

Human Development Index: Examining the Effect of Fiscal Decentralization and the Moderating Role of Private Investment



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ABSTRACT: Bali Province is a tourist destination and has rapid economic growth in Indonesia, but Bali Province faces several challenges in terms of the Human Development Index (HDI). The achievement of HDI is the responsibility of local governments, especially in autonomous regions. With regional autonomy, the government has the flexibility to increase the degree of fiscal decentralization and design appropriate budget allocations. Bali Province is also one of the investment destinations for investors which certainly has an impact on people's lives. This research will try to examine the effect of the level of fiscal decentralization of a region on the achievement of the Human Development Index. This research also tries to use the role of private investment as a moderator. The research data comes from the financial statements and publications of the Central Bureau of Statistics of Bali Province for the period 2012-2021. The results of data testing show that fiscal decentralization has a positive and significant effect on HDI. Private investment has not been able to moderate the relationship between fiscal decentralization and HDI. When a region has a high level of financial independence, of course, the local government can more freely determine regional spending policies, especially to sectors that can increase HDI. In addition, local governments also need to pay attention to investments made by the private sector, so that they are in line with the government's objectives in increasing HDI.

KEYWORDS: Human Development Index (HDI), Fiscal Decentralization, Private Investment

I. INTRODUCTION

Bali is one of the provinces in Indonesia that is a world tourist destination so it has rapid economic growth. Despite being a major tourist destination in Indonesia and experiencing rapid economic growth, Bali still faces several challenges in improving its Human Development Index (HDI). To measure the success of human development, it can use a combination of education, health, and purchasing power indices. Success indicators that can be used to measure community development are a population that is educated, healthy, long-lived, highly skilled, and has a living income. (BPS, 2023). HDI can be used to measure the success and performance of a country and region in terms of human development (Artaningtyas, 2011). According to Bali's Central Bureau of Statistics (BPS), Bali's HDI is estimated to reach 76,44 points in 2022, indicating that Bali is still in the "high" category. The increase in Bali's HDI has remained constant over the past decade, including during the COVID-19 pandemic (2020-2022).

Table 1. HDI of Bali Province 2013-2022

| Regency / City | Year | | | | | | | | | | HDI Status in 2022 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | |
| Jembrana | 68.39* | 68.67* | 69.66* | 70.38* | 70.72* | 71.65* | 72.35* | 72.36* | 72.75* | 73.58* | High |
| Tabanan | 72.31 | 72.68 | 73.54 | 74.19 | 74.86 | 75.45 | 76.16 | 76.17 | 76.45 | 76.75 | High |
| Badung | 77.63 | 77.98 | 78.86 | 79.80 | 80.54 | 80.87 | 81.59 | 81.60 | 81.83 | 82.13 | Very High |
| Gianyar | 74.00 | 74.29 | 75.03 | 75.70 | 76.09 | 76.61 | 77.14 | 77.36 | 77.70 | 78.39 | High |
| Klungkung | 68.08* | 68.30* | 68.98* | 69.31* | 70.13* | 70.90* | 71.71* | 71.73* | 71.75* | 72.55* | High |
| Bangli | 65.47* | 65.75* | 66.24* | 67.03* | 68.24* | 68.96* | 69.35* | 69.36* | 69.37* | 70.26* | High |
| Karangasem | 63.70* | 64.01* | 64.68* | 65.23* | 65.57* | 66.49* | 67.34* | 67.35* | 67.36* | 68.28* | Medium |
| Buleleng | 68.83* | 69.19* | 70.03* | 70.65* | 71.11* | 71.70* | 72.30* | 72.55* | 72.56* | 73.45* | High |
| Denpasar | 81.32 | 81.65 | 82.24 | 82.58 | 83.01 | 83.30 | 83.68 | 83.93 | 84.03 | 84.37 | Very High |
| Bali Province | 72.09 | 72.48 | 73.27 | 73.65 | 74.30 | 74.77 | 75.38 | 75.50 | 75.69 | 76.44 | High |

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However, the achievement of HDI in the high category was not achieved by all districts/cities in Bali Province. There is still one regency (Karangasem) that over the past decade has achieved an HDI value in the "medium" category. Based on the data in Table 1, it is also known that during the last decade there were five districts (Jembrana, Klungkung, Bangli, Karangasem, and Buleleng) that had HDI achievements below the value of the HDI achievement of Bali Province.

Achieving the HDI is the responsibility of the government operating an autonomous region. It is certainly possible to increase HDI performance by targeting regional spending, especially in the education, health and infrastructure sectors. Local governments can use fiscal policies such as maximizing the use of local revenues to finance spending in areas that can increase the value of the human development index. The government must manage local financial revenues well and use them to create an effective budget. These revenues must be felt by the community, especially in infrastructure development, education and health services. The ratio of total local budget revenue to total local budget revenue is one way to determine the level of fiscal decentralization of a region (Isnaeni, 2016). Local own revenue is expected to be higher than other local revenue sources, demonstrating effective financial decentralization in the region.

Based on the announcement of the Central Bureau of Statistics of Bali Province in 2022, Badung District has the highest income of IDR 1,750,345,226,000. Meanwhile, Denpasar City is up to Rp 792,362,414,000 and Bangli Regency is up to Rp 163,537,096,000. HDI data for each region in Bali in 2021 shows interesting differences. Badung Regency recorded the highest income in the region in 2021, but did not reach the highest HDI value in Bali province. Similarly, Bangli district has the lowest local income, while the lowest HDI in Bali province belongs to Karangasem district. Furthermore, this situation occurred when the 2020-2021 coronavirus (Covid-19) pandemic had a significant impact on Bali's tourism industry and greatly affected local revenue. However, in 2020 and 2021, the HDI performance of Bali districts/cities continued to increase, albeit not significantly. This phenomenon may indicate that the implementation of fiscal decentralization in each region of Bali province can still be optimized.

Rusydi et al. (2022) in their research found that local income has a significant influence on HDI in South Sulawesi province. However, Adipura et al. (2022) find mixed results, namely that the level of fiscal decentralization has a negative impact on HDI. It cannot be denied that the various differences in research results regarding the impact of fiscal decentralization on HDI are most likely influenced by different factors occurring in each region. In addition, there is also doubt about the existence of contingent factors that could strengthen or weaken the impact of fiscal decentralization on HDI. Local governments need to be able to further optimize the fiscal decentralization process, including reasonable allocation when preparing local revenue and expenditure budgets. In addition to optimizing the process of budget expenditure allocation to areas that can increase HDI, local authorities must also pay special attention to private investment, because the province of Bali, with its tourism appeal, will have Great opportunity to become a land of tourism. private sector investment. Investment in a region includes local government investment and private sector investment. The role of the private sector through private investments made in the region is crucial in improving the well-being of the community. Private investment can come from domestic investment and foreign investment. The existence of private sector investments will attract more workers, thereby improving the welfare of the community (Royan, 2015). Individuals' purchasing power, a component of the HDI measure, increases as their income increases. Economic growth that comes with income equality in society will lead to a higher HDI index than economic growth that does not come with income equality in society.

Many studies have been conducted on fiscal decentralization. However, previous studies have found mixed results on how fiscal decentralization affects the human development index. According to some studies, it is possible that the structure of local revenue management has not been allocated optimally and on target, causing the budgets implemented by local governments to be misaligned. In addition, the differences in some of the previous research findings are also believed to be caused by random factors that can weaken or strengthen the impact of fiscal decentralization on HDI. Therefore, researchers argue that it is necessary to re-examine the impact of fiscal decentralization on HDI. The research will be conducted on districts/cities in Bali Province using the years 2012 to 2021. In contrast to previous studies, this research tries to use the private investment variable as a moderating variable. The existence of private investment in a region is thought to affect the level of fiscal decentralization in achieving HDI.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Jensen and Meckling (1976), an agency relationship is an agreement between two parties: the principal and the agent. The principal grants decision-making authority to the agent. Agency theory can also be applied to public sector organizations. Scott (2000) states that the principal-agent relationship is the basis of modern democracy. Agency problems often arise from conflicts of interest between clients and brokers. Due to this difference in interest, each party seeks to achieve the most favorable outcome. Therefore, agency problems are the most common problems that arise between the legislature and the executive. The main

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actors, namely the legislature and the community represented by the local government, act as agents of the public sector. Local governments or their representatives must act in accordance with the people who are their customers. Gunantara (2013) states that local governments can make public decisions independently. This is in accordance with agency theory which states that there is a conflict of interest between the principal and the agent, and agents tend to do the best they can. Agency theory can be seen from the relationship between the community and the local government (agency) through the representative council (principal). Resources such as taxes and tariffs are given to the local government by the community (customers) to increase local revenue. Adequate public services financed from local revenues are the responsibility of local governments as executors of government.

The HDI was formulated in 1990 by the United Nations Development Program (UNDP) to represent and measure progress in human development. UNDP describes human development as the process of giving people more choices. Population is seen as the ultimate goal or destination, and development efforts are seen as the means to that end. Production, equity, sustainability and empowerment are the four most important things that must be considered to ensure the achievement of human development goals (UNDP, 1995). The HDI ranges from 0 to 100, with values closer to 100 indicating an increase in human development (Ndakularak, 2014). Four groups can be formed based on the level of human development in a region at a given time. From a human development point of view, this grouping aims to divide regions into equal groups. To assess human development progress, we need to consider two things: the speed of achievement and the context.

To achieve effective fiscal decentralization, local governments must be able to manage their finances effectively and minimize their dependence on the central government. Depending on the level of decentralization, local governments can achieve decentralization by increasing their own local revenue. The contribution of own-source revenue to local sales is expressed in this ratio (Prakoso, 2017). The higher the own-source revenue, the easier it is for local governments to allocate funds to areas that can improve people's welfare, such as: B. increase in education costs, life expectancy index, and purchasing power parity. This is the basis for measuring HDI. Setyawan and Arief (2019) found that fiscal decentralization has a positive impact on HDI in a research conducted in nine cities in East Java province from 2008 to 2017. This result is consistent with Rusydi et al.'s research (2022) conducted in South Sulawesi province from 2013 to 2020 found that local own-source revenue has a significant influence on HDI. Fiscal decentralization in the regions will also increase the achievement of human development indicators.

H1: Fiscal decentralization has a positive effect on HDI.

Investment is the investment of capital in one or more assets with the expectation of future profits (Sunariyah, 2003). As stated by Samuelson (2004), investment includes the addition of capital stock or state goods, such as the manufacture of production equipment and inventory within one year. Investment falls into two categories: Domestic Investment and Foreign Investment. Both businesses and households purchase investment assets with the aim of adding to their capital stock and replacing existing capital after use. Private investment is divided into domestic and foreign investment based on the source and ownership of capital. As the government invests more in public goods, the private sector and households are expected to expand due to the allocation of resources in the region.

The role of the private sector through private investment in the region is very important in improving the welfare of the community. Because investment can increase the amount of labor absorbed, investment measured by its effectiveness will have an impact on improving community welfare, both government and private investment (Royan, 2015). With the number of labor absorbed, people's income increases and people's purchasing power increases, which is part of the HDI measurement component. Loyan's research (2015) found that private investment has a positive and significant influence on HDI in East Java in 2010-2013. Similar research was also conducted by Marhendra (2016) who found that private investment has a positive and significant effect on HDI. Marhendra (2016) found that private investment has a positive and significant influence on HDI in several districts and cities in East Java province from 2004 to 2013. An increase in private sector investment is believed to have an impact on the human development index. Therefore, researchers use the level of private investment as a moderating variable.

H2: Private Investment moderates (strengthens) the effect of Fiscal Decentralization on HDI.

III. RESEARCH METHODS

This research is a quantitative research that will examine the effect of fiscal decentralization on HDI, as well as the role of private investment in moderating the relationship between fiscal decentralization and HDI. The conceptual framework in this research is presented in Figure 1 as follows:

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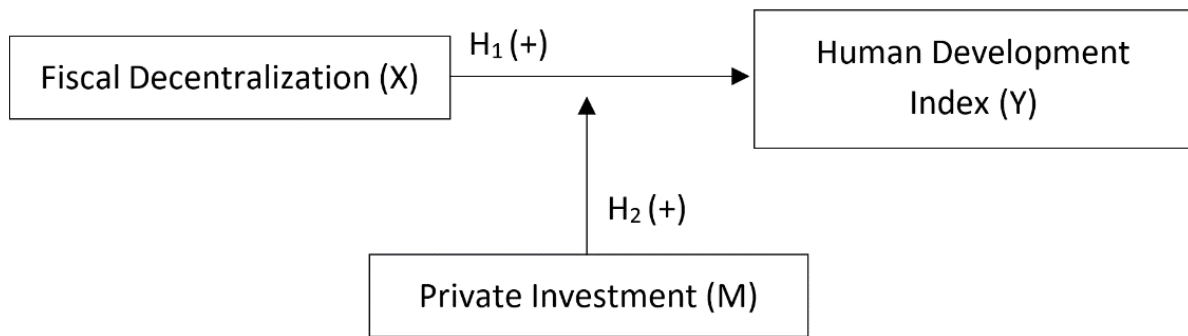


Figure 1. Conceptual Framework

The fiscal decentralization variable is obtained by calculating the ratio of regional own-source revenue to total regional revenue from 2012 to 2021. The HDI variable is obtained from data on the HDI achievements of each region from 2012 to 2021. The private investment variable as a moderator is obtained from the amount of private investment from both domestic and foreign sources in each region from 2012 to 2021. This research uses secondary data which is panel data. The quantitative data source used in this research is the regional revenue expenditure budget implementation report of all districts / cities in Bali for the period 2012-2021; obtained from the Human Development Index Report.

The Moderated Regression Analysis (MRA) analysis technique was used to test the data in this research, which was assisted by SPSS for windows (Statistical Product and Service Solution) software. The stages of analysis in this research are, Classical Assumption Test, Formulation of Moderated Regression Analysis (MRA) Model, Coefficient of Determination Analysis, Model Fit Test, and Partial Test. The Moderated Regression Analysis (MRA) equation in this research is as follows:

$$Y = \alpha + \beta_1 X + \varepsilon \dots\dots\dots(1)$$

$$Y = \alpha + \beta_1 X + \beta_2 M + \beta_3 X * M + \varepsilon \dots\dots\dots(2)$$

Description:

- Y : Human Development Index
- α : Constant
- X : Fiscal Decentralization
- M : Private Investment
- β₁₂₃ : Regression Coefficient
- ε : Error Term

IV. RESULTS

The data testing process begins by conducting a classical assumption test consisting of normality test, autocorrelation test, and heteroscedasticity test. The results show that the data used in this research have passed the classical assumption \, so data is normally distributed; the data does not occur autocorrelation with the previous year's data; and the data does not contain symptoms of heteroscedasticity. Furthermore, a simple linear regression test was conducted for the first regression equation model, and a moderated regression analysis test was conducted for the second regression equation. The results of the two regression tests are presented in Table 2 as follows:

Table 2. Simple Linear Regression Test and Moderation Regression Analysis Results

| Model | | Unstandardized | | Sig. | Significance | Hypothesis Results |
|-------|------------------------------|----------------|------------|------|--------------|--------------------|
| | | Coefficients | Std. Error | | | |
| | | B | Std. Error | | | |
| 1 | (Constant) | 67.827 | .639 | .000 | - | - |
| | Fiscal Decentralization (FD) | .197 | .019 | .000 | Significant | Accepted |
| 2 | (Constant) | 39.987 | 6.808 | .000 | - | - |
| | Fiscal Decentralization (FD) | .782 | .285 | .007 | Significant | - |

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| | | | | | |
|-------------------------|--------|------|------|-----------------|----------|
| Private Investment (PI) | 1.420 | .342 | .000 | Significant | - |
| FD * PI | -0.029 | .013 | .080 | Not Significant | Rejected |

Dependent Variable: HDI

Based on Table 2, the results of the research hypothesis test can be seen as follows:

a. Regression Equation Model 1

The significance value of the regression test of the fiscal decentralization variable (FD) is 0.000, this value is smaller than $\alpha = 0.05$ ($0.000 < 0.05$), which means it is significant. And obtained a regression coefficient value of 0.197 (positive). This shows that the probability of fiscal decentralization has a positive and significant effect on HDI, so the first hypothesis is accepted.

b. Regression Equation Model 2

The significance value of the Moderated Regression Analysis test of fiscal decentralization * private investment as (FD *PI) which is a test of the private investment variable in moderating the effect of fiscal decentralization on the human development index, obtained a regression coefficient value of -0.029 (negative) and a p-value of 0.080, the value is greater than $\alpha = 0.05$ ($0.080 > 0.05$), which means it is not significant. Since it is a moderating effect test, this result needs to be combined with the significance value of the fiscal decentralization variable (FD). The fiscal decentralization variable obtained a regression coefficient value of 0.782 (positive) and a p-value of 0.007, this value is smaller than $\alpha = 0.05$ ($0.007 < 0.05$), which means significant. Since the fiscal decentralization*private investment variable is negatively insignificant and the fiscal decentralization variable is positively significant, the private investment variable is a type of moderating predictor, that is, the moderating variable only acts as a predictor (independent) variable in the relationship model formed. This shows that the private investment variable cannot moderate the effect of fiscal decentralization on the human development index, so the second hypothesis in this research is rejected.

Then, a model feasibility test (f-test) is performed to demonstrate that the two regression equations can be used as analytical tools. And it is necessary to analyze the coefficient of determination (adjusted r-squared) to determine the ability to predict the independent variables on the change of the dependent variable in the two regression models used.

Table 3. Model Fit Test Results and Coefficient of Determination Analysis

| Model | R | R Square | Adjusted Square | R Adjusted Square Change | R F | Sig. F |
|-------|-------------------|----------|-----------------|--------------------------|---------|--------|
| 1 | .738 ^a | .545 | .540 | - | 105.391 | .000 |
| 2 | .789 ^b | .623 | .610 | .070 | 47.401 | .000 |

According to Table 3, the p value (Sig. F) for the first and second regression equations is 0.000. The significant value is less than the value $\alpha = 0.05$ ($0.000 < 0.05$). These results demonstrate that the first and second regression equation models can be used as analytical tools. Regarding the analysis of the coefficient of determination, the first regression model has an adjusted r-squared value of 0.540. This means that 54.0% of the variation in the HDI can be explained by fiscal decentralization. The second regression equation model has an adjusted r-squared value of 0.610. This means that 61.0% of the variation in HDI can be explained by fiscal decentralization, private investment, and the interaction between fiscal decentralization and private investment.

V. DISCUSSION

Fiscal Decentralization Has a Positive Effect on HDI

The results of data processing show that fiscal decentralization has a significant positive effect on HDI in Bali Province from 2012 to 2021. Good regional fiscal independence allows the government to manage revenue to improve and enhance public services, meet community needs, and finance development. Decentralization requires infrastructure development that has a positive impact on society to increase HDI. The principle of decentralization is democratic, which means that the community must always come first (Maulana, 2023). Human development or improving the quality of human resources is very important in the national development strategy (Sellang et al., 2022). Fiscal decentralization also describes the proportion of local community participation in fulfilling obligations to pay local and regional taxes and share the profits of regionally owned enterprises to support

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overall regional income (Zulkarnain, 2020). The human development index is believed to improve as local governments become more aware of regional conditions, conditions, and needs. Ultimately, through the success of the HDI, people's welfare will improve. Of course, so that the region can continue to maintain its fiscal strength, local revenue has a very important role as a source of government spending. With the increase in local revenue, regional dependence on external assistance will be reduced, development will run smoothly, and regional welfare will be realized.

Private Investment Does Not Moderate the Effect of Fiscal Decentralization on HDI

The results of data testing show that private investment is unable to moderate the relationship between fiscal decentralization and HDI in Bali Province from 2012 to 2021. The inability of private investment to moderate the effect of fiscal decentralization on the human development index is thought to be caused by the concentration of private investment made, where investment concentration is the target or target of the investment itself. Some investments made by the private sector, both domestic and foreign, are made by the upper middle class and aim for their own interests, so that the benefits are less felt by the middle and lower classes. In addition, this happens allegedly because the value of private investment realization is still fluctuating and private investment realized in Bali Province is still uneven. Private investment in Bali Province is only centered on adequate areas and areas that have mainstay tourist attractions such as Badung Regency, Gianyar Regency, and Denpasar City, while other districts will have difficulty in obtaining capital to grow a new economic turnover in their area. This shows that investments made by the private sector have not been able to support the fiscal decentralization efforts made by the government, due to the lack of alignment of the realization of investment objects and interests in investments made by private investors with those expected by the government. In addition, the unevenness of the areas targeted by private investors to invest has led to income inequality between regions in Bali Province. The government needs to better understand and approach private investors who want to invest in Bali Province so that the obstacles regarding private investment can be resolved, so that private investment can support the government in implementing regional autonomy in order to achieve the goal of improving people's welfare.

VI. CONCLUSIONS

The research found evidence that fiscal decentralization has a significant positive effect on the HDI of districts/cities in Bali province from 2012 to 2021. The level of fiscal decentralization achieved by each region should support an increase in HDI. Good financial independence allows local governments to manage revenue to increase and improve public services, which in turn improves the welfare of the population as measured by the achievement of HDI. The results of this research also found that private investment could not moderate the relationship between fiscal decentralization and HDI in regencies/cities in Bali province from 2012 to 2021. This situation may arise because the pattern of private investment in Bali has not been able to directly support the fiscal decentralization process implemented by the government. This situation is thought to occur because the investment objectives of private investors are not yet fully aligned with the government's human development goals.

VII. SUGGESTIONS

This research produces important information for local governments and related interested parties on how to maximize local revenue to increase the degree of fiscal decentralization. Local governments are expected to consider budget expenditure more carefully so that the results of local expenditure can benefit the community. To encourage the growth of private investment in each region, local governments must pay more attention to private investors. As well as structuring investment by providing one-island management to investments in Bali Province. This allows investment management in Bali Province to be better and more equitable. Private investors are expected to learn the potential that exists in each region of Bali Province so that they can invest evenly. This will allow private investors to earn a bigger profit as they will have more land to invest in rather than just in one place. To support the implementation of regional autonomy by the government, the general public is expected to actively participate.

The limitations of this research are that it uses a data range of 2012-2021 (ten years), in that year range the Covid-19 pandemic also occurred. This allows for imbalances in the data used in this research, considering that Bali Province as a tourism destination has felt the impact of the Covid-19 pandemic. This research was conducted in nine districts / cities in Bali Province and only focused on testing one independent variable, namely fiscal decentralization. Therefore, future researchers can conduct similar research, but with the addition of other independent variables, moderating variables or mediating variables that still have a correlation with HDI, using a longer span of years considering that HDI growth takes a short time, using data that within the research year span does not occur extraordinary events, and taking research objects outside the Bali Province area so that the results of this research can be compared with research results in other regions.

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