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THE INFLUENCE OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE ON THE HUMAN DEVELOPMENT INDEX WITH PUBLIC SECTOR EXPENDITURE ALLOCATION AS AN INTERVENING VARIABLE IN EAST OGAN KOMERING ULU REGENCY

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ABSTRACT: *This study investigates the effect of local government financial performance on the Human Development Index (HDI), with public sector expenditure allocation serving as an intervening variable in East Ogan Komering Ulu Regency. The study was motivated by the existing gap between regional fiscal capacity and human development outcomes, as well as the need to clarify the mechanism through which financial management contributes to human development. A quantitative research approach was employed using secondary data obtained from audited regional budget reports and official HDI data covering the 2016–2025 period. The data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS to examine both direct and indirect relationships among the research variables. The findings indicate that local government financial performance does not have a significant direct effect on HDI, as evidenced by a path coefficient of -0.079, a T-statistic of 0.252, and a P-value of 0.801. However, financial performance has a positive and significant effect on public sector expenditure allocation, with a path coefficient of 0.802, a T-statistic of 5.652, and a P-value of 0.000. Public sector expenditure allocation also demonstrates a positive and significant effect on HDI, with a path coefficient of 0.957, a T-statistic of 3.093, and a P-value of 0.002. Furthermore, the indirect effect of financial performance on HDI through public sector expenditure allocation is positive and significant, with a coefficient of 0.677, a T-statistic of 2.232, and a P-value of 0.026. These findings demonstrate that public sector expenditure allocation serves as a full mediating mechanism in the relationship between local government financial performance and human development. Thus, stronger financial performance alone is insufficient to directly improve human development outcomes; its benefits need to be translated into effective and productive public spending, particularly in education, healthcare, infrastructure, and essential public services. The findings emphasize the importance of strengthening the quality of regional budget planning and expenditure allocation to ensure that fiscal capacity contributes more effectively to improving community welfare and sustainable human development.*

***Keywords**:* *Local Government Financial Performance, Public Sector Expenditure Allocation, Human Development Index.*

ABSTRAK: *Penelitian ini bertujuan menganalisis pengaruh kinerja keuangan pemerintah daerah terhadap Indeks Pembangunan Manusia (IPM) dengan alokasi belanja sektor publik sebagai variabel intervening di Kabupaten Ogan Komering Ulu Timur. Penelitian ini didasarkan pada adanya kesenjangan antara kemampuan keuangan daerah dan capaian pembangunan manusia, sehingga diperlukan pemahaman mengenai mekanisme pengelolaan keuangan daerah dalam mendukung peningkatan kualitas pembangunan manusia. Penelitian menggunakan pendekatan kuantitatif dengan memanfaatkan data sekunder berupa laporan keuangan pemerintah daerah dan data IPM Kabupaten Ogan Komering Ulu Timur selama periode 2016–2025. Analisis data dilakukan menggunakan Structural Equation Modeling–Partial Least Squares (SEM-PLS) dengan bantuan aplikasi SmartPLS untuk menguji hubungan langsung maupun tidak langsung antarvariabel. Hasil penelitian menunjukkan bahwa kinerja keuangan pemerintah daerah tidak memiliki pengaruh langsung yang signifikan terhadap IPM, dengan koefisien jalur sebesar -0,079, T-statistic sebesar 0,252, dan P-value sebesar 0,801. Sebaliknya, kinerja keuangan pemerintah daerah terbukti berpengaruh positif dan signifikan terhadap alokasi belanja sektor publik, dengan koefisien sebesar 0,802, T-statistic sebesar 5,652, dan P-value sebesar 0,000. Alokasi belanja sektor publik juga memberikan pengaruh positif dan signifikan terhadap IPM, dengan koefisien sebesar 0,957, T-statistic sebesar 3,093, dan P-value sebesar 0,002. Selain itu, pengujian pengaruh tidak langsung menunjukkan bahwa kinerja keuangan pemerintah daerah berpengaruh positif dan signifikan terhadap IPM melalui alokasi belanja sektor publik, dengan koefisien sebesar 0,677, T-statistic sebesar 2,232, dan P-value sebesar 0,026. Temuan tersebut mengindikasikan bahwa alokasi belanja sektor publik berperan sebagai mediator penuh dalam hubungan antara kinerja keuangan pemerintah daerah dan IPM. Dengan demikian, peningkatan kinerja keuangan daerah tidak secara otomatis meningkatkan pembangunan manusia, tetapi perlu diikuti dengan pengalokasian anggaran yang tepat sasaran, efektif, dan produktif, khususnya pada sektor pendidikan, kesehatan, infrastruktur, dan pelayanan dasar. Hasil penelitian menegaskan pentingnya peningkatan kualitas perencanaan serta pengalokasian belanja daerah agar kapasitas keuangan pemerintah dapat memberikan kontribusi yang lebih optimal terhadap kesejahteraan masyarakat dan pembangunan manusia yang berkelanjutan.*

Kata Kunci: *Kinerja Keuangan Pemerintah Daerah, Alokasi Belanja Sektor Publik, Indeks Pembangunan Manusia.*

INTRODUCTION

Fiscal decentralization has expanded the responsibilities of local governments in managing regional financial resources, strengthening local revenue, and determining development priorities according to regional conditions. In Indonesia, fiscal decentralization is intended to enhance local autonomy while supporting economic development and the provision of public services (Ginting et al., 2019). Therefore, regional autonomy requires not only adequate fiscal capacity but also effective financial management to ensure that public resources are utilized efficiently and accountably. Recent studies further emphasize that local government financial performance is closely associated with regional autonomy, fiscal capacity, and the government's ability to manage financial resources responsibly (Zamzami & Rakhman, 2023; Hummel & Kusumasari, 2025). Financial performance thus represents an important element of local governance because it reflects the government's capacity to manage and utilize available resources in supporting public services and regional development. Strong financial management can provide greater fiscal flexibility for financing development priorities and improving community welfare (Khoirunisa & Sulaeman, 2022; Syahputra et al., 2026).

One important indicator for evaluating regional development and societal welfare is the Human Development Index (HDI), which measures achievements in three fundamental dimensions: a long and healthy life, knowledge, and a decent standard of living (UNDP, 2024; BPS, 2025). Therefore, improvements in human development cannot be assessed solely through economic growth but also depend on the government's capacity to provide accessible and adequate public services, particularly in education, healthcare, infrastructure, and other essential sectors. At the regional level, sound financial management and adequate fiscal capacity are important for supporting the implementation of development programs and improving public service delivery. Previous empirical studies have indicated that regional financial performance, fiscal decentralization, and public expenditure may contribute to human development; however, the magnitude and direction of these relationships can vary across regional and institutional contexts (Anggraeni & Kiswanto, 2019; Suranta et al., 2020; Daud & Soleman, 2020). This variation suggests that financial capacity alone may not be sufficient to improve human development, as the effectiveness and targeting of public expenditure also determine how financial resources are translated into improvements in community welfare.

The relationship between local government financial performance and the Human Development Index (HDI) does not necessarily occur directly, as financial resources must first be transformed into effective and well-targeted expenditure policies to generate tangible improvements in community welfare. In this context, public sector expenditure serves as an important mechanism connecting regional fiscal capacity with human development, particularly through investments in education, healthcare, infrastructure, social protection, sanitation, and public services. The effectiveness of government expenditure depends not only on the amount of funds allocated but also on their efficiency, composition, and alignment with regional development priorities (Sari & Arza, 2019; Tazkia et al., 2020; Indramawan et al., 2021). Therefore, strong financial performance alone does not guarantee improved human development unless regional resources are strategically allocated to sectors that directly enhance people's quality of life (Fadlli et al., 2024; Iqbal et al., 2026).

This issue is particularly relevant in East Ogan Komering Ulu (OKU Timur) Regency. Although the region possesses considerable economic potential, particularly in the agricultural sector, disparities in welfare remain a development challenge. The existing socioeconomic conditions indicate that economic potential and regional resources have not yet been fully translated into equitable improvements in community welfare. At the same time, the HDI of OKU Timur has continued to improve, reaching 74.42 in 2025, an increase of 0.78 points from the previous year. The regional fiscal structure also indicates that intergovernmental transfers remain the dominant source of local government revenue, while substantial expenditures are directed toward operational spending and capital expenditure. These developments suggest that improvements in human development have occurred alongside regional financial management and government expenditure allocation. Nevertheless, descriptive trends alone cannot establish whether financial performance and public expenditure allocation actually explain changes in human development, thereby necessitating empirical investigation.

The need for further investigation is reinforced by the inconsistent findings of previous studies concerning the relationship between local government financial performance and HDI. Several studies have reported positive and significant relationships between regional financial performance and human development, particularly when financial performance is assessed through indicators such as fiscal independence, decentralization, revenue effectiveness, expenditure efficiency, and expenditure composition. However, much of the existing literature has primarily examined the direct relationship between local government financial performance and HDI. Other studies have introduced alternative mediating or moderating variables, such as economic growth and capital expenditure. These differences indicate a research gap concerning the mechanism through which local government financial performance may ultimately contribute to human development (Aminah et al., 2017)

This study addresses the research gap by positioning public sector expenditure allocation as an intervening variable between local government financial performance and HDI. This perspective is consistent with the principles of Public Expenditure Theory and Welfare Theory, which emphasize that public financial resources should ultimately generate social benefits and improve community welfare. Strong financial performance provides local governments with greater fiscal capacity, but its contribution to human development depends substantially on how such capacity is converted into productive and targeted public expenditure. Allocations to education, healthcare, infrastructure, social protection, and public services may therefore serve as the mechanism through which financial capacity is transformed into tangible improvements in human development (Haninun et al., 2018). Accordingly, the proposed framework examines not only whether local government financial performance affects HDI, but also how this relationship may operate through public sector expenditure allocation.

The novelty of this study lies in the incorporation of public sector expenditure allocation as an intervening mechanism in the relationship between local government financial performance and HDI, with a specific focus on OKU Timur Regency. Previous studies have generally emphasized direct relationships or employed different mediating and moderating variables. By introducing public sector expenditure allocation into the model, this study seeks to provide a more comprehensive explanation of the pathway through which regional financial management can contribute to human development. The research examines the effect of local government financial performance on public sector expenditure allocation, the effect of public sector expenditure allocation on HDI, the direct effect of financial performance on HDI, and the mediating role of public sector expenditure allocation.

Based on this rationale, the present study aims to examine the influence of local government financial performance on the Human Development Index, with public sector expenditure allocation serving as an intervening variable in OKU Timur Regency. By investigating both the direct and indirect relationships among these variables, the study is expected to contribute to the empirical literature on local public financial management and human development in the context of fiscal decentralization. Furthermore, the findings may provide practical insights for local policymakers regarding the importance of aligning financial management and budgetary priorities with sectors that directly support improvements in public welfare and sustainable human development.

Regional Government Financial Performance

Regional government financial performance reflects the capacity of local authorities to manage fiscal resources in supporting public administration, regional development, and the provision of public services. It encompasses the government's ability to manage revenues and expenditures effectively while maintaining fiscal autonomy and reducing dependence on transfers from the central government. Financial performance therefore provides an indication of how effectively local governments utilize available fiscal resources to achieve regional development objectives (Haryanto, 2018).

Regional financial performance can be evaluated through financial-ratio analysis based on regional budget realization reports. Common indicators include the regional financial independence ratio and the degree of fiscal decentralization, which provide an overview of the government's capacity to finance regional activities using locally generated resources. Recent empirical research continues to use these indicators to assess the financial condition and fiscal capacity of local governments (Martina & Tarigan, 2023).

In this study, regional government financial performance is measured using the regional financial independence ratio and the degree of fiscal decentralization. These indicators are relevant because they demonstrate the extent to which local governments can finance their regional needs through locally generated revenue and exercise fiscal autonomy. A higher level of financial independence and fiscal decentralization indicates stronger local fiscal capacity and a lower degree of dependence on central government transfers (Ginting et al., 2026).

Public Sector Expenditure Allocation

Public sector expenditure allocation refers to the process of planning and distributing government resources to finance public needs, support development, and provide essential services. Government expenditure is generally directed toward strategic sectors such as education, healthcare, infrastructure, social protection, and other public services that contribute directly to community welfare. Effective public expenditure should not be assessed merely by the level of budget absorption but also by its efficiency, effectiveness, transparency, and ability to generate measurable development outcomes. The World Bank (2020) emphasizes that improving the quality of public spending is essential to maximize its contribution to development, particularly in human capital and infrastructure. Similarly, Rifa'i and Moddilani (2021) highlight that government expenditure in education represents an important investment in human resources, productivity, and public welfare. Furthermore, Jung (2022) demonstrates that greater budget transparency can support expenditure efficiency by encouraging more effective utilization of public resources. Thus, appropriate public sector expenditure allocation is essential to ensure that government budgets generate optimal benefits for society and support sustainable regional development.

In the context of local government, public sector expenditure allocation is derived from the Regional Budget (APBD) and is directed toward fulfilling basic service needs and regional development priorities. Based on Law No. 17 of 2003, state financial management must consider the principles of efficiency, effectiveness, economy, transparency, accountability, and fairness, while Government Regulation No. 12 of 2019 emphasizes basic services such as education, healthcare, public works, housing, public order, and social security as important components of regional expenditure. In this study, public sector expenditure allocation is measured through education expenditure and healthcare expenditure, as these two sectors are directly associated with improving human resources and public welfare. Therefore, the more appropriately and optimally budgets are allocated to education and healthcare, the greater the potential for improving the quality of public services and human development.

Human Development Index (HDI)

The Human Development Index (HDI) is a multidimensional indicator that reflects the quality of human development in a region by considering health, education, and living standards. Rather than measuring development solely through economic performance, HDI provides a broader representation of people's well-being and their ability to access essential opportunities and services (Alamsyah et al., 2018; Marizal & Pordi, 2022). Accordingly, HDI has become an important instrument for evaluating regional development and identifying disparities in human welfare. Empirical studies in Indonesia also demonstrate that human development is closely associated with socioeconomic conditions, public expenditure, education, and health outcomes (Tamara & Yeniwati, 2020; Wafitrah et al., 2022).

The health dimension of HDI is reflected through life expectancy, while the education dimension incorporates educational attainment and expected schooling. Meanwhile, the standard-of-living dimension represents people's ability to achieve adequate economic conditions. These components demonstrate that human development extends beyond income growth and requires improvements in education, healthcare, and access to essential services. Previous research indicates that government expenditure in education and health can contribute to improvements in human development, although the magnitude of the effect may vary across regions and expenditure categories (Restianty, 2020; Sasongko & Wibowo, 2022). Therefore, this study focuses on the education and health dimensions of HDI, as improvements in these sectors are expected to support better human development outcomes in East Ogan Komering Ulu Regency.

Framework

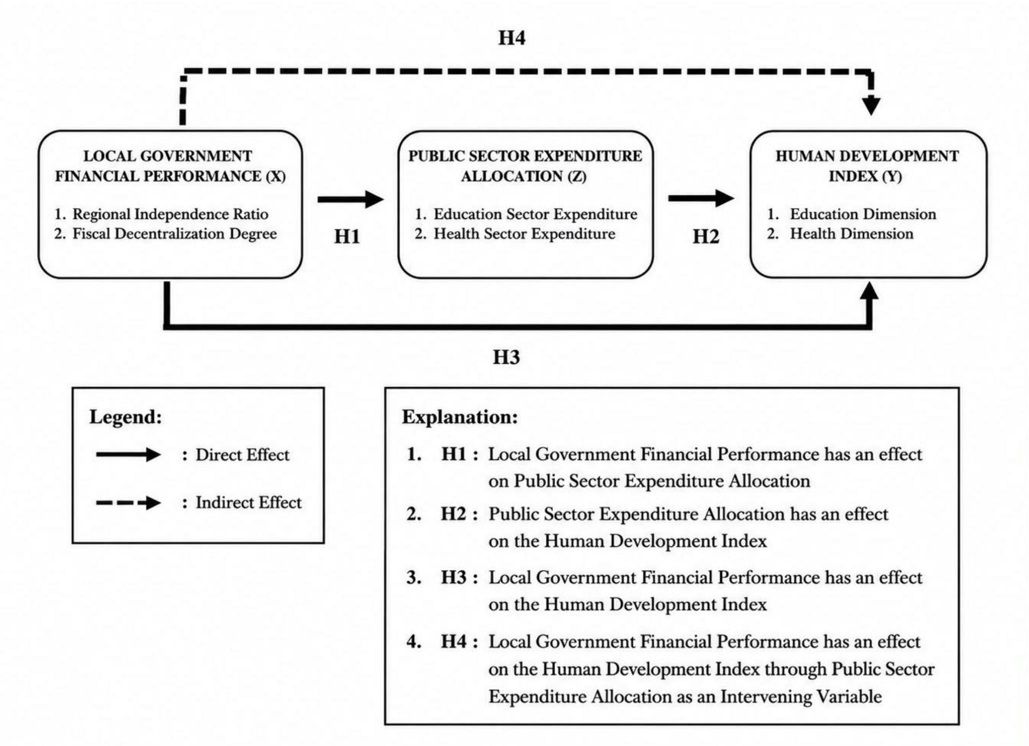

Figure 1. Framework

Hyphothesis

H1: Regional government financial performance has a positive and significant effect on the Human Development Index (HDI) in East Ogan Komering Ulu Regency.
H2: Regional government financial performance has a positive and significant effect on public sector expenditure allocation in East Ogan Komering Ulu Regency.
H3: Public sector expenditure allocation has a positive and significant effect on the Human Development Index (HDI) in East Ogan Komering Ulu Regency.
H4: Public sector expenditure allocation significantly mediates the effect of regional government financial performance on the Human Development Index (HDI) in East Ogan Komering Ulu Regency.

RESEARCH METHODS

This study adopted a quantitative research approach with a causal-associative design to empirically examine the relationships among local government financial performance, public sector budget allocation, and the Human Development Index (HDI) in East Ogan Komering Ulu Regency. A quantitative approach is appropriate for testing relationships among variables using measurable and systematically analyzed data (Creswell & Creswell, 2019). In the proposed research model, Local Government Financial Performance serves as the independent variable (X), Public Sector Budget Allocation functions as the intervening variable (Z), and HDI represents the dependent variable (Y). The use of an intervening variable enables the study to examine not only the direct relationships between constructs but also the mechanism through which one variable may influence another (Hair & Sarstedt, 2019).The study used secondary quantitative data in the form of annual time-series data for the 2016–2025 period. The population comprised financial report and HDI data for East Ogan Komering Ulu Regency, while the sample consisted of audited and publicly available APBD data and HDI data published by the Central Statistics Agency (BPS) during the research period. Since all available annual data were included, a saturated sampling technique was applied, resulting in 10 annual observations. The data were collected through documentation from official sources, including the Regional Financial and Asset Management Agency (BPKAD), the Audit Board of the Republic of Indonesia (BPK RI), BPS, and the Regional Financial Data Portal of the Ministry of Finance. The data included locally generated revenue, transfer revenue, education expenditure, health expenditure, public sector expenditure, total expenditure, and HDI scores.

Table 1. Operational Definition of Variables

No	Variable	Operational Definition	Indicator	Scale
1	Local Government Financial Performance (X)	The level of local government capacity to manage regional finances—including revenue, expenditure, and financing—effectively, efficiently, and independently	1. Regional Financial Independence Ratio 2. Degree of Fiscal Decentralization	Ratio
2	Public Sector Expenditure Allocation (Z)	The scale of local government budget allocation to public sectors that support community well-being	1. Education Expenditure	Ratio

			2. Health Expenditure	
3	HDI (Y)	A measure of human development success based on the community's quality of life	1. Education Dimension 2. Health Dimension	Ratio

Source: Processed data, 2026

The variables were operationalized based on indicators consistent with the research model. Local Government Financial Performance was measured using the regional financial independence ratio and the degree of fiscal decentralization, reflecting the government's capacity to manage regional financial resources effectively and independently. Public Sector Budget Allocation represented government expenditure directed toward public welfare sectors, particularly education and health, while HDI represented human development outcomes through the dimensions of education and health. The collected data were systematically organized into annual datasets before analysis. Given the characteristics of the data and the proposed causal model, Structural Equation Modeling–Partial Least Squares (SEM-PLS) was employed using SmartPLS software to examine the relationships among the constructs and assess both direct and indirect effects.

Data analysis consisted of measurement model evaluation, structural model evaluation, and hypothesis testing. The measurement model was assessed through convergent and discriminant validity as well as construct reliability. Convergent validity was evaluated using outer loading and Average Variance Extracted (AVE), with an AVE value of at least 0.50 considered acceptable, while discriminant validity was assessed using cross-loading, the Fornell–Larcker criterion, and the Heterotrait–Monotrait Ratio (HTMT). Reliability was examined using Cronbach's Alpha and Composite Reliability, with Composite Reliability ≥ 0.70 indicating adequate reliability. The structural model was evaluated using the R-square (R^2) value to determine the explanatory power of the endogenous constructs. Hypotheses were tested using the bootstrapping procedure in SmartPLS, with statistical significance determined at a 5% level based on a t-statistic >1.96 and p-value <0.05. An indirect effect analysis was also conducted to determine whether Public Sector Budget Allocation mediates the relationship between Local Government Financial Performance and HDI.

RESULTS AND DISCUSSION

The Effect of Local Government Financial Performance on Public Sector Expenditure Allocation

The hypothesis testing results obtained through the bootstrapping procedure in SmartPLS demonstrate that local government financial performance has a positive and statistically significant effect on public sector expenditure allocation in East Ogan Komering Ulu Regency. The analysis produced an Original Sample value of 0.802, a T-statistic of 5.652, and a P-value of 0.000. Since the T-statistic exceeds the critical value of 1.96 and the P-value is below the 5% significance threshold, the proposed hypothesis is supported. These findings indicate that improvements in local government financial performance are accompanied by greater capacity to allocate financial resources toward public sector priorities.

This relationship suggests that stronger financial management enables local governments to utilize their fiscal resources more effectively in supporting development priorities. Sound financial performance reflects the government's ability to manage revenues, control expenditures, strengthen fiscal independence, and optimize the implementation of the regional budget. Such conditions provide greater fiscal space for financing essential sectors, including education, healthcare, infrastructure, and basic public services. Consequently, better financial management can provide local governments with greater flexibility to fulfill mandatory expenditures while simultaneously financing priority development programs.

From a theoretical perspective, this finding is consistent with the fiscal decentralization perspective, which emphasizes that regional fiscal capacity constitutes an important foundation for the government's ability to provide public services. Greater fiscal capacity creates broader opportunities for local governments to direct resources toward development programs that generate public benefits. In East Ogan Komering Ulu Regency, the finding indicates that improvements in financial management have contributed to strengthening public sector expenditure allocation. Therefore, efforts to improve financial performance should be accompanied by sound budgeting and expenditure planning to ensure that available fiscal resources are transformed into productive and community-oriented public spending.

The Effect of Public Sector Expenditure Allocation on the Human Development Index

The hypothesis testing results indicate that public sector expenditure allocation has a positive and significant effect on the Human Development Index (HDI) in East Ogan Komering Ulu Regency. The bootstrapping analysis generated an Original Sample value of 0.957, a T-statistic of 3.093, and a P-value of 0.002. Because the T-statistic is greater than 1.96 and the P-value is below 0.05, the proposed hypothesis is statistically supported. This result demonstrates that the allocation of government expenditure to public sectors plays an important role in improving human development outcomes.

The positive relationship indicates that increasing and appropriately targeting public expenditure can contribute to improvements in the quality of life of the population. Government spending directed toward education can expand access to learning opportunities and improve educational services, while health expenditure can strengthen access to and the quality of healthcare. Public investment in infrastructure can also support economic and social activities by improving connectivity and access to essential facilities. Therefore, the effectiveness of public expenditure is not merely determined by its size but also by the extent to which budgetary resources are directed toward sectors that directly address community needs and contribute to the improvement of human development.

The finding is theoretically consistent with Public Finance Theory, particularly the government's allocation function, which emphasizes the role of public expenditure in providing goods and services that cannot be efficiently supplied through market mechanisms alone. It also supports Human Capital Theory, which views investment in education and healthcare as an investment in the quality of human resources. In East Ogan Komering Ulu Regency, the results demonstrate that the effectiveness of public expenditure allocation is an important determinant of human development. The study further reports a path coefficient of 0.817, indicating a strong relationship between public sector expenditure allocation and HDI. Accordingly, the planning, budgeting, and implementation of public expenditure should be continuously improved to ensure that government resources generate tangible improvements in community welfare.

The Effect of Local Government Financial Performance on the Human Development Index

The empirical results indicate that local government financial performance does not have a statistically significant direct effect on the Human Development Index in East Ogan Komering Ulu Regency. The direct-effect analysis produced an Original Sample value of -0.079, a T-statistic of 0.252, and a P-value of 0.801. Because the T-statistic is below 1.96 and the P-value exceeds 0.05, the proposed hypothesis is not supported. Thus, improvements in local government financial performance alone cannot be considered sufficient to generate a direct improvement in the Human Development Index.

The absence of a significant direct relationship implies that stronger financial performance does not automatically translate into better human development outcomes. Financial performance primarily reflects the government's ability to manage and maintain its financial resources, whereas improvements in human development depend substantially on how those resources are subsequently utilized. In other words, greater fiscal capacity may have limited effects on education, healthcare, living standards, and other dimensions of human development if it is not accompanied by effective expenditure policies. The findings therefore suggest that the benefits of sound financial management need to be transmitted through productive and well-targeted public spending.

From a theoretical standpoint, this finding highlights the distinction between financial capacity and the effective utilization of public resources. Fiscal decentralization provides local governments with greater authority and financial capacity, but the availability of resources alone does not guarantee improved development outcomes. In the context of East Ogan Komering Ulu Regency, financial performance needs to be translated into expenditure programs that directly support education, healthcare, infrastructure, and basic public services. Therefore, the quality of budget allocation becomes an essential mechanism through which improved financial performance can ultimately contribute to human development.

The Indirect Effect of Local Government Financial Performance on the Human Development Index through Public Sector Expenditure Allocation

The indirect-effect analysis confirms that public sector expenditure allocation significantly mediates the relationship between local government financial performance and the Human Development Index. The bootstrapping results show an Original Sample value of 0.677, a Sample Mean of 0.724, a Standard Deviation of 0.303, a T-statistic of 2.232, and a P-value of 0.026. Since the T-statistic exceeds 1.96 and the P-value is below 0.05, the indirect relationship is positive and statistically significant. Therefore, the hypothesis proposing an indirect effect of local government financial performance on HDI through public sector expenditure allocation is supported.

This finding demonstrates that the contribution of local government financial performance to human development is realized through the government's ability to transform financial capacity into productive public expenditure. Improved financial performance provides greater fiscal room for financing strategic sectors, while appropriately allocated public expenditure subsequently contributes to improvements in human development. Thus, public sector expenditure allocation serves as an important transmission mechanism connecting government financial capacity with human development outcomes. The result also indicates that evaluating financial performance should not be limited to financial achievements but should consider whether improved fiscal capacity is translated into expenditure that generates meaningful benefits for society.

Overall, the findings reveal that public sector expenditure allocation plays a strategic mediating role in the relationship between local government financial performance and HDI. While financial performance does not exert a significant direct effect on HDI, its indirect effect through public sector expenditure allocation is statistically significant. This pattern indicates a full mediation mechanism, meaning that the influence of financial performance on human development operates primarily through the allocation of public expenditure. Consequently, the East Ogan Komering Ulu Regency Government should not only strengthen its financial management capacity but also ensure that increased fiscal capacity is translated into efficient, effective, and targeted spending, particularly in education, healthcare, infrastructure, and essential public services.

CONCLUSION

1. Local Government Financial Performance does not have a significant effect on the HDI in East Ogan Komering Ulu Regency. This finding indicates that improvements in financial performance do not directly enhance human development, as their impact depends on how effectively public funds are allocated and utilized.
2. Local Government Financial Performance has a positive and significant effect on Public Sector Expenditure in East Ogan Komering Ulu Regency. Better financial performance strengthens the government's capacity to allocate resources to priority public sectors and support regional development.
3. Public Sector Expenditure has a positive and significant effect on the HDI in East Ogan Komering Ulu Regency. Appropriate budget allocation for education, healthcare, and other public services contributes to improving the quality of human development.
4. Public Sector Expenditure fully mediates the relationship between Local Government Financial Performance and the HDI in East Ogan Komering Ulu Regency. This means that financial performance contributes to human development primarily through well-targeted public expenditure policies that prioritize service quality and community welfare.

IMPLICATION

The findings imply that improving human development in East Ogan Komering Ulu Regency requires not only stronger local government financial performance but also well-targeted public sector expenditure policies. Since financial performance affects the HDI indirectly through public sector expenditure, the local government should optimize regional financial management by prioritizing education, healthcare, infrastructure, and other essential public services that directly support community welfare.

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