

**THE EFFECT OF FISCAL TRANSFER ON HUMAN
DEVELOPMENT INDEX: EVIDENCE FROM SUMATRA AND
KALIMANTAN ISLAND**



THESIS PROPOSAL

**SUBMITTED TO THE FACULTY OF ISLAMIC ECONOMICS AND
BUSINESS OF THE STATE ISLAMIC UNIVERSITY OF SUNAN
KALIJAGA YOGYAKARTA AS ONE OF THE REQUIREMENTS FOR
OBTAINING A BECHELOR'S DEGREE IN SHARIAH ECONOMICS**

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2026

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YOGYAKARTA**

2026

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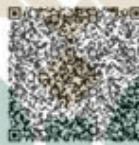
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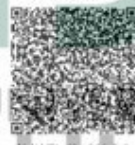


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THESIS APPROVAL LETTER

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Dear Dean of the Faculty of Islamic Economics and Business

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In Yogyakarta

Assalamualaikum wr.wb.

After reading, researching, providing clues and correcting and making corrections as necessary, I as a supervisor am of the opinion that your thesis:

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Evidence from Sumatra and Kalimantan Island

It can be submitted to the Faculty of Islamic Economics and Business, Department Sharia Economics Study Program, UIN Sunan Kalijaga Yogyakarta as one of the requirements to obtain a Bachelor of Science degree in the field of Islamic Economics.

With this, I hope that the thesis mentioned above can be submitted soon. I thank you for your attention.

Yogyakarta, 27 Februari 2026

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I declare truthfully, that my thesis entitled: "The Effect of Fiscal Transfer on Human Development Index: Evidence from Sumatra and Kalimantan Island" is a personal work and as far the author's knowledge does not contain material published or written by others, except for certain parts that the author takes as a reference.

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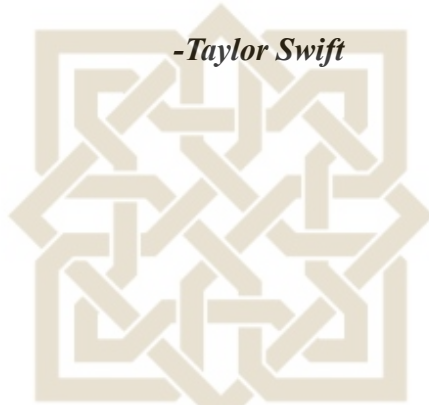
MOTTO

“Allah does not burden a person beyond their capacity”

(QS. Al-Baqarah: 286)

“Long Story Short, I Survived”

-Taylor Swift



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My first love and gateway to heaven, Abi and Umi. Thank you for your unending prayers and support. You have given me love, affection, prayers, and sacrifices that have accompanied my every step in completing my education. Thank you for guiding me to this point. Thank you for fighting for me, raising me, and educating me until I earned my bachelor's degree. May Allah SWT always protect you until you see me succeed with my own decisions. Long life.



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Yogyakarta, 27 February 2026

The author,



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ABSTRACT

The purpose of this study is to examine how the Human Development Index (HDI) is affected in provinces on the islands of Sumatra and Kalimantan between 2016 and 2024 by General Allocation Funds (GAF), Special Allocation Funds (SAF), with control variables such as average length of schooling, life expectancy, and Gross Regional Domestic Product (GRDP) per capita. Panel data regression with a Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM) approach were employed in this work to identify the optimal model. To determine the relevance of each variable's influence, statistical tests and model selection tests are added to the testing. The findings show that not all variables significantly improve HDI. The HDI is positively influenced by the General Allocation Fund, demonstrating how general fiscal transfers contribute to regional human development standards. Special Allocation Funds show a negative impact, suggesting that regional management capabilities have a significant impact on the effectiveness of allocation-based funds. HDI is positively and significantly influenced by the control variables of life expectancy and average length of education, indicating that health and education are important factors in determining progress in human development quality. In addition, improvements in regional economic capacity are associated with improvements in community welfare, as GRDP per capita has a positive impact on HDI. These findings indicate that fiscal transfers and human capital quality play an important role in promoting human development in Sumatra and Kalimantan.

Keywords: Human Development Index, General Allocation Fund, Special Allocation Fund, Fiscal Decentralization, Panel Data

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ABSTRAK

Tujuan penelitian ini adalah untuk menganalisis bagaimana Indeks Pembangunan Manusia (IPM) terpengaruh di provinsi-provinsi di pulau Sumatra dan Kalimantan antara tahun 2016 dan 2024 oleh Dana Alokasi Umum (DAU), Dana Alokasi Khusus (DAK), dengan variabel kontrol seperti rata-rata lama sekolah, harapan hidup, dan Produk Domestik Regional Bruto (PDRB) per kapita. Regresi data panel dengan pendekatan Model Efek Bersama, Model Efek Tetap, dan Model Efek Acak digunakan dalam penelitian ini untuk mengidentifikasi model optimal. Uji statistik dan uji seleksi model ditambahkan ke dalam pengujian untuk menentukan relevansi pengaruh masing-masing variabel. Hasil penelitian menunjukkan bahwa tidak semua variabel secara signifikan meningkatkan Indeks Pembangunan Manusia (IPM). IPM dipengaruhi secara positif oleh Dana Alokasi Umum, menunjukkan bagaimana transfer fiskal umum berkontribusi pada standar pembangunan manusia regional. Dana Alokasi Khusus menunjukkan dampak negatif, menyarankan bahwa kemampuan manajemen regional memiliki dampak signifikan pada efektivitas dana berbasis alokasi. IPM dipengaruhi secara positif dan signifikan oleh variabel kontrol harapan hidup dan rata-rata lama pendidikan, menunjukkan bahwa kesehatan dan pendidikan merupakan faktor penting dalam menentukan kemajuan kualitas pembangunan manusia. Selain itu, peningkatan kapasitas ekonomi regional terkait dengan peningkatan kesejahteraan masyarakat, karena Produk Domestik Regional Bruto (PDRB) per kapita memiliki dampak positif terhadap HDI. Temuan ini menunjukkan bahwa transfer fiskal dan kualitas modal manusia memainkan peran penting dalam mempromosikan pembangunan manusia di Sumatra dan Kalimantan.

Kata kunci: Indeks Pembangunan Manusia, Dana Alokasi Umum, Dana Alokasi Khusus, Desentralisasi Fiskal, Data Panel

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CHAPTER I

INTRODUCTION

A. Background

Developments prior to the 1970s were generally considered to be purely economic phenomena. Other issues such as unemployment, poverty, and unequal income distribution were often overlooked (Pradiko, 2018). Therefore, in the 1970s, economists began to revisit these issues. This was based on the fact that many countries were able to achieve high economic growth, but the living standards of the majority of their populations failed to improve (Todaro & Smith, 2006). As stated in the preamble to the 1945 Constitution of the Republic of Indonesia, the goal of the state is “to improve the general welfare and educate the nation.” To achieve the goals set out in the Constitution, a process called development is necessary. Development is a process of change to achieve a better life that occurs in a sustainable manner. The changes that occur cover various aspects, including economic, social, cultural, environmental, and political aspects (BPS, 2024).

Therefore, development is a multidimensional process. One of the important assets for more advanced development is human capital, where humans become both the object and subject of development goals (Riviando et al., 2019). In Islamic economics, the concept of development also pays special attention to a country's human resources. Development in Islam aims to improve the welfare of its people (Shaikh, 2014). According to Ginting in Setyowati and Suparwati (2012), the strength of human resources is a top priority in development resources. Therefore, efforts to improve human resources must continue. One such effort is to improve

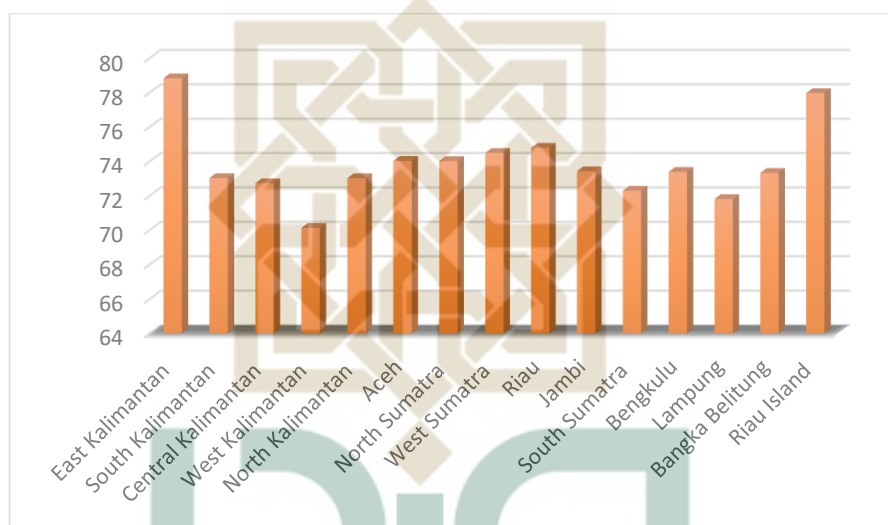
the basic quality of human resources (Riviando et al., 2019). Based on data from the Central Statistics Agency, in 2024 Indonesia's population is estimated to reach 281.60 million. The provinces of Kalimantan and Sumatra have a total population of 78.01 million, with each island inhabited by 17.564 million and 61.515 million people, respectively.

With this demographic bonus, local governments must optimize human development. One method that can be used to calculate the success rate of a country or region in the field of human development is HDI (Raviyanti et al., 2017). The year 1990 was the first time the HDI was introduced by the United Nations Development Program (UNDP). According to the UNDP, the HDI measures human development achievements through three basic components that serve as HDI indicators, namely knowledge, longevity and healthy living, and standard of living (BPS, 2024). This means that the HDI can be viewed from three main factors, namely education, health, and economy. These three elements influence each other and cannot stand alone (Nurdiawansyah, 2019).

The Human Development Index (HDI) in Indonesia, particularly in Kalimantan and Sumatra, has increased over the past six years. Based on data from the Central Statistics Agency in 2023, the HDI in West Kalimantan, East Kalimantan, South Sumatra, and Lampung are among the ten provinces in Indonesia with the fastest HDI growth, with the HDI figures for each province at 70.47; 78.2; 73.18; and 72.48 with West Kalimantan ranking fourth out of ten provinces with the fastest HDI growth in 2023. However, despite the relatively high HDI, this has not been able to overcome existing social problems such as poverty

and unemployment. In 2023, the number of poor people in Sumatra ranked second after Java, with 5.669 million poor people in Sumatra. Meanwhile, in terms of unemployment, Sumatra and Kalimantan ranked second and third nationally, with open unemployment rates of 4.97% and 4.55%, respectively.

Figure 1.1 Human Development Index (HDI) Graph Kalimantan & Sumatra Provinces



Source: Indonesian Statistics Agency (data processed)

The islands of Sumatra and Kalimantan are two large regions outside of Java that are rich in natural resources but show different HDI achievements. This phenomenon of inequality can be seen at graph above. Based on Figure 1.1, most provinces on these two islands are classified as having high human growth ($70 \leq \text{HDI} < 80$), according to data from the Central Statistics Agency. HDI achievement levels in various provinces still vary in 2024. Provinces such as East Kalimantan and Riau Islands show relatively high HDI performance, with HDI values of 78.83 and 77.97, respectively, which are the highest among the listed provinces. On the other hand, several provinces, including West Kalimantan (70.13), Lampung

(71.81), and South Sumatra (72.30), recorded relatively lower HDI scores, indicating lower human development outcomes compared to the best-performing provinces. The relatively large differences in the HDI indicate that provinces on the islands of Kalimantan and Sumatra have relatively high human development gaps.

The issue of equitable and balanced development is closely related to fiscal decentralization. Fiscal decentralization is the process of transferring local revenue sources from the central government to the regions, which can be explored and utilized independently in accordance with the potential of each region (Manek & Badrudin, 2016). Through Law Number 1 of 2022, there are sources of funding that can be used to address inequality issues, namely the General Allocation Fund (GAF), Special Allocation Fund (SAF), Revenue Sharing Fund (RSF), and other legal revenues (Azizi, 2018). These funds are intended to reduce the level of fiscal inequality between regions (Saswatata & Parju, 2022).

Ranis (2004) argues that higher economic growth leads to greater state revenue. This enhanced revenue allows the government to boost expenditures on education and health services for the populace, ultimately resulting in better quality of life. Nevertheless, data from the Central Statistics Agency indicates that economic growth in Sumatra and Kalimantan fluctuated between 2016 and 2024. Specifically, in 2020, growth rates dropped to -1.25% in Sumatra and -1.80% in Kalimantan. Consequently, local governments are urged to foster economic development through efficient resource management to stimulate growth. This highlights that factors beyond economic growth influence the efficiency of human development, including the way regional authorities handle funds transferred from

the central government (Yusuf & Afendi, 2020). Many individuals hold the view that the efficacy of these central-to-regional fund transfers is a primary driver of disparities in human development across different areas.

The primary fiscal transfers examined in this study are the General Allocation Fund (GAF) and the Special Allocation Fund (SAF). In theory, these funds are designed to promote balanced development. The GAF aims to facilitate decentralization and address the fundamental requirements of regions, whereas the SAF is allocated for initiatives of national significance, including education, health, and essential infrastructure (Soraya & Qibthiyah, 2021).

Table 1.1 Transfer Fiscal of Kalimantan and Sumatra 2024

Transfer Fiscal of Kalimantan and Sumatra 2024		
Provinces	GAF (Thousand Rupiah)	SAF (Thousand Rupiah)
East Kalimantan	1,009,520,000	740,040,000
South Kalimantan	1,218,430,000	693,420,000
Central Kalimantan	1,562,000,000	628,600,000
West Kalimantan	1,782,470,000	846,580,000
North Kalimantan	1,153,990,000	242,530,000
Aceh	2,186,890,000	1,180,020,000
North Sumatra	2,876,290,000	2,174,780,000
West Sumatra	2,061,360,000	1,139,090,000
Riau	1,584,770,000	1,049,810,000
Jambi	1,381,590,000	663,160,000
South Sumatra	1,740,470,000	1,182,420,000
Bengkulu	1,299,700,000	573,550,000
Lampung	1,968,700,000	1,132,360,000
Bangka Belitung	1,008,690,000	272,770,000
Riau Island	1,177,920,000	469,430,000

Source: DJPK 2024

In reality, there hasn't been a consistent correlation between improvements in HDI and fiscal transfers. Based on data from the Directorate General of Fiscal Balance, as indicated in table 1.1, there are notable variations in the amount of funds allocated to each province. For instance, in 2024, East Kalimantan only received about Rp1.009 trillion for GAF and Rp740 billion for SAF, whereas North Sumatra received GAF of 2.8 trillion and SAF of 2.1 trillion. It's interesting to note that East Kalimantan had a higher HDI than North Sumatra. On the other hand, West Kalimantan and Lampung, two provinces with higher fiscal transfer allocations, have comparatively lower HDI. This condition demonstrates that an increase in transfer funds does not always lead to a notable rise in HDI.

The effectiveness of fund utilization often outweighs the sheer volume of money received. Several elements, such as regional fiscal capabilities, the efficiency of budget absorption, and the quality of governance, can determine the effectiveness of HDI enhancements (Busra et al., 2024). Therefore, it is essential to investigate how fiscal transfer systems contribute to human development in regions with diverse social and economic characteristics. Beyond the core variables of GAF and SAF, human development indices are shaped by multiple additional factors. The control variables for HDI, encompassing life expectancy, mean years of schooling, and per capita GRDP, directly affect the community's economic well-being, health status, and educational opportunities. While higher life expectancy reflects improved health and nutritional services, a rise in average schooling duration signifies enhanced educational access. Per capita GDP mirrors the community's capacity to afford essential goods (Erlyn et al., 2022).

Research by Kamarni et al. (2022) demonstrates that GAF and SAF exert a substantial positive influence on HDI. Aligning with this, Riviando et al. (2019) similarly concluded that both GAF and SAF have a notable positive effect on HDI. Conversely, findings from Tandiboyong & Prasasyaningsih (2024) indicate that GAF and SAF do not significantly impact HDI. Furthermore, Sembiring (2020) reported that GAF and SAF have a consider negative effect on HDI. Syafira et al. (2024) noted that life expectancy and average years of schooling have a positive influence on the HDI. In agreement, Manurung & Hutabarat (2021) also found that mean years of schooling exert a significant positive impact on HDI.

Kalimantan and Sumatra were chosen as the focus of this study due to their vital role in supporting the national economy through the natural resource sector. Despite their wealth in oil, gas, plantations, and agriculture, the human development situation in each province shows stark disparities. For example, in Kalimantan, several provinces rely heavily on primary and extractive industries. Mining contributes 53.24% to East Kalimantan's GRDP, while in North Kalimantan, the mining and agricultural sectors contribute 36.42% and 14.06%, respectively. Meanwhile, government services, education, and health remain supporting sectors. Other provinces, such as West Kalimantan and Central Kalimantan, also rely on agriculture, forestry, and fisheries, contributing 21.1% and 20.47%, respectively (DJPK, 2023). A similar pattern is evident in Sumatra. Central Statistics Indonesia data shows that the majority of provinces on this island rely on the manufacturing, mining, and agricultural industries. In North Sumatra, the agriculture, forestry, and fisheries sector continued to contribute more than 23% to the GRDP in 2023,

followed by manufacturing and trade. Meanwhile, in South Sumatra, mining which is primarily driven by coal and lignite production dominated the economy, with its contribution increasing from 20.33% in 2019 to 26.61% in 2023. Provinces like Riau also boasted a strong industrial profile, with the manufacturing industry contributing 27.55% and agriculture 26.30% to the GRDP in 2023, reflecting the importance of plantation commodities such as palm oil and rubber (BPS, 2024).

Overall, this economic structure illustrates that while Sumatra and Kalimantan are major producers of natural resource-based economic output, they face significant regional development disparities. This contrast between strong economic potential and development inequality makes these two regions worthy of further study. Based on these conditions, the author is interested in examining the extent to which the General Allocation Fund (GAF) and Special Allocation Fund (SAF) are able to encourage increased human development achievements in these provinces.

The connection between fiscal decentralization and human development can be examined through Oates's Theory of Fiscal Decentralization (1972). This theory assumes that local governments have a better understanding of the needs of their citizens than the central government (Oates, 2006). Based on this thinking, the transfer of authority and resources to the regions is expected to improve public welfare and the quality of public services. However, this theory assumes that all regions have relatively equal capacity to manage public finances, when in reality there are striking differences in institutional capacity and regional financial governance (Langorgen, 2012). This research also draws on Amartya Sen's (1999)

theory of human development, which views development as a process of expanding people's capacity to live meaningful lives (Shija Kuhumba, 2017). From this perspective, fund transfers such as the General Allocation Fund (GAF) and Special Allocation Fund (SAF) can be viewed as instruments to increase community capacity to access basic services such as health, education, and the economy. However, this capacity building will not materialize if the funds are not managed properly.

On the other hand, from the perspective of Maqashid Syariah As-Syatibi, the achievement of human development is closely related to the protection of the five basic objectives of sharia (*ad-dharuriyyat al-khams*), namely religion, life, intellect, descendants, and property (Azis et al., 2024). This study assumes that an increase in the HDI reflects efforts to protect the wealth (*hifzh al-mal*), intellect (*hifzh al-'aql*), and soul (*hifzh al-nafs*) of society through fair and effective fiscal policies. Thus, the success of fiscal transfers is measured not only by economic growth, but also by the extent to which these policies are able to achieve equitable and sustainable prosperity.

In practice, this research is important because it can help assess how well the central government's fiscal transfer policies are working, particularly when it comes to raising the standard of human development. Additionally, by addressing a gap in earlier research that produced conflicting findings about the influence of GAF and SAF on enhancing human development, this study is anticipated to make an academic contribution. Additionally, there are empirical discrepancies regarding the efficacy of the General Allocation Fund and Special Allocation Fund in raising

the standard of human development, as evidenced by the disparities between the findings of studies carried out in Papua, Java, and Riau. As a result, this study is distinct in two key ways: first, it compares the economic and social features of two large islands, Kalimantan and Sumatra; second, it covers the post pandemic economic recovery period (2016-2024), so an updated context is anticipated.

Using the Human Development Index (HDI) as the dependent variable and the General Allocation Fund (GAF) and Special Allocation Fund (SAF) as the independent variables, this case study will be carried out between 2016 and 2024. Control variables include GDP per capita, life expectancy, and the average length of education. There are still disparities in the accomplishments of the Sumatra and Kalimantan provinces, despite the government's dedication to raising the standard of human development through fiscal transfers. As a result, the author believes it is essential to look into how much this fiscal policy has improved the welfare of the populace in these two areas. This justification inspires the author to do this research with the title **“The Impact of Fiscal Transfers on the Human Development Index: Evidence from Sumatra and Kalimantan Island.”**

B. Research Formulation

Based on the background described above, several questions can be formulated as follows:

1. How does the General Allocation Fund affect the Human Development Index (HDI)?
2. How does the Special Allocation Fund affect the Human Development Index (HDI)?

3. How does the average length of schooling as a control variable affect the Human Development Index (HDI)?
4. How does life expectancy as a control variable affect the Human Development Index (HDI)?
5. How does GRDP as a control variable affect the Human Development Index (HDI)?

C. Research Objectives

Based on the background and problem formulation described above, this study has several objectives, as follows:

1. To determine the effect of General Allocation Funds (GAF) on the Human Development Index (HDI)
2. To determine the effect of Special Allocation Funds (SAF) on the Human Development Index (HDI)
3. To determine the effect of average length of education as a control variable on the Human Development Index (HDI)
4. To determine the effect of Life Expectancy as a control variable on the Human Development Index (HDI).
5. To determine the effect of GDRP per capita as a control variable on the Human Development Index (HDI).

D. Writing Systematics

This paper is organized into five chapters, each with a different purpose and content, but all interrelated. The sequence of the discussion in this research is as follows:

CHAPTER I presents the author's introduction to this research, which includes the background for the selection of the research title, the formulation of the problem based on this background, the research objectives formulated in accordance with the issues raised, the benefits of the research explained based on the groups that can benefit from this research, and the writing structure used.

CHAPTER II contains a discussion of the theories related to each variable used in this study. This section also describes the gaps or voids in previous studies, which are one of the reasons the author chose this research topic. In addition, this chapter explains the framework of thinking that is constructed based on concepts related to the variables taken, which are then used to formulate hypotheses for each variable.

CHAPTER III contains an explanation of the research methods, which include the types and sources of data used, the definitions of each variable involved, and the analysis techniques applied to process the data to be tested by the author.

CHAPTER IV presents the research results obtained from data processing that has undergone testing. Next, the researcher will conduct an in-depth analysis and discussion for each variable studied based on the data.

CHAPTER V presents a summary of the main findings discussed earlier and provides recommendations for relevant parties regarding the research results.

CHAPTER V

CONCLUSION

A. Conclusion

Based on the test results and analysis described in Chapter IV regarding the impact of the General Allocation Fund (GAF) and Special Allocation Fund (SAF) on the Human Development Index (HDI) in the provinces of Sumatra and Kalimantan for the period 2016-2024, including control variables such as life expectancy, average length of schooling, and GDP per capita, and analyzed using panel data regression methods, several conclusions can be drawn. The model selection test results show that the Fixed Effects Model (FEM) is the best model for analyzing the relationship between variables in this study, as indicated by the Chow test and Hausman test with a significance level below 5%. The simultaneous F test also shows that all independent and control variables collectively have a significant impact on the HDI.

First, the General Allocation Fund has a positive and significant impact on the HDI in the provinces of Sumatra and Kalimantan. A partial test (t-test) shows that the HDI response to GAF is positive, with a t-statistic value greater than the t-table value and a probability value below the 5% significance level. This indicates that GAF increases regional fiscal capacity and flexibility in financing priority sectors such as education and health. These results are in line with the fiscal decentralization theory proposed by Wallace E. Oates, which states that fiscal transfers from the central government to local governments increase the efficiency of allocation and distribution of welfare between regions. Through flexible

transfers, local governments can finance public services that directly support human development outcomes.

Second, Special Allocation Funds (SAF) have a significant but negative impact on the HDI. FEM estimation results show that the t-statistic value exceeds the critical value with a significance level below 5%, but the direction of the coefficient is negative. This means that SAF affects HDI, but not in the expected positive direction. These findings are consistent with previous research by Raviyanti et al. (2017), which also found that SAF has a significant but negative impact on human development. The sectoral orientation and physical projects of SAF mean that its benefits take longer to be reflected in HDI indicators.

Third, Average Length of Education as a control variable has a positive and significant effect on the Human Development Index. The t-test results show a t-statistic value greater than the t-table value with a probability value below 5%. This indicates that longer duration of education contributes to increased knowledge, skills, and productivity, which strengthens the quality of human resources. These results are consistent with the human capital theory developed by Gary Becker, which emphasizes that education is a long-term investment that improves individual capabilities and economic productivity, thereby increasing welfare and human development indicators.

Fourth, life expectancy as a control variable has a positive and significant effect on the Human Development Index. The FEM estimation shows that the t-statistic value is greater than the critical value with a significance level below 5%. This finding indicates that better health conditions and longer life expectancy

directly contribute to human development. This is also in line with Becker's human capital theory, which places health as a core component of human capital because it determines an individual's ability to be productive and participate in economic and social activities throughout a longer life.

Fifth, GRDP per capita has a positive and significant impact on the Human Development Index. The test results show that the t-statistic value is greater than the t-table value with a probability of less than 5%. This means that higher regional income increases purchasing power and fiscal capacity to finance education, health, and living standards. These results are consistent with the human development approach introduced by Amartya Sen and the framework used by the United Nations Development Program (UNDP), which states that a decent standard of living, as reflected in income, is one of the main pillars of human development along with health and education. Increased income expands people's ability and access to essential services, thereby improving the Human Development Index (HDI) results.

B. Recommendation

This study still has several limitations that need to be considered. These limitations include the relatively short observation period and the scope of variables used, so that the results of this study are not yet fully able to capture all the dynamics of the factors that influence the Human Development Index (HDI). Therefore, based on the results of the study and the conclusions obtained, the following recommendations can be proposed:

1. For the government as a policy maker, the results of this study are expected to be considered in formulating development policies, particularly those related to the management of Special Allocation Funds (DAK) and improving the quality of health, education, and economic welfare of the community. The government is expected to not only focus on physical development, but also ensure that budget allocations can have a direct impact on improving the quality of sustainable human development.
2. For future researchers, it is recommended to extend the observation period and increase the number of observations so that the research results are more comprehensive. In addition, future researchers can develop this research by adding other relevant variables, both from social, economic, and institutional aspects, in order to provide a more in-depth picture of the factors that influence the Human Development Index in Indonesia.

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