

# CHAPTER I

## INTRODUCTION

### 1.1 Background of The Study

Development is the main thing for the progress of a country. To realize the conditions for people to enjoy the enabling environment for healthy living, long life and a productive life can be achieved with sustainable development. Human beings are a major component in the development of a country. Human Resource Development involves increasing the basic capacity of the population which will then increase the opportunity to participate in the development process. According to Todaro (2006), the basic capacity which is at the same time the three main values of economic development success are sustenance, self-esteem, and freedom. Adequacy in this regard is the ability to meet basic needs that include food, clothing, shelter, health, and security.

HDI is a measure to see the impact of regional development performance, because it shows the quality of the population of a region in terms of life expectancy, intellectuality and the decent standard of living. In development planning, IPM also provides guidance for government in determining priorities in formulating policies and determining the program.

The Human Development Index (HDI) is a composite index of education, health and purchasing indexes that are expected to measure the success rate of human development as reflected by well-educated, healthy and long-lasting, skilled and income-worthy citizens. Thus, HDI in a region will increase if all three elements can be improved, high HDI values indicate the success of economic

development in the area. In other words, there is a positive correlation between the value of HDI and the degree of success of economic development (Tambunan, 2003).

HDI can be used to classify whether a country belongs to the category of developed, developing or underdeveloped countries (United Nations Development Program / UNDP, 1996). Since 1990, the development of the human quality level worldwide has been researched and the report is published in Human Development Report (HDR) by UNDP. UNDP's annual report in 2014 informed that Indonesia's HDI declined over the previous year, ranking 110 out of 187 countries in the world while in 2013 Indonesia was ranked 108.

**Table 1.1 HDI of ASEAN Countries in 2014**

No.	Country	HDI	Rank
1.	Singapore	0.912	11
2.	Brunei Darussalam	0.850	31
3.	Malaysia	0.779	62
4.	Thailand	0.726	93
5.	Indonesia	0.684	110
6.	Philippines	0.668	115
7.	Vietnam	0.666	116
8.	Laos	0.575	141
9.	Cambodia	0.555	143
10.	Myanmar	0.536	148

*Sources : UNDP, 2014*

This is quite disappointing because HDI of Indonesia is still under the countries of the Regional Association of Southeast Asian Nations (ASEAN),

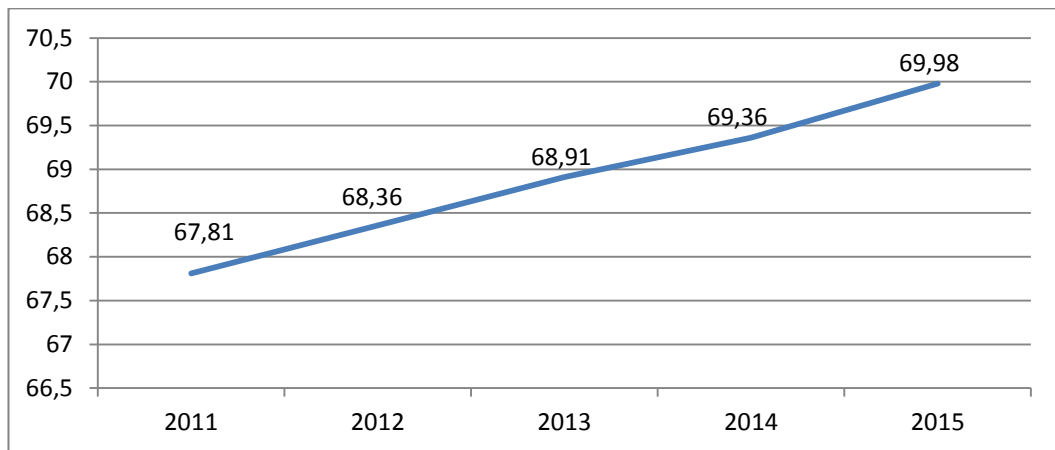
Singapore, Brunei Darussalam, Malaysia, and Thailand. HDI of Indonesia is only better than HDI of Philippines which occupies the 115th position, Vietnam on ranking 116th, Laos on the order of 141st, Cambodia on the order of 143rd, and Myanmar at 148th rank. Serious improvement must be done in order to improve human development better.

Indonesia as a developing country undertakes development in all aspects of community life both in the economic, social, and sectoral. The role of government in development is by doing the development of education, health, and economy in improving the quality and welfare of the community and providing infrastructure and formulation of regulations for the process of development.

West Sumatera which is one of the provinces in Indonesia has a good enough HDI level. In 2014, HDI West Sumatra is 69.36 is ranked third under Riau Islands and Riau Province when compared with other provinces on the island of Sumatera.

Data of HDI in West Sumatera Province from 2011-2015 as shown in figure 1.1 has increased annually, from 67.81 in 2011 to 69.98 in 2015. The largest increase occurred in 2014 to 2015 amounting to 0.62 percent from 69.36 to 69.98.

**Figure 1.1 Human Development Index of West Sumatera 2011-2015**



*Sources : Central Bureau of Statistics in West Sumatera*

Poverty is an important issue for each country, especially for developing countries. Poverty which is a reflection of the inability of a person to meet his needs in accordance with applicable standards.. Poverty is closely related to income and education levels. Poverty can create the serious effects for human development because of the problem of sustainability. This makes the human development targets set by the government realized by either (Mirza, 2012).

Poverty can affect the value of human development index. Poverty prevents as many as getting good nutrition for health and less education. So that can be said poverty cause degradation of the quality of human resources. This can certainly disrupt the process of human development in an area.

Human development is a key element in development planning. Because the nature of development is human development, it is necessary to prioritize the allocation of spending for human development purposes in the preparation of the budget (Fhino and Adi, 2009). Improving this priority will also improve the welfare of communities as measured by the Human Development Index (HDI).

Capital expenditure is one source of funding in the development of a region. The allocation of capital expenditure funds for welfare, especially in the field of education, is expected to be greater for the progress of the region and the intellectual life of the nation. This capital expenditure can be in the form of construction of buildings, facilities and adequate infrastructure for the convenience of schooling (Christy, 2009) so that progress in education will also improve the quality of human development. Community welfare can be realized by fulfilling basic needs such as health, education, and infrastructure.

One of the indicators to measure the success rate of development in a country is economic growth. According to Mirza (2012) in the development process, the high economic growth is the main target for developing countries. This is because economic growth is closely linked to increased production of goods and services in the community. More and more goods and services produced, improve social welfare. The higher the growth is better.

The success of a country's development also includes the quality of human resources. The higher the success of development in a country means signifies increased production will increase revenue. With the increase in revenue will improve the quality of life and meet all basic needs and also will ultimately improve the quality of human resources in the country. Therefore, economic growth is closely related to the Gross Domestic Product (GDP) or gross domestic regional product (GDRP) if the scope is in the region.

The economic growth of a country depends on natural resources, human resources, capital, business, technology, and others (Jhingan, 2004). Each country



necessity a good economic growth. Economic growth could be calculated in several ways, one of them is by Gross Domestic Product. GDP is the quantity of goods and services composed by an economy within a year and is expressed in market prices. High or low of GDP is determined by various determinant, containing labor, capital, natural resources, and the environment, technology and social factors. The nation with great GDP is categorized as prosperous. Good performance of economic growth must be accompanied by increased human resource development.

Based on the explanation above, the writer is interested to discuss how the development of human development in West Sumatera. Additionally in this study will also be seen how the influence of the level of poverty, GDRP, and capital expenditure on Human Development Index in West Sumatera. Poverty, GDRP, HDI, and capital expenditure and poverty are 4 indicators that have relation each other. Based on the explanation above, so this study want to investigate the relation between Human Development Index, Gross Domestic Regional Product, poverty, and capital expenditure from 2011-2015 which is why the author gave a report entitled:

**"Analysis Effect of Poverty, Gross Domestic Regional Product, and  
Capital Expenditure on Human Development Index in West Sumatera  
During Period 2011-2015"**

## 1.2 Research Problem

Based on the background described, then there is a problem formulation that can be taken as a research study that will be conducted. The formulation of the problem is needed as a way to take a decision of this study.

Based on the explanation above, so the problems of this research are :

- a) How the condition of poverty, Gross Domestic Regional Product, Human Development Index, and capital expenditure in West Sumatera from 2011 until 2015?
- b) How the influence of poverty, Gross Domestic Regional Product, and capital expenditure on Human Development Index in West Sumatera?

## 1.3 Research Objective

Based on the background and explanation above, so the objective of this research are:

- a. To analyze the condition of human development index in West Sumatera.
- b. To analyze the influence of poverty, Gross Domestic Regional Product, and capital expenditure on Human Development Index in West Sumatera.

## 1.4 Research Advantages

This research is expected to provide many benefits both for writers and for others:

- a. As the requirements for the Bachelor degree in economics.
- b. For the writer, improving in writing ability and doing research especially in the economic field.

- c. Add understanding for the readers regarding economic analysis about human development index, poverty, Gross Domestic Regional Product, and capital expenditure.
- d. As references for the other researcher.

#### **1.4 Scope of Study**

This research will focus on the impact of poverty, Gross Domestic Regional Product, and capital expenditure on Human Development Index in West Sumatera from 2011-2015. This study using panel data and the data sources come from BPS of West Sumatera, DJPK Kementerian Keuangan RI, economic journals, and the others.

#### **1.5 Systematic Writing**

This research consist of 6 chapters starts from introduction until references. Every chapter of this research as follows:

##### **Chapter 1: Introduction**

In this chapter consists of several sections ranging from the background of the study which discusses the reasons for topic selection, the research problems, research objective, and research advantage.

##### **Chapter 2: Theoretical Framework and Literature Review**

Chapter 2 contains all theories related to the title and contains the theoretical framework and hypotheses of this study.

##### **Chapter 3: Research Method**

This chapter explains variables used, loading data sources, data types, and descriptions of the methods used in this study.



#### Chapter 4: Overview of Research Variable

In this chapter contains overview or general description of the object of the study.

#### Chapter 5: Result and Analysis

This chapter will describe more about this research, data analysis, discuss the result and description.

#### Chapter 6: Conclusion and Recommendation

This chapter consists of conclusion and also suggestions or recommendations that come from this research result that recommended to certain parties on the basis of the findings.

