

## The Effect of Financial Performance on the Human Development Index with Economic Growth as a Mediator in West Java

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### ABSTRACT

*This study aims to analyze the impact of local government financial performance (degree of decentralization, local government financial dependence, local government financial autonomy, and the effectiveness of local revenue) on the Human Development Index (HDI), using economic growth as a mediating variable, for regencies and cities in West Java from 2020 to 2024. The regression model used in this study is a simultaneous recursive model. Model estimation was conducted using panel data regression analysis with the Fixed Effects Model and the Random Effects Model. The results show that financial performance simultaneously influences economic growth, and economic growth has a significant positive effect on the HDI. The degree of fiscal decentralization and local financial dependence have a positive and significant impact on economic growth. Local financial autonomy and the effectiveness of local revenue do not have a significant impact on economic growth; the level of fiscal decentralization and local financial dependence have a positive and significant impact on the HDI. Economic growth significantly mediates the effects of the level of fiscal decentralization and financial dependence on the HDI; however, economic growth does not significantly mediate the effects of local financial autonomy and the effectiveness of local revenue on the HDI.*

**Keywords:** Kinerja Keuangan, Pertumbuhan Ekonomi, IPM

### INTRODUCTION

Successful human development can support the achievement of economic development. The role of quality human resources is crucial in creating innovation, spurring economic growth, and managing other resources efficiently. According to the Statistics Indonesia (BPS) (2024), human development is the process of expanding the population's life choices through empowerment and improving basic human skills so that they can contribute more broadly

across various development sectors. Improved human development can be seen in the increase in the Human Development Index (HDI).

BPS measures the level of human development success through the HDI, which relates to three main aspects: longevity and health, knowledge, and the standard of living. The HDI dimension measures longevity and health through the Life Expectancy indicator at birth, which reflects the level of community health. Knowledge is represented by the average number of years of schooling expected, while the standard of living is reflected in real per capita expenditure, adjusted for purchasing power parity, to demonstrate the community's economic capability to meet basic needs. This indicator demonstrates the level of well-being experienced by the community, especially those who are sensitive to changes in economic conditions.

The achievement of the PMI value can be influenced by economic growth, unequal income distribution, and government spending (Asmita et al., 2017). Economic growth is defined as the process of continuously increasing production capacity. According to Sukirno, S. (2011), economic growth is the development of economic activities that influence national income (real income or GRDP) at the regional level, increasing over time. For regions, economic growth, expressed through GRDP, is one benchmark used to assess the economic productivity of a region. According to Hadi (2009), GRDP is the total final services and net goods from diverse economic activities in a region over a specific period. GRDP reflects a region's ability to manage and optimize natural resources to create added economic value.

The success of a region's development depends heavily on improving the quality of its human resources to enable it to create a progressive community life in various fields. An indicator that reflects the community's capacity to assimilate and utilize various available economic growth potentials is a high level of human development (Barata, 2002). According to Ramirez (2000), there is a mutually reinforcing relationship between human resource quality and economic progress. Meanwhile, according to Soebono (2005), the relationship between economic progress and human development is evident in policy instruments and fiscal allocations. This is reflected in the large proportion of public spending in the social subsector. This public spending allocation serves as a primary indicator in budget policies aimed at systematically improving public welfare and spurring sustainable human development.

West Java Province is administratively divided into 27 regions, comprising 18 regencies and 9 cities. It has the largest demographic population in Indonesia, at 50.34 million people, or 17.92% of the total population, and a total area of 37,044.86 km<sup>2</sup> (BPS, 2024). This large population and substantial natural resource potential are key assets in making strategic contributions to national development. While this represents an advantage, the concentration of potential in certain regions can trigger economic development disparities. This occurs because economic activity tends to be concentrated in regions with abundant natural resources and superior human capital.

The increase in the Human Development Index (HDI) is a key indicator of the success of the transformation and progress of human development in West Java. Compared to Indonesia's national HDI, from 2020 to 2024, West Java's HDI consistently fell below the national HDI (Table 1), with annual increases. In 2024, West Java's Human Development Index (HDI) reached 74.92, a 1.96-point increase compared to 72.96 in 2021. While the 2024 HDI increased by 0.68 points from 2023, representing a 0.92 percent increase, West Java's economic growth has not consistently increased. Conversely, the LPE declined from 2023 to 2024. The decline in LPE at the national and West Java provincial levels was not directly proportional to the HDI, which consistently showed an upward trend. A significant phenomenon worth analyzing is West Java's economic growth in the 2021-2022 period, which exceeded the national average. However, this achievement is inversely proportional to the HDI, which consistently remains below the national average. The following is a comparison between LPE and HDI in Indonesia and West Java.

**Table 1.** Comparison of Economic Growth and Human Development Index (National and West Java) 2020 – 2024

Year	Indonesian		West Java	
	PE (%)	IPM (%)	PE (%)	IPM (%)
2020	-2,07	72,81	-2,52	72,61
2021	3,70	73,16	3,74	72,96
2022	5,31	73,77	5,45	73,63
2023	5,05	74,39	5,00	74,24
2024	5,03	75,02	4,95	74,92

Source: BPS (2025)

The key to successful development and regional governance lies in optimal financial management, oriented toward achieving development targets and meeting public demands. Utilizing the Regional Budget (APBD) to finance development sectors is a strategic step for regional governments to strive to raise the quality standards of human development. The primary task of regional governments today is to ensure the quality of public needs is met by continuously improving the community's economic standard. Achieving community well-being is an indicator of regional government success in providing excellent public services. However, the effectiveness of these services depends heavily on a commitment to budget allocation that is appropriate and focused entirely on community needs.

Regional autonomy grants regional governments the flexibility to organize development and manage budgets independently to support the needs of their respective regions. Regional

governments are fully responsible for distributing regional revenues, particularly ensuring the availability of prioritized budget allocations for public services. Law No. 23 of 2014 introduced the concept of Minimum Service Standards (SPM). Within the regional budget (APBD), top priority must be directed toward six essential public service issues: education and health, spatial planning and public works, public housing, public order and stability, and social affairs.

Current conditions demonstrate that regional revenue management is not yet optimal, with a high degree of dependence on transfer funds from the central government. Ideally, a region's autonomy is reflected in its ability to finance all regional expenditures without relying on the central government. Decentralization fundamentally rests on two pillars of independence. This includes regional flexibility in managing public spending and development, as well as independence in exploring potential revenues capable of meeting the region's financing needs.

Good regional financial performance reflects the government's ability to fund essential public services to improve the quality of life of the community. Based on institutional theory, good governance plays a key role in ensuring budget allocation is effective and efficient, focused on funding programs that significantly impact the Human Development Index (HDI) and overall public welfare. Macroeconomic theory also suggests that truly healthy regional government financial performance will significantly stimulate economic growth. Furthermore, positive economic growth has the potential to create employment opportunities and increase community income, thus significantly contributing to an increase in the HDI in the region.

Previous research has demonstrated that good regional financial governance contributes to an increase in the HDI. Research by Zulkarnain (2020) demonstrates a correlation between quality of life and fiscal independence. Bandung City, the region with the highest HDI achievement in West Java (2014-2018), was shown to have the strongest level of fiscal decentralization. A different situation is observed in Tasikmalaya Regency, where the low HDI in the region is directly proportional to the low level of fiscal independence, as reflected in its decentralization ratio. Research by FG Sari and IB Raharjo (2020) in East Java Province found that the degree of decentralization can influence the increase in the Human Development Index (HDI). Meanwhile, research by Hanif (2019) in Central Java Province showed that the level of independence and effectiveness have a significant positive effect on economic progress. Furthermore, economic growth or progress also has a significant positive effect on the HDI and mediates the influence of the level of independence and effectiveness of local revenue (PAD) on the HDI.

Based on this, the authors intend to analyze financial performance in West Java for the 2020–2024 period and examine its effect on the HDI, with economic growth as a mediating variable. The first reference for this research is the findings of Hanif (2019), who used the independence ratio and effectiveness ratio of local revenue (PAD) as independent variables, economic progress as a mediating variable, and HDI as a dependent variable. Another

relevant reference is the research of Susila (2024), who used financial performance and capital expenditure as independent variables, HDI as a dependent variable, and economic growth as a mediating variable. To present an element of novelty, the researcher combined variables from several relevant studies using financial performance, including the level of fiscal decentralization, regional financial linkages, financial independence, and the effectiveness of local revenue (PAD) as independent variables. These variables were chosen not only because of previous research references but also because the data is readily available and easily compared across regions. Furthermore, while the first reference used data from district or city governments in Central Java and the second reference covers provinces across Indonesia, this study uses data from district/city governments in West Java, broadening the scope of the study to the regional government level.

## RESEARCH METHODS

### *Samples and Sampling Techniques*

This research utilized purposive sampling techniques to determine the sample, selecting subjects using specific criteria aligned with the research objectives (Obilor, 2023). According to Sugiyono (2022), purposive sampling is a sample selection method that considers the suitability of subject characteristics to the criteria selected by the researcher. Based on these criteria, the sample in this research was divided into nine cities and 18 districts in West Java Province, with an observation period from 2020 to 2024.

### *Research Variables*

This research utilizes three types of variables: independent, mediating, and dependent. The independent variable in this research is regional financial performance, the mediating variable is economic growth, and the dependent variable is the HDI. A region's financial performance describes the level of effectiveness in achieving fiscal performance, which includes aspects of regional income and expenditure based on benchmarks determined by regulations and laws. In this research, a region's financial performance is measured using four indicators: the degree of decentralization (X1), the level of financial dependence (X2), the level of financial independence (X3), and the effectiveness of local revenue (X4) (Prihastuti et al., 2015). Economic growth reflects changes in the production capacity of services and goods in a particular region within a specific period. According to Aritenang (2021), economic growth is measured by subtracting the previous year's GRDP from the current year's GRDP, then dividing it by the current year's GRDP to produce a percentage value. The HDI serves as a key parameter for evaluating the quality of life of people in a region (Hajduova et al., 2014). This indicator encompasses three fundamental pillars: health and longevity, education level, and standard of living. The HDI is expressed as a percentage between 0 and 100, based on research data sourced entirely from the Central Statistics Agency (BPS).

**Table 2.** Operationalization of Variables

Variable	Indicator	Formula
Regional Financial Performance	Degree of Decentralization (X1)	$PAD / (\text{Total Regional Revenue}) \times 100\%$
	Financial Dependency Ratio (X2)	$(\text{Transfer Revenue}) / (\text{Total Regional Revenue}) \times 100\%$
	Regional Financial Independence (X3)	$(\text{Locally Generated Revenue}) / (\text{Transfer Revenue} + \text{Loans}) \times 100\%$
	PAD Effectiveness (X4)	$(\text{Realized PAD}) / (\text{Budgeted PAD}) \times 100\%$
Economic Growth	Economic Growth (Z)	$(GRDP_t - GRDP_{t-1}) / GRDP_{t-1} \times 100\%$
Human Development Index	HDI (Y)	HDI value in the form of numbers ranging from 0 to 100

Source: BPS (2025)

**Data Analysis Techniques**

This research utilizes panel data econometric analysis techniques using a multiple regression model. The testing stages used in this research include descriptive statistics, classical assumption testing, t-tests, F-tests, R2 values, and a modified Sobel test combined with Hanif's (2019) research model.

**Model 1**

$$LPE_{it} = \beta_i + \beta_1 DDF_{it} + \beta_2 KKD_{it} + \beta_3 KMD_{it} + \beta_4 EFK PAD_{it} + \epsilon_{it}$$

**Model 2**

$$IPM_{it} = \alpha_i + \alpha_1 LPE_{it} + \epsilon_{it}$$

Explanation:

- LPE : Economic Growth Rate
- DDF : Fiscal Decentralization Degree Ratio
- KKD : Regional Financial Dependency Ratio
- KMD : Regional Independence Ratio;
- EFK PAD : PAD Effectiveness Ratio;
- HDI : Human Development Index;
- Eit : Error Rate;
- i : Regency/City

## RESULTS AND DISCUSSION

### RESULTS

#### *Descriptive Statistical Analysis Results*

A summary of the descriptive statistics of this research is listed in Table 3. Referring to the data, it is known that the lowest figure for the HDI variable is 66.96 recorded by Cianjur Regency in 2020. The highest value of the HDI variable is 83.75 in Bandung City in 2024. The average HDI score for 18 regencies and 9 cities during 2020 to 2024 is 73.52. Based on the previous average value, the HDI achievement is generally classified as high because it is in the range of 70 to 80. Meanwhile, the standard deviation value of 4.39 reflects the large distribution of data against the average value which indicates that the level of HDI diversity between regencies/cities tends to be low or relatively homogeneous.

**Table 3.** Descriptive Statistics Results

	DDF	KKD	KMD	EFK_PAD	LPE	IPM
Mean	24.22	72.63	48.02	95.79	3.54	73.52
Maximum	46.20	90.45	148.32	145.34	8.83	83.75
Minimum	6.70	44.20	11.57	42.16	-3.80	66.96
Std. Dev.	11.51	11.74	36.59	15.99	2.71	4.39
Observations	135	135	135	135	135	135

Source: Data Processing Results (2026)

A region's financial performance indicator consists of four levels: degree of decentralization, level of regional financial linkages, level of independence, and level of regional revenue (PAD) effectiveness. The lowest minimum value is found at the level of decentralization (X1), while the highest value is found at the level of regional financial independence (X3). The financial performance assessment indicates that the instrument with the lowest average is the degree of decentralization ratio (X1). This low achievement indicates that the effectiveness of regional governments in utilizing their financial resources still needs to be improved. The highest average is found in the PAD effectiveness ratio indicator (X4). This indicates that regional governments have successfully achieved their previously determined revenue targets.

The lowest figure for economic growth data in these descriptive statistics is -3.80, indicating a contraction during that period. The lowest value occurred in Karawang Regency in 2020, reflecting the economic downturn due to the COVID-19 pandemic. Meanwhile, Bogor Regency recorded the highest economic growth of 8.83% in 2023, driven by a 52.41% increase in the manufacturing sector. The median economic growth rate of 3.54% demonstrates that the economy is generally experiencing development, marked by increased

production, economic activity, and income. Furthermore, the standard deviation of 2.71, which is less than the median, indicates that the data distribution is relatively stable and tends to be normal.

### **Model Estimation Results**

To test the empirical model, this research processes panel data from 27 districts or cities in West Java over five years, namely the 2020–2024 period, using the E-Views 12 application. The regression results of the HDI determinant model in West Java Province during this period are listed in Table 4.

**Table 4.** Summary of Regression Results

Variabel	LPE			IPM		
	Koefisien	Std. Error	Prob	Koefisien	Std. Error	Prob.
DDF	1.005413	0.142241	0.0000 (7.068370)***			
KKD	0.296402	0.077015	0.0002 (3.848611)***			
KMD	0.003177	0.056660	0.9554 (0.056071) <sup>ts</sup>			
EFK_PAD	- 0.021350	0.021157	0.3153 (- 1.009089) <sup>ts</sup>			
LPE				0.220727	0.020415	0.0000 (10.81219)***
R-squared			0,518619			0.469380
Adjusted R-squared			0.379760			0.465391
F-statistic			3.734842			117.6503
Prob (F-statistic)			0.000000			0.000000
DW-stat			2.011976			1.113993

Source: Data processing results (2026)

Ket. \*\*\* significant on  $\alpha = 1\%$ . \*\* significant on  $\alpha = 5\%$ .

\* significant on  $\alpha = 10\%$ . In brackets are the values t-stat.

### **Model 1**

Dependent Variable : LPE (Z)

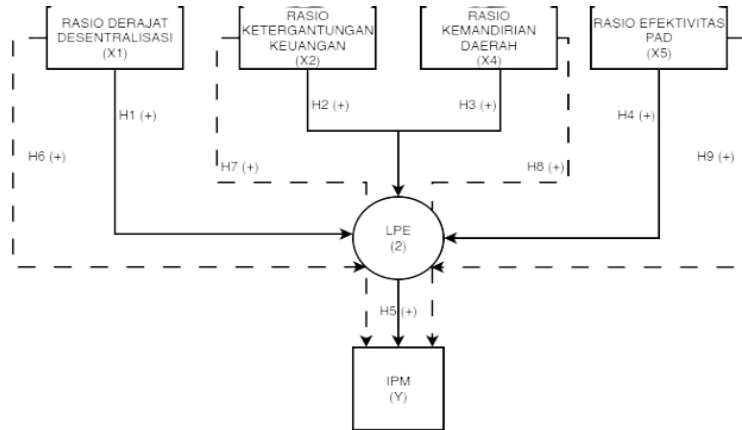
$$\text{LPE}_{it} = -40.44068 + 1.005413 \text{ DDF}_{it} + 0.296402 \text{ KKD}_{it} + 0.003177 \text{ KMD}_{it} - 0.021350 \text{ EFK\_PAD}_{it} + \epsilon_{it}$$

### **Model 2**

Dependent Variable : IPM (Y)

$$\text{IPM}_{it} = 72.73505 + 0.220727 \text{ LPE}_{it} + \epsilon_{it}$$

**Hypothesis Testing Results**



The structural pattern composed of variables and research data is shown in Figure 1.

**Figure 1.** Structural Model

**Sobel Test Results**

This study used the Economic Growth Rate (EGR) as a mediating variable. To prove the mediation hypothesis, this study used the Sobel Test to assess the indirect effect of the independent variable (X) on the dependent variable (Y) through the mediating variable (Z). The calculation results were obtained using a tool called the Sobel Test Calculator for the Significance of Mediation (Suparta, 2025; Listianingsih, 2024; Tiarawati & Hertina, 2024).

Input:	Test statistic:	Std. Error:	p-value:
a 1.005413	Sobel test: 5.9162694	0.03751043	0
b 0.220727	Aroian test: 5.89862059	0.03762266	0
S <sub>a</sub> 0.142241	Goodman test: 5.93407759	0.03739786	0
S <sub>b</sub> 0.020415	Reset all	Calculate	

**Figure 2.** The Effect of the Degree of Fiscal Decentralization on the Human Development Index Mediated by the Rate of Economic Growth

Based on the results of the Sobel test calculator in Figure 2 above, the p-value of the Sobel test statistic is 0.000000 < 0.05, so H0 is rejected and Ha is accepted. This means that the Degree of Fiscal Decentralization affects the HDI mediated by the Rate of Economic Growth. In addition, the coefficient value of 0.221922 (the result of multiplying 1.005413 x 0.220727) is positive. This means that the Degree of Fiscal Decentralization has a positive effect on the HDI mediated by the Rate of Economic Growth.

Input:		Test statistic:	Std. Error:	p-value:
a	0.296402	Sobel test: 3.62577106	0.01804414	0.0002881
b	0.220727	Aroian test: 3.61208486	0.01811251	0.00030375
s <sub>a</sub>	0.077015	Goodman test: 3.63961402	0.01797551	0.00027305
s <sub>b</sub>	0.020415	Reset all	Calculate	

**Figure 3.** The Effect of Regional Financial Dependence on the Human Development Index Mediated by Economic Growth Rate

The results of the Sobel test calculator in Figure 3 above show a p-value of  $0.0002881 < 0.05$ , so  $H_a$  is rejected and  $H_0$  is accepted. Thus, Regional Financial Dependence has an influence on the HDI mediated by the Economic Growth Rate. The coefficient number shows a positive value of 0.065424 ( $0.296402 \times 0.220727$ ). This indicates that Regional Financial Dependence has a positive influence on the HDI mediated by the Economic Growth Rate.

Input:		Test statistic:	Std. Error:	p-value:
a	0.003177	Sobel test: 0.05607055	0.01250656	0.9552856
b	0.220727	Aroian test: 0.05583226	0.01255994	0.95547544
s <sub>a</sub>	0.056660	Goodman test: 0.05631192	0.01245295	0.95509332
s <sub>b</sub>	0.020415	Reset all	Calculate	

**Figure 4.** The Effect of Regional Independence Ratio on the Human Development Index Mediated by Economic Growth Rate

The Sobel test calculator results in Figure 4 above show a p-value of  $0.9552856 > 0.05$ . In other words,  $H_a$  is rejected and  $H_0$  is accepted. The Regional Independence Ratio has no effect on the Human Development Index (HDI) through the Economic Growth Rate as a mediating variable.

Input:		Test statistic:	Std. Error:	p-value:
a	-0.021350	Sobel test: -1.00475548	0.00469022	0.31501461
b	0.220727	Aroian test: -1.00052198	0.00471006	0.31705797
s <sub>a</sub>	0.021157	Goodman test: -1.00904318	0.00467029	0.31295393
s <sub>b</sub>	0.020415	Reset all	Calculate	

**Figure 5.** The Effect of PAD Effectiveness on the Human Development Index Mediated by Economic Growth Rate

The Sobel test calculator results show a p-value of  $0.31501461 > 0.05$ . Thus,  $H_a$  is rejected and  $H_0$  is accepted. The effectiveness of PAD does not affect the HDI through the Economic Growth Rate as a mediating variable.

**DISCUSSION**

***The Influence of Financial Performance on Economic Growth Levels***

Referring to the estimation results in Table 4 of the first regression model, the independent variables the level of decentralization, the level of regional financial linkages, the level of financial independence, and the effectiveness of local revenue—collectively have a significant influence on the dependent variable, namely the Economic Growth Rate (LEP) in

West Java. This is evident from the probability score (F-statistic) of 0.0000, which is smaller than  $\alpha$  0.05. The Adjusted R Square score of 0.379760, or 37.976%, indicates that the four independent variables explain 37.976% of the variation in economic growth, while the remaining 62.024% is explained by other variables not included in this research model. These results support previous research by Sari et al. (2019) and Kumpangpune et al. (2021), which showed that a region's financial performance positively impacts economic development. In other words, the more effective a region's financial management, the higher its economic development rate tends to be. The Fiscal Decentralization Ratio can be calculated by comparing Regional Original Revenue (PAD) with the total regional income (Suci & Asmara, 2014; Hasan, 2014; Imam, 2019; Zuhri, 2020; Syam & Zulfikar, 2022). The level of fiscal decentralization generally has a positive effect on economic growth because it provides greater autonomy to regions to design and execute budgets according to local needs. The expected positive effects of the fiscal decentralization ratio on economic growth are: a) Increasing the effectiveness of resource distribution, because local governments better understand local needs and can adjust public spending; b) Encouraging innovation in public services, competitive local policies can accelerate development; c) Increasing fiscal accountability because the public can directly assess the results of regional budget management. Based on Table 4, the fiscal decentralization ratio has a positive and significant effect on economic development, with a coefficient of 1.005413. This means that a 1% increase in the ratio can increase regional economic development by approximately 1.0021% assuming other variables remain unchanged (*ceteris paribus*). Based on Table 3, the average ratio of the degree of decentralization in the West Java region is 24.22%, which is in the sufficient category, meaning that some regions are able to finance government activities and affairs independently.

The results of this study echo the opinion of Priyono, Djuliprijanto, and Setyawan (2019), who stated that the degree of decentralization has a positive influence on economic development. Research by Muryawan and Sukarsa (2016) also showed that fiscal decentralization and fiscal stress have a significant direct influence on regional economic development, while also having an indirect influence through regional financial performance as a mediating variable. Furthermore, research by Putri, Ambya, and Darmawan (2024), using panel data from 16 provinces in Sumatra and Java, found that the level of fiscal decentralization significantly influences per capita economic development. A study by Wahyudi and Kurniawati (2022) at the provincial level for the 2011–2019 period also demonstrated that fiscal decentralization has a positive influence on regional economic development, especially as regions become increasingly fiscally independent. Meanwhile, research in Bangkalan Regency (Rahman and Djasuli, 2024) demonstrated a strong correlation (96.3%) with positive economic growth. The regional financial dependency ratio is the ratio of realized transfer revenue to the total realized revenue of a region in a single year (Mahmudi, 2016). Based on Table 4, the level of regional financial linkage to economic

growth has a positive effect, with a coefficient value of 0.296402. This means that for every 1% increase in fiscal dependency, economic development will increase by 0.296402% (*ceteris paribus*). Based on Table 3, the median value of the regional financial dependency ratio in West Java is 72.63, which is categorized as moderate, indicating a high level of dependence of local governments on central government funding. According to fiscal decentralization theory, fiscal dependency can impact the quality of regional budget management. High dependency can suppress regional incentives to increase local revenue (PAD), thereby reducing the allocation of productive spending that stimulates economic growth.

Research by Kusuma and Anwar (2023) using panel data from 35 regencies/cities in Central Java during the 2017-2022 period proves that the level of regional financial dependence on central government donations has a positive impact on economic development. Regions receiving larger central government transfers tend to have higher economic growth, although this is closely related to regional spending capacity for public investment and productive consumption. Research by Yanto and Astuti (2020) and Sari et al. (2019) shows that the level of fiscal dependence has a significant impact on economic development. According to the theory of fiscal federalism, the delegation of authority to regional governments is expected to reduce fiscal imbalances and thus spur economic growth. The ability of regions to manage budgets to close the fiscal gap can be implemented through various methods, such as improving the quality of human resources, maximizing a region's potential to increase local revenue (PAD), and improving and developing infrastructure to accelerate economic growth.

The independence of a region indicates the level of local government's relationship with funding sources from the central and provincial governments. The higher a region's financial independence, the lower its relationship with the central government (Suci & Asamra, 2014). Regional financial independence is reflected in the size of its Regional Original Revenue (PAD) compared to income from other sources, such as central government assistance and regional loans (Imam, 2019). Financial independence can be measured by the ratio of PAD to transfer revenue (central and provincial) and loans (Imam, 2019; Zuhri, 2020; Syam & Zulfikar, 2022). The higher a region's financial independence ratio, the greater its ability to independently finance government affairs and development activities. However, the results in Table 4 show that the regional independence ratio during the study period in West Java did not significantly influence economic growth, with a probability score of 0.9554. The mean level of regional independence during the study period was 48.02%, which is considered low. These results contradict research by Yuana (2014) and Saiful (2011), which stated that regional independence has a direct impact on economic development because it is considered to have a positive contribution in spurring regional economic development in regencies or cities in East Java. This occurs because increased regional independence, reflected in high local revenue (PAD), should be able to spur economic growth.

Similarly, the PAD effectiveness ratio variable has an impact on economic development, with a probability score of 0.3153 (Table 4). The median PAD effectiveness value of 95.79 is categorized as moderately effective. These results contradict research by Syamsudin (2015) and Astuti (2015), which stated that the level of PAD effectiveness has a direct impact on economic development, as this ratio is considered to impact the rate of economic development in a region. However, this research found that the level of regional independence and the level of PAD effectiveness did not influence economic development, although the PAD effectiveness ratio was in the moderately effective category. This indicates that these two variables have not yet become a real economic stimulus, as economic growth is more sensitive to the quality of capital expenditures undertaken by local governments.

### ***The Influence of Economic Growth on the Human Development Index***

Based on the estimation results in Table 4, the independent variables simultaneously influence the dependent variable with a probability (F-statistic) of 0.0000, less than the  $\alpha$  value of 0.05. The results of the significance test for the independent variables individually indicate that the LPE variable has an effect on the HDI at a 1% error rate. The LPE variable has a positive effect on the HDI with a coefficient of 0.220727, meaning that if GRDP increases by 1%, the HDI also increases by 0.220727% (*ceteris paribus*). Based on Table 4, the Adjusted R-square score is 0.465391, or 46.5391%. This coefficient of determination score shows that the independent variable, economic growth, is able to explain 46.5391% of the HDI, while the remaining 53.4609% is explained by other variables outside this research model. These results demonstrate that during the 2020-2024 period, economic growth in West Java was positive, spurring the creation of good infrastructure, increasing per capita income, and supporting all economic sectors. This condition impacts the community through increased income, enabling the fulfillment of basic necessities, increasing purchasing power, and ultimately improving the community's quality of life. Furthermore, based on the theory of fiscal federalism, in implementing fiscal decentralization, regional governments need to improve the quality of public services and explore potential revenue independently to improve their regions. These efforts are expected to spur increased economic growth in the regions. Table 3 shows that during the study period, the effectiveness of local revenue (PAD) in West Java was quite effective, with an average value of 95.79.

These research results align with research by Maulanan & Bowo (2024); Ronald & Sarmiyatiningsih (2024); Adianita (2023); and Ningrum et al. (2020), which found that economic growth has a significant impact on the Human Development Index (HDI). Good economic development spurs infrastructure development that impacts industry and improves shared facilities such as education and health services, ultimately increasing the Human Development Index (HDI).

### ***The Effect of Financial Performance on Human Development Index Mediated by Economic Growth***

The Sobel test results show that economic growth only acts as a mediating variable in the relationship between financial performance (the degree of fiscal decentralization and financial dependency) and the Human Development Index (HDI). The degree of fiscal decentralization and financial interdependence do not automatically increase the HDI; however, through increased economic growth, their impact becomes evident on the community's quality of life. If economic growth is inclusive and regional budgets are allocated effectively to the education and health sectors, the HDI will increase significantly. The more independent and effective a region's fiscal management, the greater its opportunities to stimulate economic growth; improve the community's quality of life; and realize sustainable human development.

Research by Priyono, Juliprijanto, and Setyawan (2019) shows that regional fiscal decentralization significantly influences economic development and the HDI. However, the level of independence and effectiveness of local revenue (PAD) do not influence the HDI through economic growth as a mediating variable. The independence ratio more closely reflects administrative capacity in the regional tax collection process, thus not being an inclusive economic driver. Consequently, the resulting economic growth fails to significantly address basic aspects of human development such as education and health. Likewise, the PAD effectiveness ratio, although the results of the descriptive analysis of the PAD ratio are quite effective, does not reflect the fiscal strength that is able to stimulate the economy at a macro level, so that the resulting economic growth tends to be non-inclusive and does not provide a real impact on improving the quality of human life (HDI). To strengthen the influence of financial performance (degree of decentralization, level of financial dependence, level of regional independence, and level of PAD effectiveness) on the HDI through economic growth as a mediating variable, a budget allocation that is oriented towards improving community welfare is needed.

### **CONCLUSION AND SUGGESTIONS**

The analysis of this study demonstrates that almost all independent variables have a direct influence on the Human Development Index (HDI). This finding indicates that improving the quality of life of the community requires attention to financial performance and economic development in each region. Financial performance, as measured by the degree of decentralization and financial dependence, can influence the quality of life of the community through economic development. Both ratios also contribute to spurring regional economic development, which in turn impacts population quality and increases the HDI. However, this study also found that economic development cannot mediate the influence of financial performance, particularly the level of regional independence and the effectiveness of local revenue (PAD), on the HDI.

Limitations of this study include: (1) the model used was not fully able to capture the variables suspected to be influential, resulting in inconsistencies in model interpretation. Therefore, future research should expand the scope of variables and select appropriate methods according to the characteristics of the case, considering that there are still insignificant variables; (2) the contribution of the independent variables to the dependent variable in this study was only 37.97% in model 1 and 46.54% in model 2, indicating that the majority of the variation is influenced by factors outside the model. Further research is expected to include several additional variables that are not included in this regression modeling.

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