastern Indonesia, which are still in the low and medium level category of human development. Indonesia should be able to improve the level of human development to be advanced or even very advanced seeing the abundant potential of human resources. However, the abundance of human

resources owned if it is not accompanied by the state's commitment to good human development will of course be in vain.

Graph 1.2. Five Provinces Human Development Index in Eastern Indonesia 2018



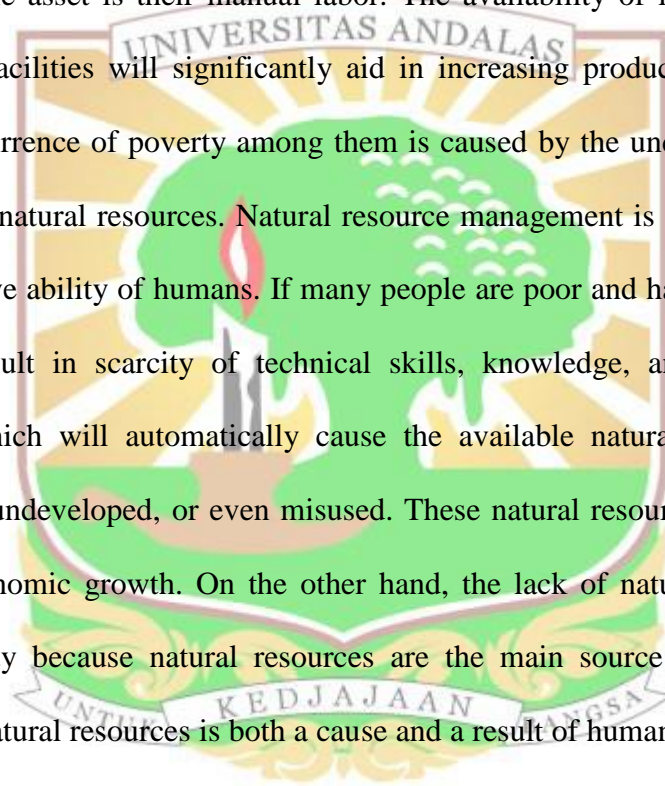
Most of the provinces with low levels of human development are in Eastern Indonesia. There are ten out of thirteen provinces in Eastern Indonesia that still have a low to medium human development index. Meanwhile, the other three provinces, namely Bali, North Sulawesi, and South Sulawesi already have an advanced human development index. Graph 1.1 above depicts five provinces in Eastern Indonesia with a lower HDI compared to other provinces. Of the five provinces, Papua Province has the lowest HDI score of 60.06. Meanwhile, the other four provinces have HDI scores that are already above 60. Papua is the only province in Indonesia with a low level of human development. Meanwhile, East Nusa Tenggara, Gorontalo, Maluku, and West Papua are included in several provinces with a medium level of human development in Indonesia.

Human resource quality may also play a role in the disadvantaged population's development. The quality of human resources can be determined by looking at the

quality of life index. The population's work productivity will suffer due to the low Human Development Index (HDI). Lower revenue acquisition is a result of inadequate productivity. As a result, low income leads to many poor people.

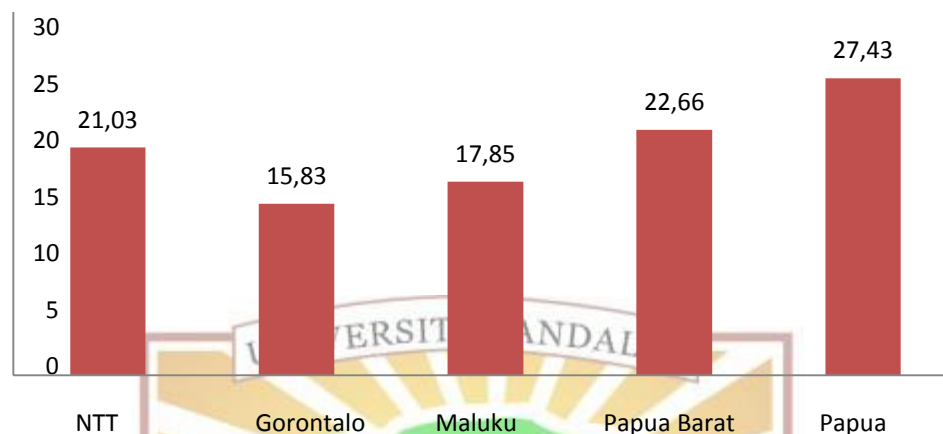
Lanjouw et al. (in Yani Mulyangsih, 2008) stated that human development is synonymous with poverty reduction in Indonesia. Investments in education and health will be more beneficial for the poor than the non-poor, given that the poor's most valuable asset is their manual labor. The availability of low-cost education and health facilities will significantly aid in increasing production and revenue.

The occurrence of poverty among them is caused by the underdevelopment of humans and natural resources. Natural resource management is very dependent on the productive ability of humans. If many people are poor and have low education, this will result in scarcity of technical skills, knowledge, and entrepreneurial activities which will automatically cause the available natural resources to be abandoned, undeveloped, or even misused. These natural resources will affect the level of economic growth. On the other hand, the lack of natural resources will cause poverty because natural resources are the main source of human needs. Poverty in natural resources is both a cause and a result of human poverty (Jhingan, 2016:34).



Graph 1.3

Poverty Rate of Five Provinces of Eastern Indonesia in 2018 (in percent)



Source: BPS, 2019

Graph 1.2 above illustrates the poverty level in five provinces with low human development index scores in Eastern Indonesia. These five provinces are provinces with the highest poverty rates among the upper ten provinces of Eastern Indonesia, which have a low to medium human development index. Based on data from the Central Statistics Agency (BPS), Papua is the province with the highest poverty rate of the five provinces. The province of Papua has a poverty rate in 2018 of 27.43 percent with a total poor population of 915.22 thousand people. Meanwhile, the poverty rate of West Papua Province is below Papua with a percentage of 22.66 percent and the number of poor people as much as 213.67 thousand people. Of the five provinces, Gorontalo is the province with the lowest poverty rate, which is 15.83 percent and the number of poor people is 188.30 thousand people.

The second factor affecting HDI is the health and education budget. In terms of human development, government spending, especially in the health and education sectors, plays an important role in increasing the productivity and quality of

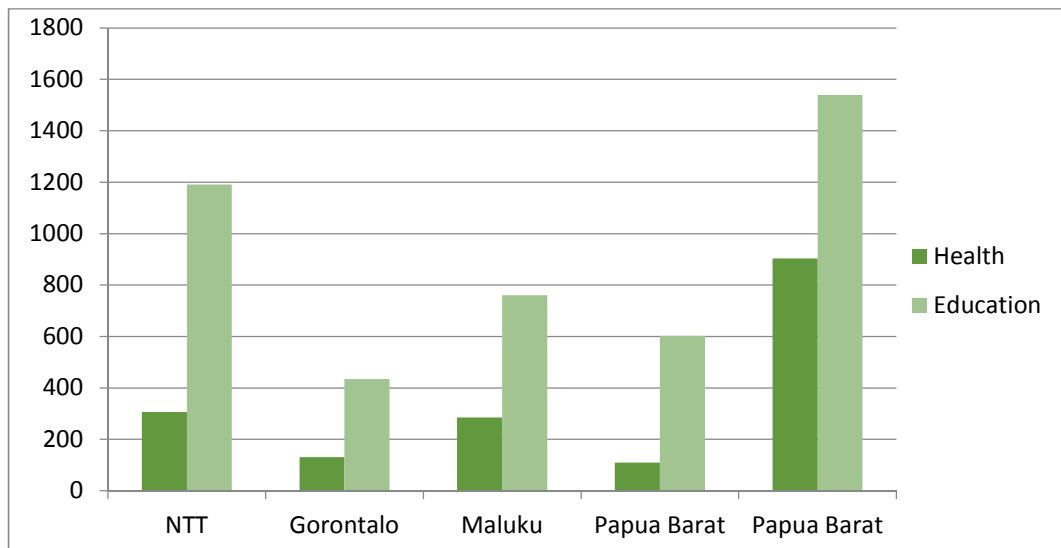
community resources in the regions. Based on the research of Dianaputra & Aswitari (2017) and Zulyanto (2018), it was found that government spending in an area in the health and education sector can improve human development so as to improve the quality of human resources in the region. According to Suparno (2014), health is the essence of welfare and education is essential to achieve a well-to-do life. These two sectors play an important role in increasing productivity and improving the level of social welfare. Therefore, the Indonesian government allocated a certain amount of budget for the health and education sectors.

Based on data from the World Bank (2019), Indonesia has government expenditure on health amounted to 3.12% of GDP, and for the education sector amounted to 3.6% of GDP (The World Bank, 2019). The budget for the health and education sector in Indonesia is mandatory, namely the fulfillment of expenditures mandated by statutory regulations (mandatory spending).

In accordance with the mandate of Law Number 36 of 2009 concerning Health, the provincial government allocates a minimum health budget of 10% of the Regional Revenue and Expenditure Budget (APBD) excluding salaries. Meanwhile, for the education sector in accordance with the mandate of Law Number 20 of 2003 concerning the National Education System, local governments allocate a minimum budget of 20% of the APBD apart from teacher salaries and official education costs. Thus, the government at the regional level is also obliged to increase the welfare of the Indonesian people through the amount of the health and education budget allocated from the APBD. This is also consistent with the existence of a regional autonomy system in Indonesia.

Graph 1.4

**Provinces of Eastern Indonesia Health and Education Budget 2018
(in Billion Rupiah)**



Source: DJPK Kemenkeu

From the graph above, the provincial government of West Papua has allocated the lowest amount of health budget among other provinces, namely 110 billion rupiah. Meanwhile in the education sector, the provincial government of Gorontalo also allocates the amount with the lowest amount of 434 billion rupiah. Papua has a fairly high health and education budget even though it has the lowest Human Development Index and the highest poverty rates compared to other provinces. Papua's health budget in 2018 is IDR 903 billion, while the education budget is IDR 1.5 trillion. In fact, the amount of the Papua provincial government budget allocation for these two sectors can be said to be higher than some provinces that have better human development indexes and poverty levels.

The last factor affecting human development index is local revenue. The amount of revenue can be used as a measure of how much independent a region is

in financing its regional development. Regional revenues are expected to increase regional government capital expenditure investment in addition to funding routine expenditures, so that the quality of public services is getting better. Improving the quality of public services will certainly have an impact on the welfare of society and will increase the Human Development Index (Putra & Ulupui, 2015).

Law No. 32 of 2004 explains that local own revenue is one source of regional income. Local own revenue include local taxes, retributions, revenue of local government corporate and management of local asset, and other legitimate local own revenue. The local government is responsible for every rupiah provided by the community through the payment of local taxes and retributions. Therefore, the community can enjoy these results in the form of capital expenditures that have been become a priority for the community. Capital expenditures for public services are regulated according to needs society based on increasing demand and flows to improve service and community welfare.

In carrying out government responsibilities and public service facilities, the local own source revenue must be used for regional facilities and infrastructure. The government basically has no money of its own, because everything is public property. Therefore, local governments should change the structure spending to improve the quality of public services. With increase in income obtained by the region, the region is able to meet the needs of the community.

The greater local own revenue can help improve quality public welfare as measured in the Human Development Index. The more the high income obtained by the region, it makes the region able to pay and meet public needs. If local own

revenue increases, allowing for hope for increased well-being community if the funds are allocated in sectors that can afford increase HDI.

Based on the description above, the researcher in this study took the title of the thesis “The Effect of Poverty, Health Budget, Education Budget, and Local Government Own Revenue on Human Resources Quality (Studies on Five Provinces of Eastern Indonesia 2011-2020).”

1.2 Formulation of Problem

Based on the background description that has been written above, several problems are identified as follows:

1. How does poverty rate affect human development in the five provinces of Eastern Indonesia in 2011-2020?
2. How does the health sector budget affect human development in the five provinces of Eastern Indonesia in 2011-2020?
3. How does the educational sector budget affect human development in the five provinces of Eastern Indonesia in 2011-2020?
4. How does the local own revenue affect human development in the five provinces of Eastern Indonesia in 2011-2020?

1.3 Research purpose

The following are the research objectives, which are based on the formulation of the problem above:

1. To determine the effect of partial poverty levels on human development in the five provinces of Eastern Indonesia in 2011-2020.
2. To determine the effect of health budget partially on human development in five provinces of Eastern Indonesia in 2011-2020.
3. To determine the effect of education budget partially on human development in the five provinces of Eastern Indonesia in 2011-2020.
4. To determine the effect of local own government revenues on human development in five provinces of Eastern Indonesia in 2011-2020.

