UDC 332

THE EFFECT OF REGIONAL FINANCIAL PERFORMANCE ON THE PERFORMANCE OF REGIONAL DEVELOPMENT AND COMMUNITY WELFARE IN BANGLI DISTRICT

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ABSTRACT

The main objective of regional autonomy is to give wider authority to local governments in managing finances and planning and implementing regional development to improve the welfare of their people. This study aims to analyze the effect of the influence of regional financial performance on regional development performance and community welfare in Bangli Regency. The research data was obtained from secondary sources, namely from the Central Bureau of Statistics and the Finance Agency, Regional Revenue and Assets of Bangli Regency. Furthermore, the data obtained were analyzed using Structural Equition Model (SEM) using Partial Least Square (PLS) software. The results showed that regional financial performance has a positive effect on development performance, and regional financial performance and development performance have a positive effect on the welfare of the community in Bangli Regency. Because there are still several indicators of regional financial performance, especially the ratio of regional self-reliance is very low, it is hoped that the Bangli Regency Government will continue to strive to explore the sources of Regional Original Income.

KEY WORDS

Regional performance, regional development performance, community welfare.

Since 2001 all regions in Indonesia have implemented regional autonomy. The hope is that from the implementation of regional autonomy, local governments will be more flexible in managing their development strategies. because with decentralization the government will be closer to the people. Various regional potentials encourage regencies or cities to take advantage of this potential with various economic activities. Therefore, regional development is carried out in an integrated and harmonious manner and leads to regional development in accordance with regional priorities and potential (Purbayu, 2005). In essence, development must reflect the total change of a society or the adjustment of the social system as a whole without neglecting the diversity of basic forms and the desire of individuals and social groups in it to move forward towards a better condition of life both materially and spiritually (Todaro, 2003).

The regional autonomy law gives authority to regions in the form of broad, real and responsible autonomy. The consequence of this broad autonomy authority is that local governments have the obligation to improve public services and welfare in a democratic, just, equitable and sustainable manner. This obligation can be fulfilled if the local government is able to optimally manage the potential of the region, namely the potential for natural resources, human resources, and potential financial resources. The granting of autonomy makes regions more sensitive and more efficient at various local potentials that can drive economic growth (Wong, 2004). With regional autonomy giving greater authority to local / regional officials and local community participation in a more appropriate decision-making approach (Rondinelli and Cheema, 1983).

One of the regions in Indonesia that has received full autonomy since the implementation of the regional autonomy policy in 2001 is Bangli Regency. The main characteristic that shows an autonomous region capable of autonomy lies in the financial capacity of the region to finance the implementation of its regional government, meaning that the level of dependence on the central government has a smaller proportion and it is expected that Regional Original Income (PAD) must be the largest part in mobilizing regional

government administration funds. . One measure of regional financial performance is the self-reliance ratio which shows the ability of local governments to self-finance government activities, development and services to the community. The higher the self-reliance ratio, the lower the level of regional dependence on external assistance (central and provincial governments) (Halim, 2007). The Regional Own Revenueshould ideally be the main source of regional income, because other sources of income are relatively fluctuating and tend to be beyond the control or authority of the regional government (Sidik, 2002). Table 1 shows the ratio of regional financial independence in Bangli Regency for the period 2015-2019.

Table 1 – Regional Financial Independence Ratio in Bangli Regency 2015-2019 (Percent)

No	Regency / City	2015	2016	2017	2018	2019	Average
1	Jembrana	11,08	10,15	11,68	12,63	12,62	11,63
2	Tabanan	18,96	16,98	22,91	21,05	20,68	20,12
3	Badung	87,08	85,62	77,07	81,06	82,53	82,67
4	Gianyar	30,40	29,66	34,47	34,70	36,22	33,09
5	Klungkung	13,38	12,67	13,54	15,30	15,73	14,12
6	Bangli	10,05	10,08	9,57	11,09	10,77	10,31
7	Karangasem	17,98	16,04	13,19	15,27	13,86	15,27
8	Buleleng	15,70	12,82	21,45	20,07	22,19	18,45
9	Denpasar	44,16	43,12	51,27	50,17	51,88	48,12
	Average	27,61	26,27	28,42	29,03	29,61	28,19

Source: Bali Provincial Finance Bureau, 2020 (processed).

Based on Table 1.1, it is known that the regional financial independence of Bangli Regency during 2015-2019 is in the 9th position out of 9 Bangli Districts. One of the consequences of implementing regional autonomy is the existence of adequate regional financial sources to finance the implementation of autonomy. The financial capacity of the Regional Government (Pemda) will determine the ability of the Regional Government to carry out functions such as carrying out the public service function, carrying out the development function and implementing the protective function of the community. Low regional financial capacity will often cause a cycle of negative effects, namely low levels of service and development for the community (Suwandi, 2000). Research conducted by Widiastuti (2010), Dwirandra (2008) and Handayani (2006), states that local revenue is one of the important sources of regional revenue used to finance expenditures in realizing development in line with the potential of the region.

In addition to the ratio of regional independence, a more complex regional financial performance as expressed by Halim (2001) can be seen from: effectiveness, efficiency, financial independence, harmony, and efforts to collect Regional Original Income (PAD). All of these ratios show the trend of regional spending patterns, whether a region tends to allocate funds for expenditures that are closely related to efforts to improve the economy, such as capital expenditures, or for expenditures that are public or direct expenditures. Financial performance analysis is basically to assess past performance by carrying out various analyzes in order to obtain a financial position that represents the reality of the entity and potential performance that will continue (Havid, 2011). Regional government financial performance is the ability of a region to explore and manage financial resources in meeting its needs in order to support the running of the government system, services to the community and regional development with flexibility in using funds for the benefit of local communities within the boundaries determined by regulations. legislation (Syamsi, 1986).

As stated by Mardiasmo (2002) that public service spending is expenditure allocated or used to finance activities whose results, benefits and impacts are directly enjoyed by the community. Funds from regional revenues must be managed properly by the regional government and their use is for productive expenditures or can be felt by the community at large, such as for the education sector, health services, district / city physical infrastructure so as to improve community welfare. Government assistance in the field of social services, especially education and health, is something that cannot be questioned anymore. In developing countries, these two factors (aspects) are very important because the

development of public education and health facilities can reduce barriers to development by reducing the backwardness of the population / society, increasing mobility between regions, increasing productivity and providing opportunities for innovation. These are all investments in the humanitarian sector that improve people's welfare (Irawan, 2002).

The success in managing regional finances, which is reflected in the financial performance will have an impact on regional development performance. Riadi (2010) states that development performance indicators include; first, macroeconomic indicators. Second, the job opportunity indicator. Third, indicators of equity. And fourth, poverty indicators. An increasing rate of economic growth will not necessarily result in the same growth rate in creating job opportunities. By increasing per capita income, access to education and health will increase, so that people's welfare will increase.

In the early 1990s the United Nations Development Program (UNDP) measured the level of people's welfare more comprehensively by using the human development index value which is measured based on three indicators as a reference, namely life expectancy, educational attainment and purchasing power parity (Todaro, 2003). Thus the regions can improve the welfare of society through increased human development as reflected in the increasing Human Development Index (HDI). The development paradigm places humans (the population) as the focus and ultimate goal of all development activities, namely achieving control over resources, increasing health status and improving education. The concept of human development basically covers a very broad dimension of development. Broader than the definition of development which only focuses on economic growth (Bappeda Bangli Regency, 2007).

The link between public sector spending and human development is actually easy to trace. Expenditures for the health sector are expected to increase life expectancy and reduce maternal and infant mortality as a component in determining human development. The education budget will increase public access to good and cheap education, so as to increase literacy rates. The development of the level of community welfare in Bangli Regency as reflected by the Human Development Index (HDI) from 2015 - 2019 is presented in Table 2.

Table 2 – Human Development Index by Regency / City of Bali Province, 2015-2019

Regency / City	Tahun (dalam Indeks)					Average
	2015	2016	2017	2018	2019	
Bangli	69,66	70,38	70,72	71.65	72,35	70,25
Tabanan	73,54	74,19	74,86	75,45	76,16	74,51
Badung	78,86	79,8	80,54	80,87	81,59	80,02
Gianyar	75,03	75,7	76,09	76,61	77,14	75,61
Klunkung	68,98	69,31	70,13	70,9	71,71	69,83
Bangli	66,24	67,03	68,24	68,96	69,35	67,17
Karangasem	64,68	65,23	65,57	66,49	67,34	65,49
Buleleng	70,03	70,65	71,11	71,07	72,30	70,72
Denpasar	82,24	82,58	83,01	83,03	83,68	82,72
Bali Province	73,27	73,65	74,3	74.77	75,38	73,74

Source: Central Bureau of Statistics of Bali Province, 2020ю

Based on Table 2, it can be seen that the HDI of Bangli Regency during the period 2015 - 2019 continued to increase, but was below the average of other districts / cities in Bali Province. During that time, Bangli Regency was in seventh place, while Denpasar City was the highest ranking. The achievement of the development program in relation to the allocation of regional financial resources is a fundamental problem in the public sector budget. This shows the need for an expenditure system design capable of controlling patterns of consumption of economic resources, particularly public budgets that are not on target. So that budget allocations related to improving the quality and quality of human development are less effective (Fozzard, 2001). Local governments must be smart in running their government because changes in government revenues and expenditures have a significant effect on the economy (Jing Jin, 2002). Performance measurement is one way that local governments can achieve good governance (Halachmi, 2005). The same opinion

was expressed by Arsyad (2005) where government policies that support aspects of human development can be seen from the proportion of the government budget for the development of the education and health sectors. The large proportion of the government budget allocated for the development of the two sectors reflects the government's concern for the welfare of the community. Capital expenditures made by local governments are used for infrastructure development and improvement in the education, health and transportation sectors so that people enjoy the benefits of regional development that have an impact on welfare (Harianto and Adi, 2007).

Based on the description described above, the focus of the study is "The Impact of Regional Financial Performance on Regional Development Performance and Community Welfare in Bangli Regency".

LITERATURE REVIEW

Regional Financial Performance

Regional government financial performance is the ability of a region to explore and manage regional original financial sources in fulfilling its needs in order to support the running of the government system, services to the community and regional development without being completely dependent on the central government and having the flexibility in using funds for interests of local communities within the boundaries determined by statutory regulations (Syamsi, 1986). Research conducted by Anzhar (2008) reveals that performance is defined as a measurable activity of an entity over a certain period as part of a measure of job success. Performance measurement is the process of continuous monitoring and reporting of activity achievements, particularly progress on planned goals. Research conducted by Mandell (1997) revealed that by measuring performance, local governments obtain information that can improve the quality of decision making so that it will improve services to the community. Financial performance analysis is basically applied to assess past performance by conducting various analyzes so that a financial position is obtained, which represents the reality of the entity and the potential for future performance (Havid, 2011).

According to Halim (2007) several financial ratios that can be used to measure the accountability of local governments are the independence ratio, effectiveness ratio, regional financial efficiency ratio and expenditure compatibility ratio. The explanations related to the ratio of regional financial independence, effectiveness ratio, efficiency ratio, expenditure balance ratio and PAD effort ratio are as follows:

Regional financial effectiveness ratio

The effectiveness ratio describes the ability of local governments to mobilize PAD revenues according to the target (Mahmudi, 2007). The effectiveness ratio can be formulated as follows:

$$\text{Effectiveness ratio} = \frac{\text{Revenue Realization}}{\text{Revenue Target}} \times 100\%$$

Regional financial efficiency ratio

The efficiency ratio is the level of achievement in the implementation of an activity or the achievement of the regional government as measured by comparing the expenditure realization with the revenue realization. The efficiency ratio can be calculated by the following formula:

$$\text{Efficiency ratio} = \frac{\text{Expenditure Realization}}{\text{Revenue Realization}} \times 100\%$$

The smaller the efficiency ratio, the better the local government's performance. In this case it can be assumed that the expenditures spent are appropriate and meet what was planned.

Ratio of regional financial independence

Regional financial independence shows the ability of local governments to self-finance government activities, development and services to people who have paid taxes and levies as a source of regional income. Regional financial independence is calculated by comparing local revenue (PAD) with total regional income. The ratio of regional financial independence can be formulated as follows (Halim, 2007).

Degree of Decentralization / Ratio of regional financial independence:

$$\frac{\text{Own Resource Revenue}}{\text{Total of Regional Revenue}} \times 100\%$$

This ratio shows the degree of PAD contribution to total regional revenue. The higher the PAD contribution, the higher the capacity of local governments in implementing decentralization (Mahmudi, 2007). Harsey in Halim (2001) argues about "Situational Relations", namely the pattern of relations between the central and regional governments regarding the financial balance between the central and regional governments.

The four patterns of relationship include the instructive relationship pattern (the role of the central government is more dominant than the regional government), the consultative relationship pattern (central government interference has begun to decrease because the regions are considered to be a little more capable of implementing regional autonomy), the participatory relationship pattern (the role of the government the central government is decreasing considering the level of independence is close to the ability to carry out regional autonomy affairs), and the pattern of delegative relations (central government interference is no longer there because the regions are truly capable and independent in implementing regional autonomy).

Expenditure suitability ratio

This ratio illustrates how the regional government prioritizes its allocation of funds to routine spending and public spending optimally. This analysis is useful for cost control and budget control. In this study, the proportion of public spending to total regional expenditure is used, because direct public expenditure is intended to improve the welfare of the community. The compatibility ratio can be formulated as follows (Mahmudi, 2007):

Ratio of public expenditure to total regional expenditure:

$$\frac{\text{Total public expenditure}}{\text{Total regional expenditure}} \times 100$$

After 2005 public spending was used direct spending. There is no definite benchmark of how much the ratio of direct and indirect expenditure to the ideal regional revenue and expenditure budget (APBD), because it is strongly influenced by the dynamics of development activities and the amount of investment needed to achieve the targeted growth. Therefore, the relatively small ratio of direct spending needs to be increased according to regional development needs.

The ratio of efforts to collect local revenue (PAD)

Efforts to collect local revenue (tax effort) show the government's ability to increase local revenue based on regional potential. Regions that have high GDRP per capita reflect the high purchasing power of the people in that area, so the PAD per capita in these areas should also be high. Therefore, the effort to collect local revenue is generally measured by comparing the realization of Regional Own Revenuewith the GRDP. According to Halim (2001) the effort to collect local revenue is calculated using the following formula:

$$\text{Ratio of efforts to collect PAD} = \frac{\text{Own Resource Revenue}}{\text{Gross Domestic Regional Bruto}} \times 100\%$$

Regional Development Performance

According to Riadi (2010), development performance indicators include; first, macroeconomic indicators. Second, the job opportunity indicator. Third, indicators of equity. And fourth, poverty indicators. An increasing rate of economic growth will not necessarily result in the same growth rate in creating job opportunities. The size of the poverty line will continue to change according to the increase in the cost of living, which is generally greater in urban than in rural areas. Thus it is clear that the end of the development process is marked by economic growth, so we need a concept that describes an increase in overall economic activity (macroeconomics), in order to improve the economic welfare of the community.

According to Krisnamurthi (1995), successful economic development must have four main dimensions, namely economic growth, poverty reduction, change or transformation of economic structures and the sustainability of development itself. Meanwhile, according to Jhingan (2010), economic development cannot be achieved solely by removing obstacles that hinder economic progress. The main condition for economic development is that the growth process must rely on the capacity of the domestic economy.

Referring to the various definitions of development above, economists formulate measures of development success. Dudleey Seer in Todaro (2003), formulates the following measures of development success: (1) the level of income inequality; (2) poverty reduction; (3) decrease in unemployment rate. A country that carries out economic development always strives to achieve economic growth. In fact, governments with various economic policies often target the economic growth they want to achieve. A country that can achieve economic growth means that there is an increase in economic activity in that country, both production and consumption activities. Increased economic activity will increase investment, which in turn will increase investment to create jobs or reduce unemployment. The Indonesian economy shows that every one percent of economic growth will be able to absorb a new workforce of 548,000 people (Setyowati, 2011).

Community welfare

Community welfare, a term often used in academic terminology as social welfare, has experienced a shift in its understanding and use. Social welfare refers to good living conditions, the fulfillment of material needs for life, spiritual needs (it is not enough to admit religion but the real manifestation of religion such as respect for others), social needs such as regular order, conflict in life can be managed, security can be guaranteed, justice can be enforced where everyone has an equal position before the law, reducing socio-economic inequality.

Measurement of development success has evolved over time. The United Nations in 1990 began to introduce a measure of the success of development through an index called the Human Development Index (HDI). The Human Development Index (HDI) is a measure that includes a combination of three dimensions of human development, namely (1) long life as measured by life expectancy, (2) knowledge measured by a weighted average of the number of adults who can read and the average length of school years, and (3) income as measured by real per capita income which has been adjusted according to the purchasing power of the currencies of each country (Kuncoro, 2006).

The calculation of BPS is slightly different from UNDP. The BPS version of HDI is based on three categories, namely, (1) longevity reflected in the life expectancy index (index X1); (2) Educational attainment as measured by a combination of literacy levels and mean length of schooling (index X2); (3) standard of living as measured by the per capita consumption expenditure approach in IDR PPP (index X3). The HDI scale ranges from 1 to 100. The closer the HDI value of an area is to 100, the closer the road must be to reaching the target. A more complete IPM calculation is as follows:

$$HDI = 1/3 \text{ (index X1 + index X2 + index X3)}$$

Where:

X1 = Life Expectancy Index;

X2 = Education Index;
X3 = Expenditure index per capita;
X2 = 2/3 (literacy index) + 1/3 (average length of school index).

METHODS OF RESEARCH

This study uses quantitative data that analyzes the effect of regional financial performance on regional development performance and community welfare in Bangli Regency. According to the type of data and analysis technique, this research is a quantitative research (quantitative research), which is research based on quantitative data presented in the form of numbers, then analyzed with a Structural Equation Model (SEM) using Partial Least Square (PLS) software, with a model like Figure 1.
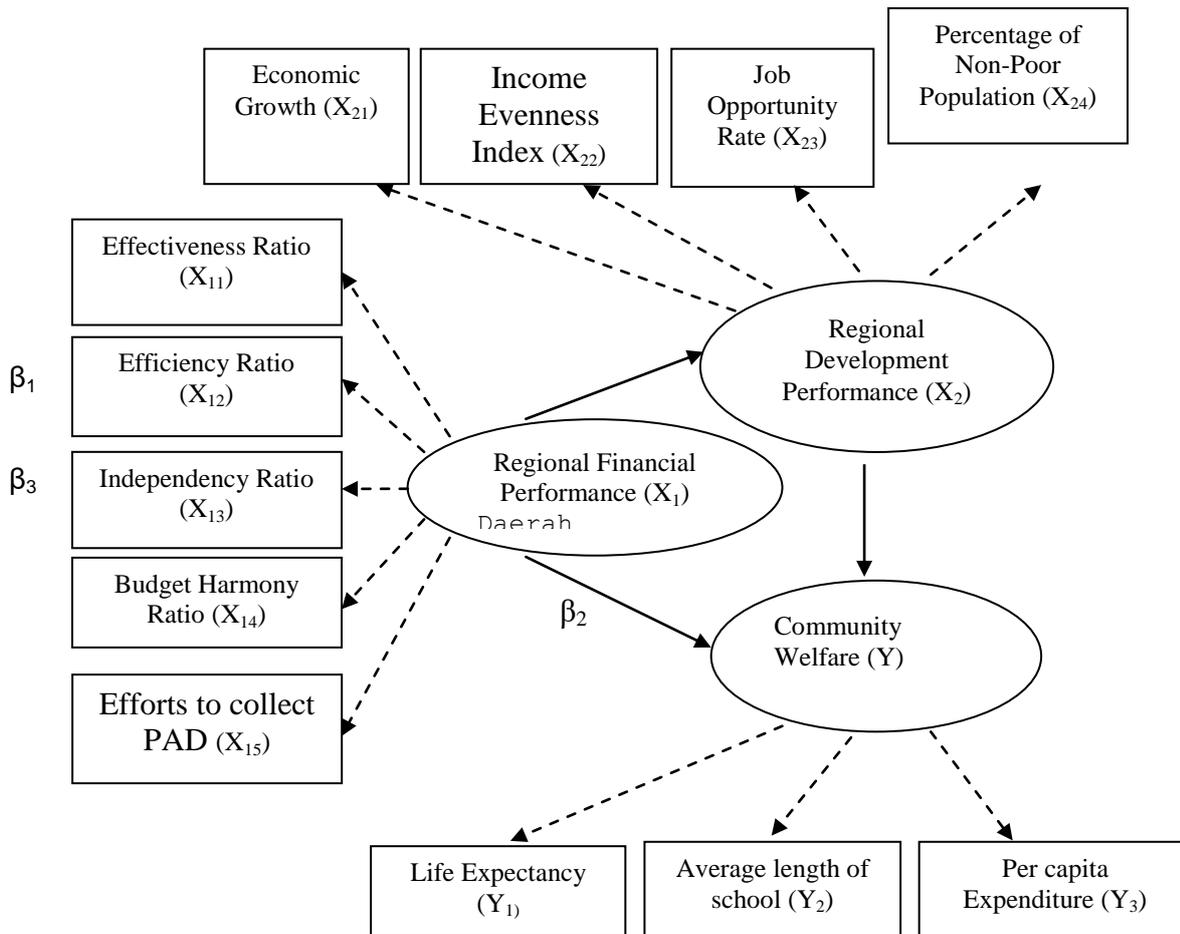

Figure 1 – Research Concept on the Impact of Regional Financial Performance on Community Welfare in Bangli Regency

Based on the subject matter, the intended conceptual framework and frame of mind, the hypothesis is formulated as follows:

1) Regional financial performance has a positive effect on the regional development performance of Bangli Regency;

2) Regional financial performance has a positive effect on the welfare of the people of Bangli Regency;

3) The performance of regional development has a positive effect on the welfare of the people of Bangli Regency;

4) Regional financial performance has a positive and significant effect on community welfare through the regional development performance of Bangli Regency.

The data used in this research is quantitative data from secondary sources, namely data in the form of documents or records that have been collected and processed by related parties so that they can be used for analysis purposes such as regional budget (APBD) data, data Gross Regional Domestic Product (GRDP) per capita, Gini ratio data, unemployment rate data, Bangli district poverty rate data from 2001-2019. Although the data is relatively small, namely 17 observations, with the bootstrapping method using Partial Leas Square the data is guaranteed to be adequate.

Regional financial performance

The financial performance of the Bangli Regency local government is the ability of a region to explore and manage regional original financial sources in meeting regional needs without being completely dependent on the central government and having the flexibility in using funds for the benefit of the local community within determined boundaries. laws and regulations. In this study, local government financial performance is measured based on indicators: The ratio of regional financial effectiveness in Bangli Regency is the comparison of revenue realization with budget (target) revenue, in Bangli Regency from 2001-2019 (in percentage); The ratio of regional financial efficiency in Bangli Regency is a comparison of the expenditure realization with the realization of income in Bangli Regency from 2001-2019 (in percent); The ratio of regional financial independence of Bangli Regency is the ratio between the total PAD and the total regional revenue in Bangli Regency from 2001-2019 (in percent); The regional financial harmony ratio of Bangli Regency is the ratio between the total realization of public expenditure and the total regional expenditure in Bangli Regency from 2001-2019 (in percentage); The ratio of efforts to collect PAD in Bangli Regency is the ratio between the realization of PAD revenue and the GRDP of Bangli Regency from 2001-2019 (in percent).

Regional development performance

The regional development performance of Bangli Regency is the achievement of development results. According to Riadi (2010) development performance indicators include; first, macroeconomic indicators. Second, the job opportunity indicator. Third, indicators of equity. And fourth, poverty indicators. The regional development performance of Bangli Regency is measured based on indicators. Economic growth is the percentage change in GDP at constant 2010 prices in Bangli Regency in a certain year compared to the GRDP of the previous year, during 2001-2019 which is expressed in percent; The income evenness index is one minus the Gini ratio of Bangli Regency. The Gini ratio number lies between 0 (zero) and 1 (one). Zero represents perfect evenness and one represents perfect inequality. Therefore, the income evenness index is 1 (one) if there is perfect evenness, and the closer it is to zero, it reflects the more unevenness, during 2001-2019 in the index unit; The employment opportunity rate (EK) of Bangli Regency according to the Central Statistics Agency (BPS) is the ratio of the total working population to the total workforce. The workforce consists of both the working and the unemployed. In accordance with the definitions from BPS and Depnaker, the concept of the working age population is the population aged 15 years and over. The rate of labor absorption can also be calculated from 100 minus the unemployment rate in Bangli Regency from 2001-2019 (in percent); Percentage of non-poor population calculated from 100 minus the poverty rate in Bangli District from 2001-2019 (in percentage terms).

The level of community welfare in this study uses health indicators using life expectancy measures, education using the average length of schooling, and per capita expenditure, Bangli Regency during 2001 - 2019. In this research, structural equation analysis (SEM) is used with the alternative Partial Least Square PLS (component based SEM). The Structural Equation Model (SEM) is a statistical technique that allows testing a series of relatively complex relationships simultaneously and in stages. In accordance with what is described in the conceptual framework of the relationship between variables in this study is presented in full in Figure 2.
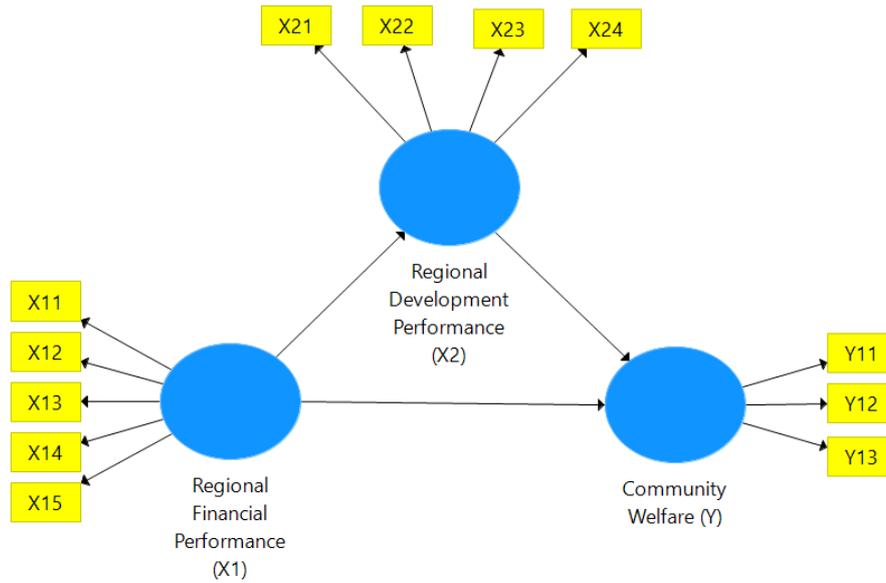
Figure 2 – The Influence of Financial Performance on Regional Development Performance and Community Welfare in Bangli Regency

Based on Figure 2, the equation model in this study can be made as follows:

$$X_2 = \beta_1 X_1 + \varepsilon_1 \quad \text{...(1)}$$
$$Y = \beta_2 X_1 + \beta_3 X_2 + \varepsilon_2 \quad \text{...(2)}$$

Where:
X_1 = Regional Financial Performance;
X_2 = Regional Development Performance;
Y = Community Welfare;
β_1, β_2, and β_3 = path coefficient;
ε_1 and ε_2 = *inner residual*.

RESULTS AND DISCUSSION

This section describes the indicators of the Regional Financial Performance variables as presented in Table 3.

Table 3 – Regional Financial Performance Indictors of Bangli Regency, 2001 – 2019

Year	Effectiveness Ratio (%)	Efficiency Ratio (%)	Financial Indepency Ratio (%)	Budget Harmony Ratio (%)	PAD Collecting Effort (%)
2001	102,13	93,36	4,55	18,33	0,61
2002	103,93	105,16	4,21	20,22	0,63
2003	102,33	91,21	4,51	30,66	0,77
2004	101,97	100,95	4,06	37,29	0,65
2005	103,61	96,39	3,77	38,99	0,58
2006	102,55	93,87	3,17	41.52	0,65
2007	101,67	103,51	2,99	35.86	0,70
2008	102,18	103,93	2,95	41,86	0,69
2009	102,43	111,57	3,99	30,65	0,77
2010	99,79	98,97	3,42	28,89	0,59
2011	97,64	105,81	4,23	36,30	0,75
2012	99,70	95,10	6,54	41,70	1,21
2013	96,78	92,81	8,06	43,05	1,50
2014	98,76	96,06	9,59	45,23	1,74
2015	100,81	103,00	10,05	47,14	1,78
2016	109,98	93,52	10,08	46,66	1,92
2017	104,33	77,01	9,57	47,15	1,75
2018	105,01	81,59	11,09	46,55	1,89
2019	103,75	80,66	10,77	40,85	1,82

Source: Bangli Regency Finance Department, 2020.

Based on Table 3, it can be explained that the financial performance in Bangli Regency, from 2001 - 2019 is as follows: 1) Regional financial effectiveness ratio, which is a comparison between realized regional revenue and regional revenue budget. The bigger this number the better and the more effective. From 2001 to 2019 it fluctuated quite a bit, but showed an increasing trend. During that period, the effectiveness ratio had an average of 102.07 percent or the category "very effective". 2) Regional financial efficiency ratio, which is the ratio between expenditure and regional income. The smaller this number the better, which indicates the more efficient. During the period 2001 - 2019 the efficiency ratio in Bangli District fluctuated quite a bit, but with a tendency to decrease or get better. The average regional financial efficiency ratio for Bangli Regency during 2001 - 2019 was 96.03 percent or in the "very efficient" category. 3) Self-reliance ratio, which is a comparison between the realization of own regional revenue (PAD) and total regional revenue. The bigger this number the better, which means the region is more independent. In the 2001 - 2019 period, the ratio of regional financial independence in Bangli Regency fluctuated slightly, but had a tendency to increase every year during that period. During the period 2001 - 2019 it had an average of 6.19 percent or in the "very low" category, because it was less than 10 percent. 4) Budget harmony ratio which is a comparison between the realization of direct expenditure and the realization of the total expenditure. The greater this figure, the better, which means that the greater development spending is allocated to the public. During the period analyzed it also fluctuates slightly with an increasing trend, which means that the more the year, the greater the expenditure allocated to the public. The average budget allocation for public spending in Bangli Regency during that period was 40.73 percent. There is no regulation on how much the budget balance will be, but it is expected that the budget allocation for the public will increase every year. 5) PAD efforts, in this case the comparison between PAD and GRDP. With the increase in community income, the PAD that can be collected should increase relatively more. The data show that the effort to collect PAD, although fluctuating slightly each year, shows an increase every year. During the period 2001 - 2019 an average of 1.10, which means that every Rp. 100, - the community income can only be collected PAD of Rp. 1.10.

Regional Development Performance

Bangli Regency regional development performance data consisting of four indicators is presented in Table 4.

Table 4 – Regional Development Performance Indicators of Bangli Regency, 2001 – 2019

Year	Economic Growth (%)	Employment Opportunity (%)	Population that is not poor (%)	Income Evenness Index
2001	3,27	92,07	97,95	0,78
2002	3,03	92,39	96,82	0,78
2003	3,38	93,01	97,33	0,81
2004	4,03	93,75	98,36	0,83
2005	4,46	93,31	99,56	0,77
2006	4,25	92,13	98,38	0,78
2007	4,48	92,52	98,63	0,82
2008	4,02	93,88	97,43	0,76
2009	5,71	94,82	98,61	0,77
2010	5,71	93,59	99,35	0,78
2011	6,14	94,84	99,19	0,73
2012	6,20	95,48	99,10	0,69
2013	5,94	94,55	99,23	0,69
2014	5,82	94,14	99,33	0,67
2015	6,21	94,27	98,88	0,62
2016	6,23	94,78	98,90	0,65
2017	5,47	94,77	99,20	0,70
2018	5,50	95,11	99,28	0,69
2019	5,31	95,56	99,28	0,70

Source: BPS Bangli Regency, 2020.

Based on Table 4, it can be explained that the regional development performance indicators in Bangli Regency during 2001 to 2010 are as follows: Economic growth is an important indicator to measure development performance. Regional economic growth is

calculated based on the growth of GRDP according to constant prices from a certain year to the next, divided by the GRDP for a certain year multiplied by one hundred percent. Bangli Regency during 2001 - 2019 was somewhat fluctuating, but has an increasing trend. The lowest economic growth in Bangli Regency was 3.03 percent in 2002, while the highest was 6.20 occurred in 2012. During the research period, economic growth in Bangli Regency had a tendency to increase by an average of 4.98. The percentage of the population that is not poor, or the population is above the poverty line. This figure is obtained by subtracting the number 100 from the poverty rate from BPS Bangli Regency. Based on Table 5.3 it can be explained that the non-poor population in Bangli Regency during 2001 - 2019 had an average of 93.95 percent. The lowest figure of 92.07 percent occurred in 2001, while the highest of 95.56 percent occurred in 2019 or with a poverty rate of 4.44 percent.

Employment opportunity is the ratio between the number of working age population who are working and the total labor force. In this study, labor absorption was calculated from one hundred percent minus the open unemployment rate in districts / cities in the study area during 2001 - 2019. Open unemployment data was obtained from the publication of the Central Bureau of Statistics of Bangli Regency. Table 4 employment opportunities in Bangli Regency have a range between 96.82 percent and 99.35 percent. The lowest figure was in 2002, while the highest was in 2010. This means that in 2010 the open unemployment rate in Bangli Regency was 0.65 percent. The absorption of labor in Bangli Regency has an increasing trend. Income evenness index. Equitable income is one of the goals of development. In this study, evenness is calculated from one minus the Gini Ratio, which is between zero and one. The Gini Ratio figure is obtained from BPS. The closer to one evenness index, this indicates that the income distribution of the population is more, evenly distributed, on the contrary, the closer to zero it means that the level of income distribution is more uneven. The lowest income evenness index figure in Bangli Regency during 2001 - 2019 was 0.62 which occurred in 2015, while the highest was 0.83 occurred in 2004. From 2001 to 2019 the income evenness index in Bangli Regency has a tendency decreased, or the condition got worse.

Community Welfare

Community welfare in this study uses three indicators, namely: health with a proxy for Life Expectancy, education as a proxy for average length of schooling, and per capita expenditure, as shown in Table 5: Life Expectancy.

Table 5 – Community Welfare Indicators in Bangli Regency, 2001 – 2019

Year	Life Expectancy (Years)	Average length of school (Years)	Per capita expenditure (Rp 1.000)
2001	64,68	5,13	8.439
2002	68,05	5,28	8.448
2003	62,52	5,28	9.476
2004	68,15	5,28	8.481
2005	68,34	5,53	9.194
2006	61,25	5,53	9.296
2007	68,43	5,53	9.384
2008	68,50	5,53	9.589
2009	68,66	5,68	9.746
2010	68,80	5,93	9.797
2011	68,98	5,97	10.113
2012	69,18	6,01	10.341
2013	69,36	6,35	10.424
2014	69,44	6,38	10.469
2015	69,54	6,41	10.649
2016	69,69	6,44	10.819
2017	69,83	6,80	10.956
2018	70,05	7,13	11.160
2019	70,37	7,16	11.369

Source: BPS Bangli Regency, 2020.

The life expectancy or average age attained by the community is obtained from BPS. During 2001 - 2019 it continued to increase every year from 64.68 years to 70.37 years. Average length of school. Similar to other community welfare indicators, the average length

of schooling in Bangli Regency also continues to increase every year, from 5.13 years in 2001 to 7.16 in 2019. Per capita expenditure. Per capita expenditure in this case uses constant prices in 2010. Per capita expenditure in the district of Bangli from 2001 to 2019 continues to increase from IDR 8,439,000 to IDR 11,369,000.

By seeing the increase in the three indicators of community welfare, it means that from 2001 to 2019 the level of community welfare has increased.

Structural Equation Model

Overall, the full model of the Influence of Regional Financial Performance on Regional Development Performance and Community Welfare in Bangli Regency is presented in Figure 3.
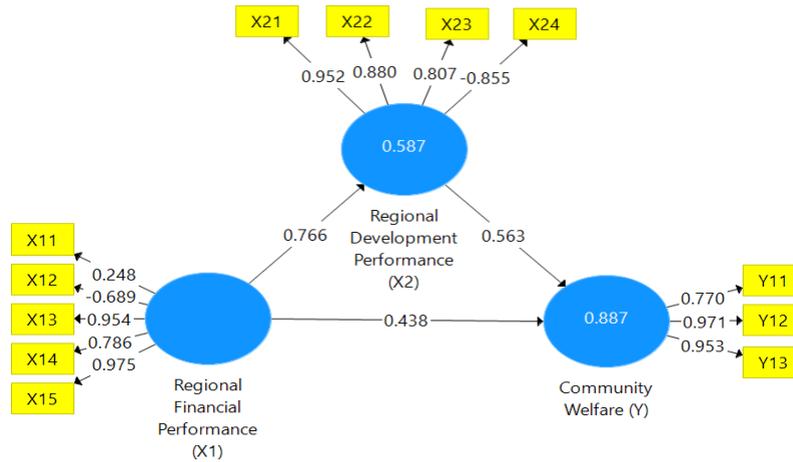

Figure 3 – Full Model The Effect of Regional Financial Performance on Regional Development Performance and Community Welfare in Bangli Regency

Outer Model Validity Test

To find out whether the indicators used to form constructs or latent variables are valid, the following analysis is carried out.

The PLS output results regarding convergent validity are presented in Figure 4.1, it is known that the X11 indicator has a loading factor of 0.248 or less than 0.50 as required. Therefore these indicators were excluded from the model. After the X11 indicator is issued, the revised model is presented in Figure 4.
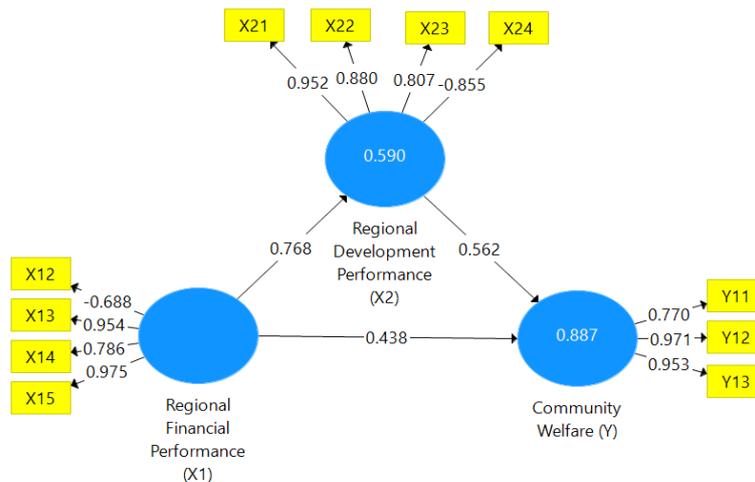

Figure 4 - Full Model of the Influence of Regional Financial Performance on Regional Development Performance and Community Welfare in Bangli Regency (After Revision)

Table 5 – Outer Loading Constructive Indicators for Regional Financial Performance, Regional
Development Performance, and Community Welfare in Bangli Regency, 2001 – 2019

Intervariable Relationships	Loading	Std. Deviation	t Statstics	P. Value
X12 <- X1	-0,688	0,189	3,636	0,000
X13 < -X1	0,954	0,016	58,034	0,000
X14 < -X1	0,786	0,069	11,390	0,000
X15 < -X1	0,975	0,007	140,091	0,000
X21 < -X2	0,952	0,360	2,645	0,008
X22 < -X2	-0,880	0,344	2,554	0,011
X23 < -X2	-0,807	0,337	2,392	0,017
X24 < -X2	0,855	0,333	2,564	0,011
Y11 < - Y	0,770	0,084	9,188	0,000
Y12 < - Y	0,971	0,008	124,664	0,000
Y13 < - Y	0,953	0,017	54,672	0,000

Source: Research Results.

Note:
X1 = Regional Financial Performance
X11 = Effectiveness
X12 = Efficiency
X13 = Independence Ratio
X14 = Conformity Ratio
X15 = Efforts to collect PAD
X2 = Regional Development Performance
X21 = Economic Growth

X22 = Labor Absorption
X23 = Percentage of non-poor population
X24 = Income Evenness Index
Y = Community Welfare
Y1 = Life Expectancy
Y2 = Average length of schooling
Y3 = Expenditure Per Capita

Based on Table 5, it can be seen that all indicators in the construct of regional financial performance (X1), regional development performance (X2) and community welfare (Y) are statistically significant with a t-value greater than 1.96 with a p value less than 0.05 and 0 , 01. Likewise, all loading values are above 0.50, which means that the construct has met the convergent validity requirements.

To find out the validity of a construct, it can also be seen from discriminan validity. Discriminant validity on reflective indicators is by looking at the crossloading of the indicators against their constructs or latency. A good DV where the indicator has a greater crossloading of the constructs compared to other constructs. The results of crossloading indicators on the constructs of regional financial performance on regional development performance and community welfare. Based on the results of processed data, it can be seen that the discretionary validity has been fulfilled by seeing that the crossloading has been fulfilled properly because the indicator has more crossloading on the construct than the other constructs. The feasibility of constructs made can also be seen from the discretionary validity (DV) through Average Variance Extracted (AVE), composite reliability (ρc) is generally used for reflective indicators which aim to measure the internal consistency of a construct, and Cronbach Alpha. The processed data is presented in table 4.5. Based on Table 5.7, it can be seen that the constructs of Regional Financial Performance, Regional Development Performance, and Community Welfare are very good, because it has an Average Variance Extracted (AVE) above 0.70, discrimanant validity is much greater than 0.50, and for Rho-Alpha above 0.60 as required.

Table 6 – Average Variance Extracted (AVE), Composite Reliability and Rho-Alpha Regional Financial
Performance Constructions, Regional Development Performance, and Community Welfare
in Bangli Regency, 2001 – 2017

Construct Variable	Average Variance Extracted	Composite Reliability	Rho-Alpha
Regional Financial Performance (X1)	0,797	0,738	0,931
Regional Development Performance (X2)	0,772	0,765	0,905
Community Welfare (Y)	0,929	0,815	0,924

Source: Research Results.

The inner model test is first carried out by evaluating the goodness of fit, namely by looking at R square or R2. For R2 in this study, there are two dependent constructs, namely

Regional Development Performance (X2) and Community Welfare (Y), as presented in Table 7.

Table 7 – The R Square Value of the Dependent Constructs on Regional Development Performance, and Community Welfare in Bangli Regency, 2001 – 2019

Dependent Constructs	R Square	Informtaion
Regional Development Performance (X2)	0,590	Moderate
Community Welfare (Y)	0,887	Strong

Source: Research Results.

Based on Table 7, it can be seen that R^2 from Regional development performance (X2) = 0.801. Because this figure is less than 0.67, it means that the influence model of Regional Financial Performance (X1) on Regional Development Performance (X2) is classified as "strong". Likewise, the R2 of the influence of Regional Financial Performance (X1) and Regional Development Performance (X2) on Community Welfare (Y) is 0.954 because it is greater than 0.667 so it is classified as "strong", according to Chin's opinion (in Ghozali, 2011).

Based on Table 5.8, the calculation value of Q2 or the Stone-Geiser Q Square test can be calculated as follows:

$$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2) = 0{,}954$$

The calculation result of Q2 or the Stone-Geiser Q Square test is 0.954. This value is classified as very large, and can be said to have a high predictive prevelance, so that the resulting model is suitable for prediction. The value of Q2 or the Stone-Geiser Q Square test of 0.954 means that 95.4 percent of the variation in Community Welfare in Bangli District 2001 - 2017 is explained by Regional Financial Performance and Regional Development Performance, while the remaining 4.6 percent is explained by other variables. which is not in the model.

Direct Effect Testing

The results of testing the significant influence between the constructs of regional financial performance, regional development performance, and community welfare in Bangli Regency, 2001 - 2019 are presented in Table 8

Table 8 – Direct Influence Between the Construction of Regional Financial Performance, Regional Development Performance, and Community Welfare in Bangli Regency, 2001 – 2019

Intervariable Relationships	Loading	St. Deviation	t Statstics	P. Value	Information
X1 → X2	0,786	0,074	10,331	0,000	Signifikan
X1 → Y	0,438	0,117	3,731	0,000	Signifikan
X2 → Y	0,562	0,122	4,615	0,000	Signifikan

Source: Research Results.

From Table 8 it can be seen that all the constructs are positively and significantly related with a probability of less than 5 percent. Based on this, the research hypothesis can be proven as follows: Regional financial performance has a positive and significant effect on the regional development performance of Bangli Regency. This can be seen from the path coefficient of 0.786 with a P. Value of 0.000. Thus it can be interpreted that the better the regional financial performance, the better the regional development performance in Bangli Regency. Regional financial performance has a positive and significant effect on the welfare of the people of Bangli Regency. This situation can be seen from the path coefficient of 0.438 with a P. Value of 0.000. This means that the better the regional financial performance, the better the welfare of the people in Bangli Regency. The performance of regional development has a positive and significant effect on the welfare of the people of Bangli

Regency. This is shown by the path coefficient of 0.562 with a P. Value of 0.000. This relationship means that the better the performance of regional development, the better the welfare of the people in Bangli Regency.

The role of the mediating variable of Regional Development Performance (X2) on the influence of Regional Financial Performance (X1) on Community Welfare (Y) is obtained from the results of the indirect effect as presented in Table 9

Table 9 – Indirect Effect of Regional Financial Performance (X1) on Community Welfare (Y) Through Regional Development Performance (X2) in Bangli Regency, 2001 – 2019

Indirect Effect	Mediation Variable	Indirect Coeffiecient	Std. Dev	T Statistic	P. Value
X1 →Y	X2	0,432	0,091	4,759	0,000

Source: Research Results.

In Table 9 it can be seen that p- value of the indirect effect is 0,000. It can be said that the Regional Development Performance variable (X2) is the influence of Regional Financial Performance (X1) on Community Welfare (Y). Thus the 5th hypothesis is proven. This relationship can be interpreted that the better the regional financial performance, the higher the quality of economic growth or the so-called Regional Development Performance, and ultimately the welfare of the people in Bangli Regency during 2001 - 2019.

DISCUSSION OF RESULTS

The Influence of Regional Financial Performance on Regional Development Performance in Bangli Regency

In the previous sub-chapter, it can be seen that statistically the regional financial performance has a positive effect on the regional development performance of Bangli Regency. This means that if the regional financial performance of Bangli Regency is good, then the regional development performance is also good. Financial performance in this study is measured by indicators of regional financial effectiveness ratios, regional financial independence ratios, budget allocation balance ratios, and efforts to collect local revenue (PAD). On the other hand, regional development performance uses economic growth indicators, income equality index which is calculated by the number one minus the Gini Ratio, employment is calculated from one hundred percent minus the open unemployment rate, and the percentage above the poverty line is calculated as one hundred percent minus the open unemployment rate, all of which are sourced from the Bali Provincial Statistics Agency (2019).

The positive influence of regional financial performance on regional development performance is in accordance with the opinion of Guritno (2001) which states that increased government revenue will encourage the government to increase its expenditure in providing services to the community, so that income increases, unemployment and poverty are reduced. The results of this study are also in line with Hammond and Mehmet (2009) in a discussion paper entitled "The Impact of Local Decentralization on Economic Growth: Evidence from the U.S. Countries "organized by the Forchungsintitut zur Zukunft Arbeit Institute for the Study of Labor concluded that regional autonomy or fiscal decentralization has an impact on population growth, employment opportunities and regional economic growth in the United States.

This research is also in accordance with the research conducted by Guntur Hendriwiyanto and Nurkholis, 2014 The Influence of Regional Income on Economic Growth with Capital Spending as a Mediation Variable based on data from 38 district / city governments in East Java Province for the period 2010-2012 shows the results that show that simultaneously PAD (Regional Own Revenue), DAU (General Allocation Fund) , DAK (Special Allocation Fund), and DBH (Production Sharing Fund) have a significant effect on economic growth.

The positive influence of financial performance on regional development performance in the study is also in accordance with the theory put forward by Halim (2007) which states

that the measurement of local government financial performance with several ratios is the ability of the local government to fund government activities, development, and services to people who have paid. taxes and levies. If the revenue obtained by the regions is high, the percentage of income in financing development services is also high, and vice versa. Increasing financial performance will have implications for increasing economic growth, as well as reducing unemployment and poverty.

The results of this study are also consistent with Atsushi (2005) in his research discussing the relationship between decentralization and economic growth, which states that fiscal decentralization has a significant positive impact on per capita gross domestic product growth. Feltenstein and Iwata (2005) state evidence that there is a relationship between decentralization and macroeconomic performance in China from 1952 to 1996, Lin and Liu (2000) also provide findings that fiscal decentralization contributes to economic growth.

The results of this study are consistent with a study conducted by Abdullah (2005), who conducted an analysis of the performance and financial independence of the regions of Pangkep Regency, South Sulawesi in the era of regional autonomy, concluding that local revenue has increased considerably and regional taxes contribute an average of 72 , 52 percent of local revenue during 2001-2004. Granting broad autonomy and decentralization to districts and cities provides a way for local governments to make reforms in the regional financial management system and regional budgets. In regional financial management, local governments are required to carry out regional financial management that is oriented towards the public interest (Herminingsih, 2009).

The Influence of Regional Financial Performance and Regional Development Performance on Community Welfare in Bangli Regency

The results of this study statistically indicate a positive effect of financial performance on people's welfare. As mentioned in the previous section, the financial performance in this study is measured by indicators of regional financial effectiveness ratios, regional financial independence ratios, budget allocation balance ratios, and efforts to collect Regional Original Income (PAD) while people's welfare is seen from the Human Development Index (HDI) . HDI is a composite index of the per capita expenditure variable, life expectancy representing the level of health, and the average length of schooling as an indicator of education level. The positive effect of regional financial performance on the welfare of society is in accordance with the opinion of Minassian (1997) in Blanchard (2000) which states that an increase in community welfare can be achieved because government public decisions are implemented in the role of allocation and distribution of economic resources owned. The allocation of economic resources is meant that in order to improve the welfare of the community, the regional government must make optimal use of the resources they have to increase the local revenue. Furthermore, the Regional Own Revenue(PAD) is reallocated for a larger budget for the public, so that the welfare of the community increases.

The link between public sector spending and human development is actually easy to trace. Expenditures for the health sector are expected to increase life expectancy and reduce maternal and infant mortality as a component in determining human development (Sahrah, 2007). The education budget will increase public access to good and cheap education, so as to increase literacy rates. Budget in the infrastructure sector is expected to be able to increase public access in the economic sector so that there will be efficiency and in turn will increase real consumption per capita (Delavallade, 2006).

The existence of a positive influence of regional financial performance on public welfare is in accordance with the opinion expressed by Cardiman (2006), which states that an increase in regional income also means an increase in the regional expenditure budget. An increase in regional spending will increase the welfare of the community, because an increase in regional spending will increase the development of economic infrastructure and facilities in the regions which in turn will create various job opportunities for the community which will ultimately improve the welfare of the people of that area.

The results of this study are also consistent with the results of an empirical study conducted by Suyana Utama (2009) which examines regional financial performance as

measured by calculating regional financial ratios that have an impact on regional development performance in the South Bali region. The results of the study using factor analysis and simple regression indicate that financial performance has a positive and very significant effect on the welfare of the community, this means that the better the regional financial performance causes the welfare of the district / city community in the South Bali area to get better.

Indirect Effect between Regional Financial Performance on Community Welfare through Regional Development Performance

The statistical results of this study indicate that the regional financial performance affects the welfare of the community through the performance of regional development in Bangli Regency during 2001 - 2019. This means that the more effective, the more independent, the more harmonious, and the higher the effort to collect PAD in Bangli Regency, can increasing Regional Development Performance, with indicators of economic growth, income evenness index, employment, percentage above the poverty line. Furthermore, the increase in regional development performance has an impact on people's welfare, because access to education and health services increases (World Bank, 2001).

There is an indirect effect of regional financial performance on people's welfare through regional development performance according to the theory put forward by Sasana (2009) which states that fiscal decentralization as measured by regional government spending causes significant economic growth in the regions. The results of this study are also in accordance with the theory put forward by Saragih (2003) which states that the greater the potential for local tax and retribution revenues, the more positive impacts on the increase in local revenue, particularly local tax revenues. Local governments can encourage regional economic growth through various policies reflected in the APBD. If the regional government determines that the development budget is higher than routine expenditure, then this regional budget expansion policy will boost regional economic growth, increase employment opportunities, reduce poverty and reduce income inequality, and in turn increase the welfare of the community.

CONCLUSION

Based on the previous discussion, the following conclusions can be concluded: regional financial performance has a positive effect on regional development performance in Bangli Regency during 2001 - 2019. This means that the better the regional financial performance in Bangli Regency during 2001 - 2019, the more quality the regional development performance will be. Regional financial performance and Regional Development Performance have a positive effect on the welfare of the people in Bangli Regency during 2001 - 2019. This means that the better the regional financial performance and regional development performance in Bangli Regency during 2001 - 2019, the better the welfare of the community.There is an indirect influence between regional financial performance on community welfare through Regional Development Performance in Bangli Regency during 2001 - 2019. This is intended, the better the regional financial performance in Bangli Regency during 2001 - 2019 causes the better economic performance, and furthermore, it causes the better the welfare of the people.

In connection with the regional financial independence of Bangli Regency until 2017 in the "instructive" category because it has an independence ratio of less than 25 percent. Because the regional financial independence of Bangli Regency is still low, the regional government is advised to make efforts to increase regional fiscal capacity through policies of regional tax intensification and regional tax extensification that are comprehensive and always side with the community.

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