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The Effect of Government Expenditure on the Quality of Human Development in Districts/Cities in Southeast Sulawesi Province

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Abstract

This study aims to examine the effect of local government spending consisting of spending on the education, health, and economic sectors on the quality of human development in the regencies/cities of Southeast Sulawesi Province. The data used were panel data for the 2017-2021 period. Data were obtained from Statistics Indonesia for the Southeast Sulawesi Province and the Indonesian Ministry of Finance. The data were analyzed using panel data regression. The results of the study show that the variables of education and health spending have a positively significant effect on the quality of human development in the cities of Southeast Sulawesi Province. The economic expenditure variable had no significant effect on the quality of human development in the districts/cities of Southeast Sulawesi Province. The results also show that the elasticity of education and health spending on the formation of the quality of human development in Southeast Sulawesi Province is very low, indicating that local government spending has not optimally boosted the quality of human development.

Keywords: *Government Expenditure, Human Development, Quality.*

INTRODUCTION

Southeast Sulawesi is one of the provinces in Indonesia, which consists of 15 regencies and two cities or 17 districts/cities with a population of 2,624. 875 people according to the BPS 2020 data. With many districts/cities and the total population in Southeast Sulawesi Province, it can provide a picture of different human developments. To realize a better-quality regional economy, the local government uses the budget, which in this case is the Regional Revenue and Expenditure Budget (APBD), to finance the sectors that it wants to build to ensure economic growth in both the short and long-term. The quality of human resources is one aspect that is important for the government to ensure long-term economic growth (Muzanenhamo & Dlamini, 2022). In general, the quality of human development as measured by the Human Development Index (HDI) and its components in the district/city in Southeast Sulawesi Province increased very slowly. The Southeast Sulawesi HDI in 2012–2016 showed conditions below the national average (ranked 25th). In 2021, the HDI of Southeast Sulawesi ranks 17th out of the 35 provinces in Indonesia and is still below the national average (BPS, 2023).

One of the budget policies that can encourage the improvement of the quality of human resources is the optimization of spending on education, health, and economic activities. This is because these three components are directly related to HDI components, namely, education, health, and decent living conditions. In fact, district/city governments in Southeast Sulawesi Province have increased the allocation of education and health spending; however, the amount of spending in some areas is not accompanied by a high human development index.

Based on data from the Ministry of Finance (2023), the development of government spending on education in districts and cities in Southeast Sulawesi in 2017-2021, the top five districts/cities that have the highest education spending in a row are South Konawe, Kendari city, Muna, Konawe, and Kolaka. The top five for average health expenditure in 2017-2021 are Kolaka, Konawe, Muna, Kendari City, and South Konawe. The top five in the highest HDI ranking for the period according to the BPS (2022) are Kendari City, Baubau City, Kolaka Regency, Konawe Regency, and South Konawe Regency. On the other hand, improving the quality of human resources requires policies that encourage the community economy to be in decent living conditions. The policy allocates government spending to economic functions. Based on data from the Ministry of Finance (2023), economic function spending by city district governments in Southeast Sulawesi Province for the 2017-2021 period tends to increase. In 2021, the total economic function expenditure for all districts/cities in Southeast Sulawesi is around 2.2 trillion rupiah, with the highest share of Buton Regency at around 11 percent, followed by

Konawe Regency at 9.3 percent, as well as Kolaka, North Kolaka and Muna Regencies, each of which is around 7 percent. The lowest share of economic function spending is in Kendari City, at around 3 percent. The comparison between HDI and expenditure in the economic sector shows a diverse pattern. It can be seen that Kendari City, which has the lowest share of economic expenditure, actually has the highest HDI. Therefore, it is necessary to analyze whether there is an influence of economic expenditure on the quality of human development.

Several previous studies have examined the effect of local government spending on the quality of human development, such as the studies by Setiawan and Budiana (2015), Handayani and Woyanti (2021), Kreuta, Atmaja, and Riani (2022), and Tumbuan et al. (2023). However, these studies have focused on capital expenditure. Capital expenditure is the budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one year; thus, the impact is not in the short term. This study aims to reveal the effect of regional expenditure on the quality of human development, especially education, health, and economic expenditure. Estimating the effect of education and health expenditure is still relevant to studies based on the inconsistency of data on education expenditure and HDI in Southeast Sulawesi. However, previous findings also reveal that there is no consistency in the significance and direction of the relationship between education and health spending on the quality of human development. This is indicated by the findings of Mongan (2019) and Zulham, Seftarita, & Muliza (2017) which showed no significant effect of education spending on the quality of human development, which is different from the findings of Harjunadhi & Rahmawati (2020); Maryozi et al. (2022); and Maulidya (2021) which are in line with theoretical expectations. On the other hand, the studies of Alayda et al. (2022) Anshowsedryozi et al. (2022); Yasinta (2018) show that government spending on Fahmi'sa is significant. Fahmi (2018), however, showed a negative effect of health expenditure on HDI. This study is expected to contribute to the optimization of budget direction policies to improve the quality of human development in southeastern Sulawesi Province.

The quality of human development or can be equated with human capital has been introduced by several experts, including Becker 1964), who state that human capital includes education received at school, training, and health spending. Quantitatively, human capital was measured using the human development index (HDI). The components of the HDI are a long and healthy life, knowledge, and a decent life (BPS, 2017). To measure the health dimension, life expectancy at birth is used, while the knowledge dimension is measured by a combination of indicators of Expected Years of Schooling (HLS) and Average Years of Schooling (RLS). The decent living dimension is measured by the community's purchasing power for several basic needs, as seen from the average amount of expenditure per capita.

The quality of human resources affects economic development. Human resources are one of the factors of production that play an important role in economic output, where Y= f (L, K), L is labor, and K is capital. On the other hand, the importance of the quality of human resources in production is not only physical capital but also intellectual and social capital. The combination of physical, intellectual, and social capital generates innovation and creativity in production and encourages entrepreneurship in the workplace. Entrepreneurship is the main driver of the economy that creates economic growth through creative destruction (Schumpeter, 1947). Therefore, the formation of high-quality human resources is *mandatory* for an economic entity, both as a company and as a country.

For example, the formation of intellectual capital in corporate entities is achieved through education and training. State entities in the form of policies or allocation of state/regional expenditures. Government expenditures on goods and services are divided into consumption and investment expenditures. Government investment is government spending in the economic sector, including spending on building facilities and infrastructure such as roads, schools, hospitals, and irrigation, providing subsidies, scholarships, and assistance for victims of natural disasters; it is not classified as government spending on national products because the expenditure is to buy goods and services (Sukirno 2018). (Sukirno 2018).

To encourage quality human development, it is necessary to allocate government spending to indicators that form human capital. Based on the dimensions of human development from the Central Bureau of Statistics, the allocation of expenditure in question is government spending on education and health as well as government spending to increase per

capita income or government spending in the economic sector. Several studies have shown that local spending improves the quality of human development both directly and indirectly. Study Sutarno, Syarif, & Ernawati (2021) on 11 cities on Sulawesi Island for the period 2011-2017 using economic growth as intervening shows that economic growth has no significant effect on the quality of human development, it is regional spending that positively and significantly affects the quality of human development. The findings also show that economic growth cannot mediate the effect of regional spending on human development quality.

The relationship between public expenditure on education and the formation of human capital quality has been investigated previously. In a recent study by Tumbuan, Rorong, & Tumangkeng (2023) in the case of Manado City for the period 2011-2021 found that education expenditure had a positive and significant effect on HDI. This study is in line with Maryozi et al. (2022) for Riau Province from 2006 to 2019. This result corroborates previous findings, such as the results of Harjunadhi and Rahmawati (2020), Yasinta (2018), Arifin and Murjani (2017), Zulyanto (2016), and Desrindra, Murialti, and Anriva (2016). Based on this, we propose the following hypothesis:

Government expenditure in the education sector has a significant effect on the HDI of districts/cities in Southeast Sulawesi Province.

The relationship between public expenditure on health and human capital formation has been studied previously. Alayda, Sodik, & Nuryadin (2022) Alayda, Sodik, & Nuryadin (2022) study on 35 regencies/cities of Central Java Province in the 2011-2020 period found a positive effect of health expenditure on the human development index. This study is in line with the study of Maryozi et al. (2022) for Riau Province from 2006 to 2019. This result strengthens previous findings, such as those of Yasinta (2018), Arifin and Murjani (2017), Novitasari (2016), and Wowor (2015). Based on this, we propose the following hypothesis:

Government expenditure in the health sector has a significant effect on the HDI of districts/cities in Southeast Sulawesi Province.

The relationship between economic public expenditure and human capital formation has been studied previously with a particular focus on capital expenditure. Setiawan and Budiana (2015) for districts/cities in Bali Province for the period 2008-2013, found that capital expenditure had a significant effect on the quality of human development for districts/cities in for the other hand, economic growth mediated capital expenditure in encouraging the quality of human development. Furthermore, Handayani and Woyanti's (2021) findings on 35 regencies/cities in Central Java for the period 2011-2019 show that capital expenditure has a positive and significant effect on the human development index. Findings Tarumingkeng, Rumate, & Rotinsulu (2019) also justify these findings that the higher the local government capital expenditure, the higher the Human Development Index. Several other studies have investigated the effect of capital expenditure and justified these findings, including Kreuta, Atmaja, & Riani (2022); Umiyati, Amril, & Zulfanetti (2017); Ariza (2016); Taufick (2016) and Tumbuan et al. 2023). Based on this, we propose the following hypothesis:

Government spending on the economic sector has a significant effect on the HDI of districts/cities in Southeast Sulawesi Province

METHODS

The type of data used in this study is secondary data obtained from the Directorate General of Fiscal Balance of the Ministry of Finance and the Central Statistics Agency (BPS) for the analysis period 2017-2021 for all districts and cities in Southeast Sulawesi Province. To determine the effect of education, health, and economic spending on the quality of human development of districts/cities in Southeast Sulawesi Province, a panel data regression method was used. Panel data are a combination of cross-sectional and time series data. Equation (1) presents the panel data regression model.

$$Y_{it1} = \alpha + \beta X_{11\,it} + \beta X_{22\,it} + \beta X_{33\,it} + \mu_1 \quad \text{.....(1)}$$

$$Y_{it2} = \alpha + \beta_{01} LogX_{1\,it} + \beta_2 LogX_{2\,it} + \beta_3 LogX_{3\,it} + \mu_2 \quad \text{.... …(2)}$$

Description:

Y = Human Development Quality (HDI Index)
X_1 = Education Expenditure
X_2 = Health Expenditure
X_3 = Economic Spending
α = Intercept/constant
β_1 , β_2 , β_3 = estimated coefficients
μ = error term
i = *i-th* district/city
t = *tth* period

Panel data testing is carried out in several stages, namely, model testing and hypothesis testing. In model testing, the Chow, Hausman, and LM tests were used. The Chow test aims to test or choose the best model between the *common effect* and *fixed effect* models. If the probability value of F and Chi-square > $\alpha = 0.05$ in the Chow test results, then H_0 is accepted and the data panel regression test uses the *common effect* model; if the probability value of F and Chi-square < $\alpha = 0.05$, then H_0 is rejected, and the data panel regression test uses the *fixed effect* model. If the fixed effects model is selected based on the Chow test, the Hausman test is conducted to determine the best model between the *fixed effects* and *random effects models*. If the probability F and Chi-square values are >0.05, in the Hausman test results, then the panel data regression test uses a *random-effects* model. However, if the probability F and Chi-square value < $\alpha = 0.05$, then the panel data regression test uses the *fixed effect* model. The Lagrange multiplier (LM) test was conducted to determine which model was the most appropriate between the *common effect* and *random effect models*. This test was used if a common effect was selected at the Chow test stage. If LM <*chi-square,* the *common effect* model was used.

The F significance test was used to simultaneously prove that all independent variables affect the dependent variable at a significance level of 0.05. If the probability is <0.05, then the independent variable simultaneously has a significant effect on the dependent variable. On the other hand, a t-test was used to determine whether each independent variable partially had a significant effect on the dependent variable. To examine the effect of independent variables on the dependent individual, a significance level of 0.05. Data processing was performed using Eviews 10.

RESULTS AND DISCUSSION

Description of Research Variables

The human development index of districts/cities in Southeast Sulawesi Province is presented in Figure 1. Figure 1 shows that from 2017 to 2021, there has been an increase in the HDI of each district/city in Southeast Sulawesi Province over the last five years. The four regions that have a higher human development index than the HDI of Southeast Sulawesi Province are Kendari City, Bau-bau City, Kolaka Regency, and Konawe Regency. Meanwhile, the top three regions that have the lowest human development index are the Central Buton Regency, South Buton Regency, and West Muna Regency.

Based on an international scale, HDI achievements can be categorized as high (HDI above 80), upper-middle (HDI between 70 and 79), lower-middle (HDI between 60 -70), and low (HDI below 60). Based on these criteria, the regency/city area of Southeast Sulawesi Province in 2021 is an area with a medium-high HDI category. The regions with the lowest HDI achievement in Southeast Sulawesi Province from 2017 to 2021 were the West Muna Regency, South Buton Regency, and North Buton Regency. This is due to the lowest literacy rate, average number of years of schooling, and life expectancy compared to other districts in Southeast Sulawesi Province.

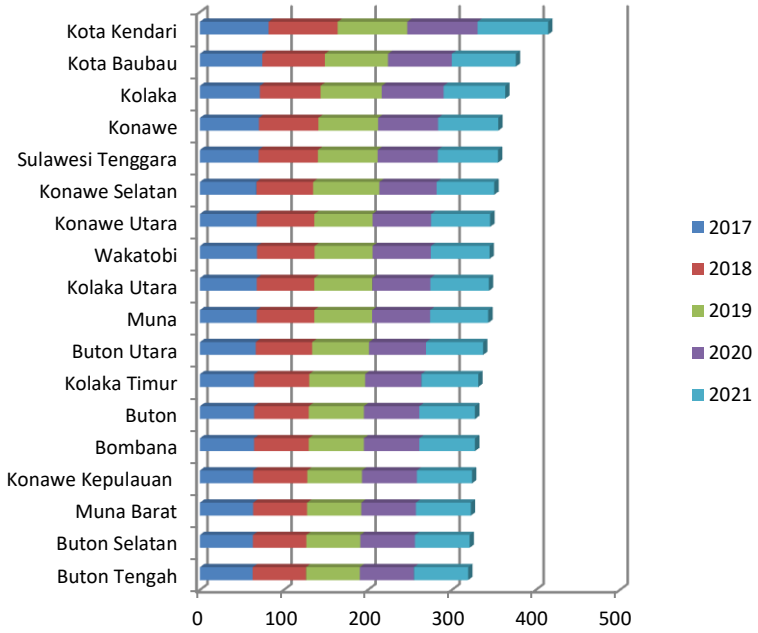

Figure 1. Human Development Index of Regency/City of Southeast Sulawesi Province in 2017-2021
Source: (BPS, 2022), processed

The education, health, and economic sectors are variables that influence the quality of human development. The data in Figure 2 show that expenditure on education in districts/cities in Southeast Sulawesi Province tends to fluctuate, although it is relatively volatile and shows an increasing trend. The region with the lowest health expenditure allocation in Southeast Sulawesi Province is the Konawe Islands Regency, followed by the South Buton and North Buton Regencies. Meanwhile, the region with the highest education expenditure is the South Konawe Regency, followed by Kendari City and Muna Regency.

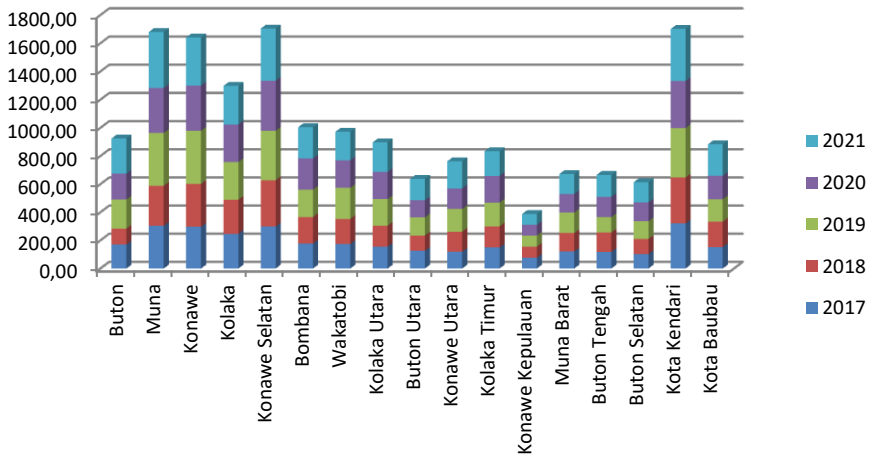

Figure 2. Regency/City Education Expenditure of Southeast Sulawesi Province in 2017-2021 (billion rupiah)
Source: Ministry of Finance (2023) processed

However, health is an important need and, at the same time, an investment in the development of human resources so that they can be healthy and live productively. The health sector, along with the education sector, is one of the main priority sectors of development in Southeast Sulawesi Province. In the 2018-2023 Regional Medium-Term Development Plan (RPJMD) document, these two sectors constitute the main agenda of the five regional development agendas. To support this main program, the government of

Southeast Sulawesi Province since 2018 has launched a free health program through the Sultra Sehat card with the hope that the program will at least have an impact on reducing public spending for the benefit of health payments, which has been very burdensome for the community, especially the weak economic class.

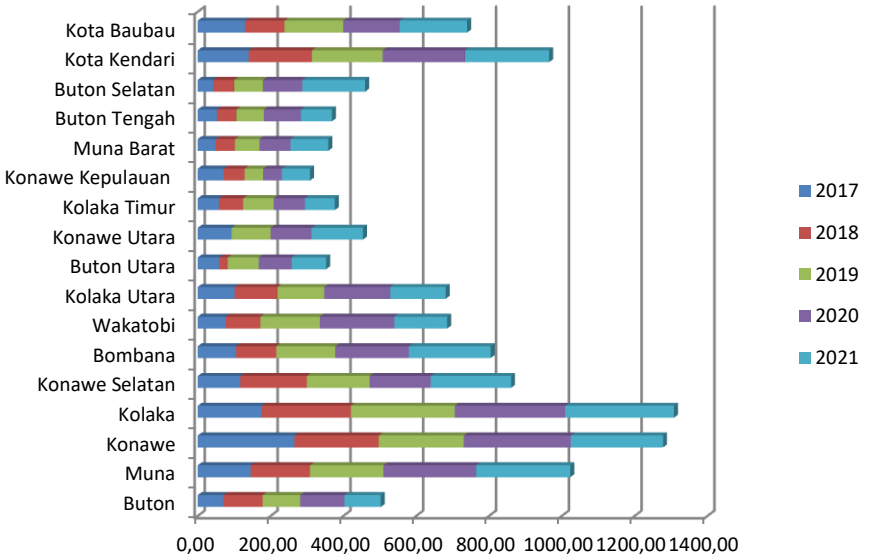

Figure 3. District/City Health Expenditure of Southeast Sulawesi Province 2017-2021 (billion rupiahs)
Source: Ministry of Finance (2023) processed

Figure 3 shows that the three regions with the highest average expenditure on health in Southeast Sulawesi Province from 2017 to 2021 are Kendari, Kolaka, and Muna districts, while the three regions with the lowest average expenditure on health in Southeast Sulawesi Province from 2017 to 2021 are the Konawe Islands, East Kolaka, and Central Buton districts.

To accelerate regional economic development, the role of the government can be assessed through the allocation of funds collected by the local government for various regional expenditures contained in the Regional Revenue and Expenditure Budget (APBD) document. This instrument is important for improving the community's economy. Figure 4 presents regional Regency/City expenditures in Southeast Sulawesi Province in the economic sector from 2017 to 2021. Figure 4 shows that spending in the economic sector fluctuates, but tends to increase from 2017 to 2021.

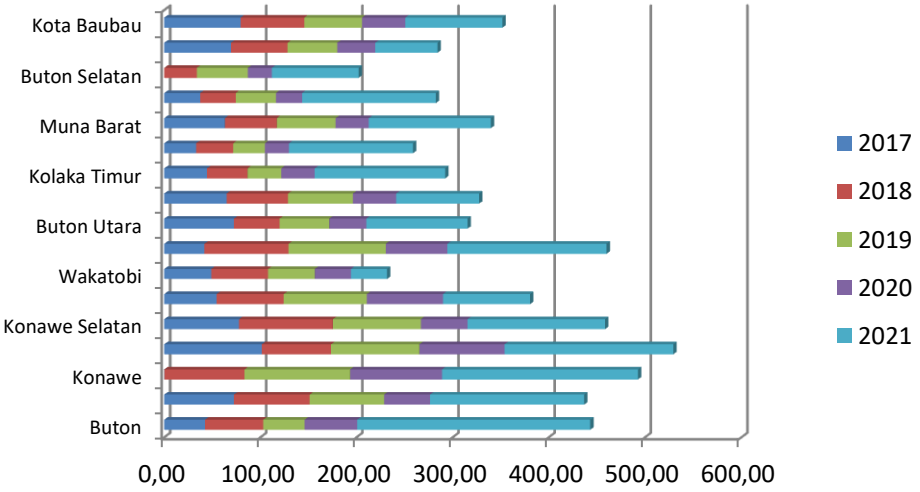

Figure 4. Economic Expenditure of Regency/City in Southeast Sulawesi Province 2017-2021 (billion rupiah)
Source: Ministry of Finance (2023) processed

Regional expenditure in the economic sector has increased every year in the regency/city of Southeast Sulawesi Province. The regions with the highest average expenditure in the economic sector from 2017 to 2021 are Buton Regency, Konawe Regency and Kolaka Regency. The regions with the lowest average expenditures in the economic sector from 2017 to 2021 were Wakatobi Regency, Kendari City, and Konawe Regency.

Estimation Results of the Effect of Government Expenditure on the Quality of Human Development

Table 1 shows the results of testing the model between the *common and fixed effects* through the Chow test with the probability that the cross-section F is 0.0000, indicating that the probability value is smaller than 0.05; thus, H_0 is rejected and H_a is accepted. Thus, it can be concluded that the *fixed effect* model is more appropriate for use.

Table 1. Chow Test Results

Effects Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	38,5807	(16,65)	0,0000
Cross-section Chi-square	199,8409	16	0,0000

Source: Data Processing Results, 2023

Table 2 presents the Hausman test to determine the best model for whether to follow the *fixed-* or *random-effect* assumption. Based on Table 2, the Hausman test results obtained from the *chi-square* probability of 0.5731 show that the number is greater than 0.05, so H_0 is accepted and H_a is rejected. Therefore, it can be concluded that the *random effects* model is more appropriate to use, so this model is then used to test the research hypothesis.

Table 2. Hausman Test Results

Test Summary		*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Cross-section random		1,9969	3	0,5731
Cross-section random effects test comparisons:				
Variable	*Fixed*	*Random*	*Var(Diff.)*	*Prob.*
X_1	0,0388	0,0479	0,0001	0,3016
X_2	0,0184	0,0189	0,0000	0,6768
X_3	0,0006	0,0003	0,0000	0,3244

Source: Data Processing Results, 2023

The individual significance test (t-test) was used to determine the significance of the effect of the independent variables on the dependent variable. The results of the estimation of the effect of government spending on the quality of human development in Southeast Sulawesi Province using the *random-effects* model are presented in Table 3.

Table 3. Results of the t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2,4945	0,3947	6,3185	0,0000
X_1	0,0480	0,0183	2,6223	0,0104
X_2	0,0189	0,0085	2,2125	0,0298
X_3	0,0003	0,0020	0,1393	0,8895

Source: Data Processing Results, 2023

The t-test results for the education sector expenditure variable have a probability of 0.0104, which means <0.05; therefore, it can be said that the education sector expenditure variable (X_1) has a (significant) influence on HDI. The t-test result on the health sector expenditure variable has a probability of 0.0298, which means <0.05; therefore, it can be said that health sector expenditure (X_2) has a (significant) influence on HDI. The t-test results for the economic sector expenditure variable have a probability of 0.8895, which means > 0.05, so it can be said that the economic sector expenditure variable (X_3) has no significant effect on HDI. The regression coefficients can be interpreted as follows:

1. The coefficient value of X_1 is 0.0480, which means that every 1 percent change in X1 can result in a change in Y of 0.0480 points.
2. The coefficient value of X_2 is 0.0189, which means that every 1 percent change in X2 can result in a change in Y of 0.0189 points.
3. The coefficient value of X_3 is 0.0003, which means that every 1 percent change in X_3 can result in a change in Y of 0.0003 points. Alternatively, government spending in the economic sector has no impact on human development quality.

The coefficient value of each independent variable shows that the elasticity of the HDI changes due to changes in government spending is inelastic and very low. This implies that although government expenditure on education and health affects the formation of HDI in districts/cities in Southeast Sulawesi Province, the impact is still very low. The type of government expenditure that has the highest impact estimated in this study is the education expenditure variable, with a coefficient of 0.0480, while health expenditure is 0.0189.

Based on the estimation results, the F-statistic value was 58,259, with a probability of 0.000. As the probability is below 0.05, it can be concluded that the

three variables of education spending (X_1), health spending (X_2), and economic spending (X_3) simultaneously affect the dependent variable HDI (Y). Table 4 presents the *cross-sectional random effects for each* district or city in Southeast Sulawesi Province. Based on Table 4, the individual equation models of districts/municipalities in Southeast Sulawesi Province were prepared as presented in equations (4)–(20).

$$Y = 2.4945 + 0.0480X_{1it} + 0.0189X_{2it} + 0.0003X_{3it} \quad (3)$$
$$Y_{Buton} = 2.4530 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (4)$$
$$Y_{Muna} = 2.4576 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (5)$$
$$Y_{Konawe} = 2.4875 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (6)$$
$$Y_{Kolaka} = 2.5209 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (7)$$
$$Y_{Konawe\ Selatan} = 2.4782 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (8)$$
$$Y_{Bombana} = 2.4404 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (9)$$
$$Y_{Wakatobi} = 2.4959 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (10)$$
$$Y_{Kolaka\ Utara} = 2.4965 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (11)$$
$$Y_{Buton\ North} = 2.5069 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (12)$$
$$Y_{Konawe\ Utara} = 2.5123 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (13)$$
$$Y_{Kolaka\ East} = 2.4741 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (14)$$
$$Y_{Konawe\ Islands} = 2.4918 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (15)$$
$$Y_{Muna\ West} = 2.4593 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (16)$$
$$Y_{Buton\ Central} = 2.4494 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (17)$$
$$Y_{South\ Baton} = 2.4562 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (18)$$
$$Y_{Kota\ Kendari} = 2.6424 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (19)$$
$$Y_{Kota\ Baubau} = 2.5842 + 0.0480X_1 + 0.0189X_2 + 0.0003X_3 \quad (20)$$

Equations (4) to (20) show that the highest individual regression equation cut-off point is experienced by Kendari City, then Baubau City, Kolaka Regency, North Konawe, North Buton, North Kolaka and Wakatobi, respectively. The other 10 districts *are* in the next position and even have negative *cross-sectional random effects* values.

Table 4. Cross-section Random Effects

No.	District	Constant	CROSSID Effect	Individual Cut Point
1	Buton	2,4945	-0,0406	2,4530
2	Muna		-0,0369	2,4576
3	Konawe		-0,0070	2,4875
4	Kolaka		0,0264	2,5209
5	South Konawe		-0,0163	2,4782
6	Bombana		-0,0541	2,4404
7	Wakatobi		0,0014	2,4959
8	North Kolaka		0,0020	2,4965
9	North Buton		0,0124	2,5069
10	North Konawe		0,0178	2,5123
11	East Kolaka		-0,0204	2,4741
12	Konawe Islands		-0,0027	2,4918
13	West Muna		-0,0352	2,4593
14	Central Buton		-0,0451	2,4494
15	South Buton		-0,0383	2,4562
16	Kendari City		0,1479	2,6424
17	Baubau City		0,0888	2,5842

CONCLUSION

The education expenditure variable has a significant positive effect on HDI in Southeast Sulawesi Province. The health expenditure variable has a significant positive effect on the HDI in Southeast Sulawesi Province. Thus, this study shows that one strategy to improve the quality of human development in Southeast Sulawesi Province is to increase education and health spending. Economic expenditure variables had no significant effect on the HDI in Southeast Sulawesi Province. The allocation of regional expenditure in the economic sector is greater for capital expenditure on goods and services than for the proportion of expenditure on activities that have a direct impact on increasing HDI, causing a lag in the effect on HDI in Southeast Sulawesi. However, the elasticity value of education and health spending on the quality of human development is still very low, so an optimal strategy is needed to allocate education and health spending to have a direct impact on the quality of human resources. This study recommends policies in the form of economic expenditure that contribute to public income, as well as strengthening education and health expenditure on key indicators in the formation of quality human resources in education and health.

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