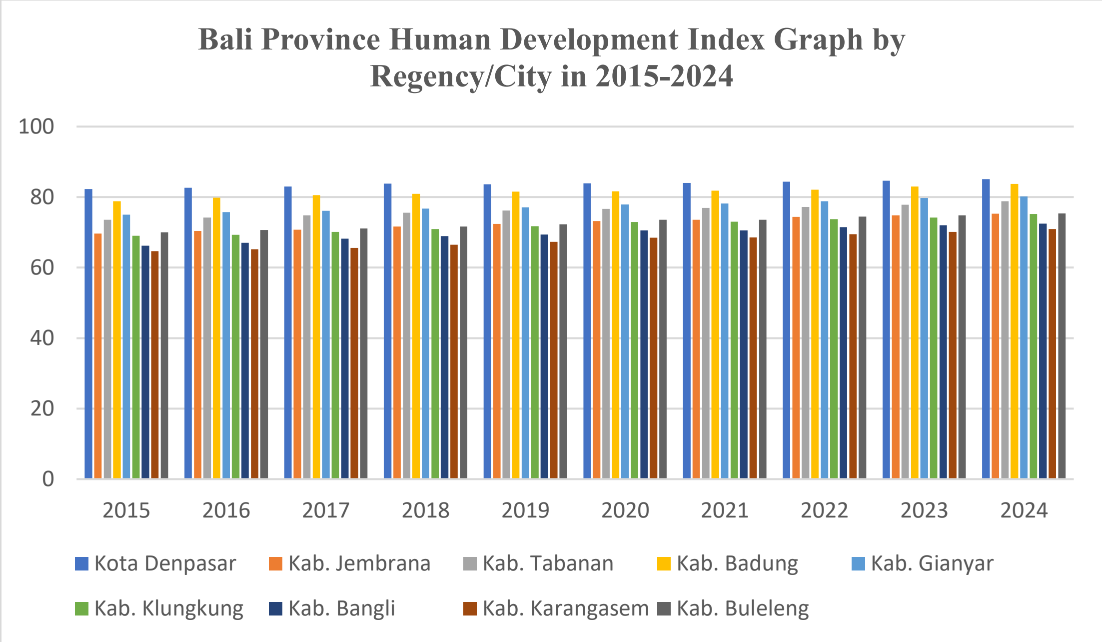
CHAPTER I
INTRODUCTION

1.1 Background

Development is a multidimensional and sustainable transformation process, which does not only include improvement Output economic, but also changes in social structure, improvement of institutional quality, and increase in human capacity (Rizal & Fakhri, 2025). In the modern development economics literature, the orientation of development has shifted from mere economic growth to a more holistic and human-centered approach (People-Centered Development) (Suaib, 2023; 14). This paradigm shift emerged in response to criticism of conventional development models that overly focus on macroeconomic indicators such as Gross Domestic Product (GRDP) without considering the dimensions of distribution and quality of life of the community (Raihan, 2025). In perspective (United Nations Development Programme, 1990), human development is defined as the process of expanding choice (expansion of choices) and human capabilities to live a long, healthy, knowledgeable life, and have access to resources that enable the achievement of a decent standard of living. This concept emphasizes that humans are not just a factor of production in the development process, but the ultimate goal of development itself (Hidayat et al., 2024). Economic growth is seen as an instrumental means of expanding human freedom and opportunity, rather than as an intrinsic goal that stands alone (Sutopo & Shabrina, 2022)

The Human Development Index (HDI) is compiled based on three main dimensions, each of which has its own measuring indicator. The health dimension is represented by the life expectancy indicator, the education dimension is measure through the average length of school and the expectation of length of schooling, while the economic dimension that describes the standard of living is worthy of being measured through the purchasing power parity indicator, which also contributes to economic growth (Izzah & Hendarti, 2021). These three dimensions are not independent, but are interrelated and affect each other. In Indonesia, the Human Development Index is presented periodically every year at various levels of administration, ranging from national to provincial and district/city. According to BPS, the routine presentation of HDI per region provides a comprehensive picture of human development conditions, including achievements, development rates, relative positions, and gaps between regions (Central Statistics Agency, 2020). Based on the categories given by UNDP, human development achievements are categorized into very high categories (HDI ≥ 80), high category (70 ≤ HDI < 80), medium category (60 ≤ HDI <70), and low category (HDI < 60).

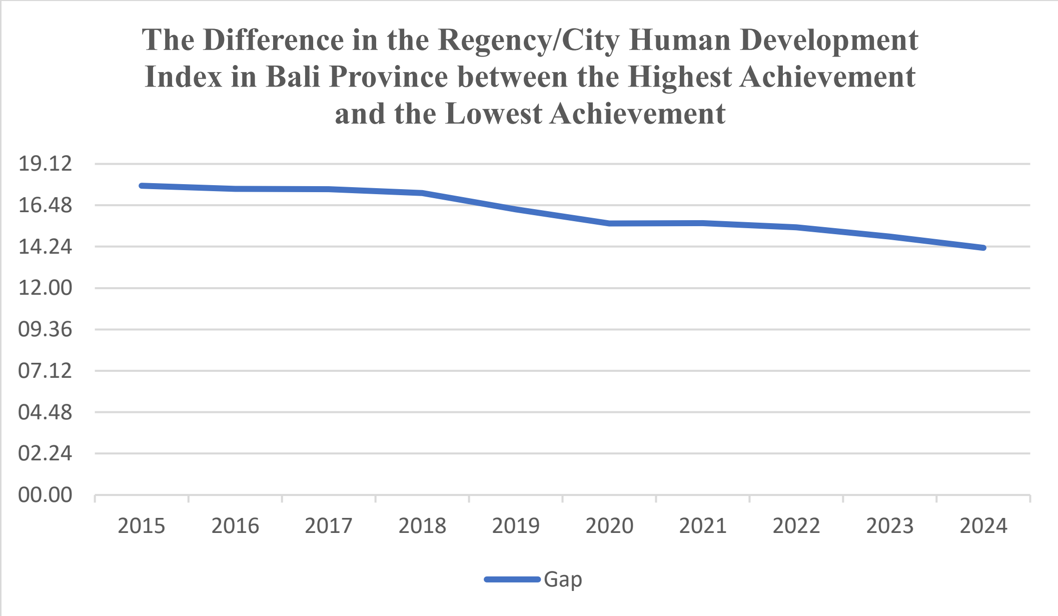
Figure 1. 1 Bali Province Human Development Index Graph by Regency/City in 2015-2024



Source: BPS Bali Province, 2015-2024

Based on Figure 1.1, the development of the Human Development Index (HDI) in Bali Province can be seen by district/city during the period 2015 to 2024. Overall, each region shows a tendency to increase the HDI value from year to year. This positive trend indicates progress in human development, especially in the aspects of education, health, and economic welfare of the community in each region. The city of Denpasar consistently had the highest HDI during the period, with figures approaching or even exceeding 82 points from 2015 to 2024. On the other hand, Jembrana Regency, Klungkung Regency, Karangasem Regency, Bangli Regency, and Buleleng Regency showed low HDI figures, was on a scale of ≤70 points at the beginning of the 2015 period, and despite a gradual increase, remained the four regions with the lowest HDI until 2024, which only reached the range of 70–75 points. This inequality reflects the disparity in human development, especially in the dimensions of education, health, and living standards, between districts/cities in Bali Province.

Image 1.2 The Difference in the Regency/City Human Development Index in Bali Province between the Highest Achievement and the Lowest Achievement in 2015-2024



Based on Figure 1.2, it can be seen that the HDI gap has decreased from year to year. In 2015, the difference between Denpasar City as the area with the highest HDI and Karangasem Regency as the area with the lowest HDI reached 17.56 points. The difference then decreased gradually to 14.20 points in 2024. The reduction in the gap shows that there are indications of improvement in the equitable distribution of human development between districts/cities in Bali Province. This means that areas with low HDI achievement are starting to increase, so that the distance from the area with the highest HDI is narrowing. However, the difference of 14.20 points in 2024 still shows that the difference in human development achievements between regions is still quite real. This condition is important to study because Bali Province is known as an area with strong economic and tourism activities, but the human development achievements between districts/cities in it are not completely evenly distributed.

Although the achievement of HDI in Bali Province is generally relatively high, this condition does not fully reflect the equitable distribution of human development between regions. There is still a significant difference in HDI achievement between regions with very high human development achievements and regions with lower human development achievements. Regencies/cities with a stronger concentration of tourism, trade, and service activities, such as Denpasar City and Badung Regency, tend to have higher human development achievements than other areas such as Karangasem Regency or Jembrana Regency. This condition shows that the high level of tourism activity and the achievement of HDI in Bali Province in aggregate does not necessarily reflect the equitable distribution of human development in all districts/cities. Thus, Bali shows two conditions at once, namely the achievement of human development that is relatively advanced in general, but still accompanied by disparities between regions that need to be studied further.

Development success is measured not only by economic growth, but also by the ability of individuals to access education, obtain health services, participate in economic activities, and enjoy a dignified life (Aulia et al., 2025). Therefore, human development requires simultaneous integration between economic, social, and institutional dimensions. As an instrument of measuring human development, (United Nations Development Programme, 1990) introducing the Human Development Index (HDI) which integrates three main dimensions, namely health, education, and decent living standards (Purnawan et al., 2020). The health dimension is measured through life expectancy at birth as a reflection of the quality of health services and environmental conditions (Rahmi & Zulkifli, 2025). The education dimension is measured through a combination of average school length and school length expectations that reflect intellectual capacity and human capital accumulation (Priyadharsini, 2023). Meanwhile, the dimension of living standards is worthy of being measured through adjusted spending, as a proxy for the community's economic ability to meet basic needs (Bella et al., 2025). Thus, HDI is present as an indicator that complements and corrects the limitations of traditional economic indicators, because GRDP only reflects the production capacity of a region, but does not fully explain how growth results translate into improving people's quality of life (Lamaile, 2022; Saadiah, 2022)

Various studies show that increasing HDI is positively correlated with labor productivity, innovation, social stability, and long-term economic competitiveness. Areas with high levels of education tend to have better technology adaptation capacity. People with good health levels have higher work productivity. Meanwhile, a decent standard of living allows people to actively participate in economic activities. Thus, human development is not only a result of economic growth, but also a prerequisite for sustainable economic growth.

Bali Province is often perceived as a developed area with a strong tourism-based economic structure. In aggregate, Bali's HDI is in the "very high" category and exceeds the national average. However, these achievements do not reflect homogeneous conditions between districts/cities. Badung Regency and Denpasar City recorded HDI above 80, while Karangasem and Bangli Regencies were still in the mid-60s to early 70s. The gap of more than 14 index points shows that the inequality of human development in one province is still quite real. These internal inequality can be attributed to Bali's dualistic economic structure. The South Bali region is growing rapidly through the tourism, trade, and service sectors, while the East and North Bali regions are still more dependent on the traditional agricultural sector which has relatively lower productivity and added value. From a regional economic perspective, this kind of sectoral dualism can reinforce economic agglomeration in certain regions and leave others in slower development conditions. Regions with a strong tourism base tend to get greater investment, increased community income, and better fiscal capacity than regions with a more limited economic base

However, previous research still shows some limitations. Some of the research focuses more on the relationship between HDI and tourism in terms of its influence in general, so there has not been much depth to explore whether the differences in human development achievements between districts/cities in Bali Province are also influenced by regional fiscal factors, Foreign Direct Investment, and regional economic capacity. In addition, previous research has also shown mixed results related to the influence of Regional Spending, PDI, and GRDP on the Human Development Index (HDI). Some studies have found significant positive effects, while other studies have shown inconsistent results. These differences in results indicate that the determinants of HDI are contextual and influenced by the characteristics of the region's economic structure, fiscal capacity, and research period. Therefore, this study not only places tourism as the economic context of Bali, but also seeks to further analyze the influence of Regional Spending, Foreign Direct Investment, and Gross Regional Domestic Product on the Human Development Index in Bali Province. This research is expected to provide a more comprehensive understanding of the factors that play a role in explaining the variation in human development achievements between regions, as well as becoming a learning material for other regions in encouraging more equitable human development.

1.2 Problem Formulation

Based on the background of the existing problem, the formulation of this research problem is as follows:

1. Does Regional Spending Affect the Regency/City Human Development Index in Bali Province
2. Does Foreign Direct Investment Affect the Regency/City Human Development Index in Bali Province
3. Does the Gross Regional Domestic Product have an effect on the District/City Human Development Index in Bali Province

1.3 Research Objectives

Based on the background and gaps of the research above, the objectives to be achieved from this research are as follows:

1. To find out the influence of Regional Spending on the Regency/City Human Development Index in Bali Province
2. To find out the influence of Foreign Direct Investment on the Human Development Index of Regencies/Cities in Bali Province
3. To determine the influence of Gross Regional Domestic Product partially on the Regency/City Human Development Index in Bali Province

1.4 Scope

This study focuses on the influence of independent variables including Regional Spending, Foreign Direct Investment, and Gross Regional Domestic Product on the dependent variable, namely the Human Development Index (HDI). The scope of this study covers all districts/cities in Bali Province from 2015 to 2024, with the aim of analyzing the relationship between these three variables to the dynamics of human development at the regional level. The approach in this study is a quantitative approach with panel regression analysis. The data used is secondary data obtained from the Central Statistics Agency (BPS) and the Directorate General of Financial Balance (DJPK). A panel regression model will be used to analyze the relationship between Regional Spending, Foreign Direct Investment, Gross Regional Domestic Product and Human Development Index.

1.5 Research Benefits

In this study, the author hopes that the results of the research conducted can provide benefits for everyone. The benefits that can be obtained from this research are as follows:

1. For the general public, this research can be a means to broaden horizons and increase the treasure trove of knowledge about the dynamics of regional fiscal policies and their impact on human development. In particular, this study provides useful information as a comparative study in understanding how Regional Spending, Foreign Direct Investment, and Gross Regional Domestic Product contribute to the improvement of the Human Development Index (HDI) in districts/cities in Bali Province.

2. For the University, the results of this research can be a valuable source of academic reference in scientific development within the Faculty of Economics of UPN "Veteran" East Java, as well as add to the collection of scientific literature in the faculty library and the central library. This research contributes to enriching the scientific discourse related to the study of Regional Spending, Foreign Direct Investment, Gross Regional Domestic Product to the Human Development Index, which is relevant as a basis for public policy development and regional planning.
3. As a consideration and reference for local government institutions in analyzing to improve the quality of government performance and the welfare of the general public as measured using the Human Development Index (HDI).