THE EFFECT OF REGIONAL FINANCIAL PERFORMANCE ON INCLUSIVE ECONOMIC GROWTH AND COMMUNITY WELFARE IN REGENCY/ CITY OF BALI PROVINCE

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ABSTRACT

This study aims to determine the effect of financial performance on inclusive economic growth and community welfare in regencies (cities) of Bali Province during 2012 - 2017. The data used are secondary data and sourced from the Finance Bureau and the Central Bureau of Statistics in Bali Province. Then the data were analyzed using quantitative methods with Structural Equation Model by applying Partial Least Square. The results of the analysis shows that financial performance has a positive effect on inclusive economic growth and the welfare of the people in the districts (cities) in Bali Province, during 2012 - 2017, and inclusive economic growth statistically mediates the effect of financial performance on community welfare. There is an imbalance in the level of inter-regional welfare in Bali Province, so it is expected that the government will level the infrastructure development to attract investors outside the South Bali area.

Keywords: financial performance, inclusive economic growth, community welfare

INTRODUCTION

Since 2001, all regions in Indonesia have implemented regional autonomy, including districts (cities) in Bali Province. Given autonomy to the regions, the government will be closer to its people so that it will be more prosperous for the people. Thus the region can improve the welfare of the community through increasing human development as reflected in the increasing Human Development Index (HDI). The development paradigm places humans (residents) as the focus and the ultimate goal of all development activities, namely the achievement of mastery over resources, improvement of the degree of health and improvement of education. During 2012 until 2017 the development of HDI in districts (cities) in Bali Province continued to increase as presented in Table 1.1. Based on Table 1.1 it can be seen that the average HDI in Bali Province increased from 70.46 in 2012 to 73.36 in 2017. The region with the highest HDI was Denpasar City with an index of 81.88, while the lowest was Karangasem Regency with an index of 64.36. It can also be seen that the level of community welfare based on HDI in the district / city area is rather lame. Regions that are part of the "Sarbagita" region, namely Denpasar, Badung, Gianyar, and Tabanan, have a higher HDI compared to other regions. Several factors that cause differences in the welfare of the people in various regions, as reflected by differences in HDI, are differences in the potential of the region.

Table 1. Human Development Index (HDI) in the Regency / Municipality of Bali Province, In year 2012 - 2017

No	Regency/City	2012	2013	2014	2015	2016	2017	Mean
1	Jembrana	67.94	68.39	68.67	69.66	70.38	70.72	69.29
2	Tabanan	71.69	72.31	72.68	73.54	74.19	74.86	73.21
3	Badung	77.26	77.63	77.98	78.86	79.80	80.54	78.68
4	Gianyar	73.36	74.00	74.29	75.03	75.70	76.09	74.75
5	Klungkung	67.64	68.08	68.30	68.98	69.31	70.13	68.74
6	Bangli	64.53	65.47	65.75	66.24	67.03	68.24	66.21
7	Karangasem	62.95	63.70	64.01	64.68	65.23	65.57	64.36
8	Buleleng	68.29	68.83	69.19	70.03	70.65	71.11	69.68
9	Denpasar	80.45	81.32	81.65	82.24	82.58	83.01	81.88
	Averages	70.46	71.08	71.39	72.14	72.76	73.36	71.87

Source: Central Statistic Agency, Bali Province (2019)

If it is associated with the implementation of regional autonomy, the main characteristic that shows an autonomous region is capable of autonomy lies in its regional financial potential and its management or financial performance. This means that good financial performance will have an impact on the quality of economic growth or so-called inclusive economic growth. Regional financial performance according to (Halim, 2001) can be seen from: effectiveness, efficiency, financial independence, harmony, and efforts to collect Regional Original Income (PAD). On the other hand, inclusive economic growth can be seen as economic growth accompanied by reduced income inequality, increased employment opportunities, and poverty reduction, called inclusive economic growth . With the inclusion of inclusive economic growth, social welfare increases. Generally seen from the Human Development Index (HDI).

Studies on regional financial performance have been written by (Halim, 2001), (Bratakusumah, 2001), (Mardiasmo, 2002), (Mahsun, 2006), and (Mahmudi, 2007), while writings on inclusive economic growth can be seen in (Birdsall, 2007). The relationship between government expenditure on development performance, including the welfare of the community can be seen in (Anand & Ravallion, 1993), (Azril, 2000), (Lanjouw, Pradhan, Saadah, Sayed, & Sparrow, 2001), (Fozzard, 2001), (Jin & Zou, 2000), (Arsyad, 2004), and (Halachmi, 2005). Based on the description described, the focus of this study is "Impact of Regional Financial Performance in Regency/City Community Welfare in Bali Province".

LITERATURE REVIEW

Regional finance can simply be interpreted as all rights and obligations that can be valued with money, as well as everything in the form of money or goods that can be used as regional wealth as long as it is not owned /controlled by a higher state or region and other parties in accordance with the applicable rules/regulations. Sources of regional income / revenue in the framework of implementing autonomy and decentralization, which consist of: (1) Local Own Revenue (local tax yields, regional levies, regionally owned company proceeds, and separated regional wealth management results, and other legitimate regional revenues). (2) Balancing Funds, among others, the regional portion of tax and earth building receipts (PBB), acquisition of land and building rights (BPHTB), and revenues from natural resources, special allocation funds (DAK), and general allocation (DAU). (3) Regional loans. (4) Other legitimate receipts (Mamesah, 1995).

Another opinion by (Halim, 2001), revealed that the ability of regional governments in managing regional finance is contained in the Regional Budget (APBD) which directly or indirectly reflects the ability of local governments to finance the implementation of government tasks, development and community social services. Furthermore, to measure the financial capacity of the regional government is to conduct a financial ratio analysis of the APBD that has been determined and implemented. The Regional Revenue and Expenditure Budget (APBD) is the annual financial policy of the regional government which is prepared based on the applicable legislation, as well as various other considerations with the intention that the preparation, monitoring, control and evaluation of the Regional Revenue and Expenditure Budget can also be a means for certain parties to see or know the capabilities of the region both in terms of income and the expenditure side. Talking about regional financial management is inseparable from the discussion on the Regional Budget.

The research conducted by Anzhar (2008) revealed that performance is interpreted as a measurable activity of an entity during a certain period as part of the measure of the success of the work. Performance measurement is the process of continuous monitoring and reporting of achievement of activities, especially 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 service to the community. Basically, financial performance analysis is applied to assess past performance by conducting various analyzes to obtain financial positions that represent the reality of the entity and the potential for performance that will continue (Sularso, 2001). Local government financial performance is the ability of a region to explore and manage original regional financial resources in meeting their needs to support the running of a government system, service to the community and regional development by not relying entirely on the central government and having flexibility in using funds for the benefit of regional communities within the prescribed boundaries of legislation (Syamsi, 1986).

Regional finance reflected in the regional expenditure budget (APBD) is the main media of the regional government in optimizing the allocation of regional resources, as well as a medium that can be used to evaluate the performance of regional governments in financing development in the region. As the main media, every government expenditure must be intended for the public interest and must be accounted for. Management in the form of public budget allocation is expected to encourage regional development and increase public welfare so that it can be economically independent (Askam, 2008). According to Kuznet in (Todaro, 2001), economic growth is an increase in the long-term capacity of a country in order to provide various economic goods to its people. Capacity building can be assessed from advances or technological, institutional and ideological adjustments to the demands of the situation. In simple terms it can be said that economic growth is an increase in aggregate output or an increase in real income which is usually calculated per capita or over a long period of time as a result of increasing inputs. Economic growth is a macroeconomic problem in the long term, economic growth is related to the process of increasing the production of goods and services in community economic activities, this is different from the term economic development which has a broader meaning, including poverty alleviation, reducing distribution inequality income to create community welfare. According to Birdsall (2007), inclusive growth is a conducive growth to increase the size of middle-class economic capacity. This can be indicated by the existence of economic growth which is accompanied by the growth of the middle class significantly. Growth can be said to be inclusive if the growth is of the quality shown through a reduction in poverty, a decrease in inequality in income distribution and more employment. (Amalina, Hutagaol, & Asmara, 2013) found that inclusive economic growth occurs in regions that are focused on reducing poverty through increased government spending through budget allocation on physical capital, education, empowerment of the middle class so that they can grow fast and strong through budget allocations for development programs that are pro-poverty through stimulus to labor-intensive economic programs and creating a movement of labor from labor-intensive sectors to capital-intensive sectors through empowering human resources. (Ali & Zhuang, 2007) found that inclusive economic growth focused on creating economic opportunities and ensuring equitable economic access, in order to achieve the target of maximum economic growth must be supported by a three-pillar policy strategy. One of them can be achieved through economic development, this has been mentioned by various opinions and research. Simanjuntak and Muklis (2012) state that economic development is a multidimensional process that not only includes economic growth but also involves changes in structure, attitudes and institutions, which are ultimately shown through a decrease in inequality in income distribution, a reduction in poverty rates and a decline in the unemployment rate.

The United Nations Development Program (UNDP) began in 1990 to develop an indicator that emphasizes the importance of human-centered development that places humans as the ultimate goal, and not as a development tool. The community welfare indicators compiled by UNDP are known as the Human Development Index (HDI) or abbreviated as Human Development Index (United Nations Development Programme, 2018). Human well-being that can show human progress based on factors, such as literacy rates, average life expectancy, average length of school, and overall well-being. This report considers that human development is essentially a process of enlarging human choices.

According to (Kuncoro, 2013) Human Development Index (HDI), the index of three HDI components can be calculated by the equation, as follows.

HDI = 1/3 {X (1) + X (2) + X (3)} ………………………………………..(2.1)

X (1) = Birth expectancy index
X (2) = education index
X (3) = decent standard of living index

Human development or improving the quality of human resources are very important in the national development policy strategy. Human quality in a region has a big contribution in determining the success of management development in its region. Good education and health will increase capacity and play a greater opportunity to obtain higher income (Lanjouw et al, 2001). The role of government as a policy maker is needed to provide opportunities for all levels of society to improve the quality of life through community involvement in development (Anand, 1993). The importance of this role is inseparable from the three functions of the government, namely maintaining domestic security and defense, conducting justice, and providing goods that cannot be provided by the private sector, such as roads, dams, and other public facilities (Azril, 2000).

According to Arsyad (2004) the main problem in regional development lies in the emphasis on development policies that are based on the specificities of the region concerned (endogenous development) by using the potential of human resources, institutions, and physical resources locally (regional). This orientation leads to taking initiatives originating from the area in the development process to create new employment opportunities and stimulate increased economic activity. In the modern economy, the role of government as stated by Musgrave is grouped into three, namely the role in allocation, distribution and stabilization. One device that has been used by the government so far to realize this role is the fiscal policy tool. Among these fiscal policy instruments, there are instruments in the field of allocating funds or development budgets to fields related to public facilities such as education, health, irrigation, transportation and so on (Sasana, 2009).

RESEARCH METHODS

The research design is quantitative research, namely research that is based on quantitative data data presented in the form of numbers. The analysis technique used is a tiered causality model with the aim of analyzing the effect of financial performance on inclusive economic growth, the influence of regional financial performance and inclusive economic growth on community welfare, the influence of regional financial performance and on people's welfare through inclusive economic growth in districts / cities in the Province Bali. The technique used is the Structural Equation Model (SEM) using Partial Least Square (PLS) software. The type of data according to the time of collection in this study is to use panel data which is a combination of time series data and cross section data. By accommodating good information related to cross section variables and time series. In this study local government financial performance is measured by indicators.

1. The financial effectiveness ratio of regency/city in Bali Province is the comparison of revenue realization with the budget (target) income, expressed in units of percent in regency/cities in Bali Province during 2012 - 2017.
2. The financial efficiency ratio of districts / cities in Bali Province is the comparison of realization of expenditure with realization of revenues, expressed in units of percent in regency/city in Bali Province during 2012 - 2017.
3. The financial independence ratio of regencies / cities in Bali Province is the comparison between the total PAD and the total regional revenue in units of percent in regency/city in Bali Province during 2012 - 2017.
4. The financial harmony ratio of regency/city in Bali Province is a comparison between the total realization of public expenditure and the total regional expenditure in units of percent in regency/city in Bali Province during 2012 - 2017.
5. The ratio of efforts to collect PAD of regency/city in Bali Province is the ratio between the realization of revenue from PAD and GRDP, in this study it was calculated in units of percent in regency/city in Bali Province during 2012 - 2017.

Inclusive economic growth is measured by indicators:

1. The rate of economic growth is a change in the GDP per Capita of Constant Prices in regencies/city in the Province of Bali per year at constant 2010 prices in regencies/city in Bali Province during 2012 - 2017 which are expressed in percent units obtained from BPS.
2. Income evenness level is calculated by subtracting one from the regency /city Gini ratio (GR) in Bali Province during 2012 - 2017 obtained from the Central Bureau of Statistics (BPS). The gini ratio is located between 0 (zero) and 1 (one). Zero reflects perfect evenness and one illustrates perfect inequality.
3. The level of employment (EM) of districts / cities in Bali Province according to the Central Statistics Agency (BPS) is the ratio of the number of people working with the number of labor force. The workforce consists of working residents and unemployed. In accordance with the definitions of BPS and Depnaker, the concept of the working age population is a population aged 15 years and over. The level of employment is obtained by subtracting 100 from the open unemployment rate made by BPS in regencies/city in Bali Province during 2012 - 2017.
4. Non-poor people are residents with adequate food and non-food expenditure standards or above the poverty line. The percentage of non-poor population is obtained by subtracting 100 by the percentage of poor people published by BPS for regencies / cities in Bali Province during 2012 - 2017.

Community welfare in this study uses the Human Development Index (HDI) published by BPS. The HDI basically reflects the composite index of the per capita expenditure indicator, life expectancy or the average age achieved by the community, and the level of education of the community is measured by the increase in the average length of school population in the regencies/city in Bali Province during 2012 - 2017. The main data used to support this research is quantitative data, which is data in the form of numbers and can be calculated in units of calculation (Sugiyono, 2014). In this study quantitative data in the form of secondary data that has been processed by the (Badan Pusat Statistik Provinsi Bali, 2019). Central Statistics Agency (BPS), namely data on Gross Regional Domestic Product (GRDP), gini ratio data, open unemployment rate, poverty level, and district / city Human Development Index (HDI) in Bali Province from 2012 to 2017. Other data obtained from the Bali Provincial Finance Bureau is the regional income / expenditure budget (APBD) of regencies / cities in Bali Province from 2012 to 2017. Thus in this study analyzing panel data (pooled data) that is, between cross section data, that is, data on districts / cities in Bali Province with time series data for the period 2012-2017.

Data Analysis Techniques

In this study, structural equation analysis (SEM) was used by alternative Partial Square Least PLS (component based SEM). The Structural Equation Model (SEM) is a statistical technique that allows testing of a relatively complex and tiered series of relationships. The complete concept of the relationship between variables in this study is presented in Figure 1

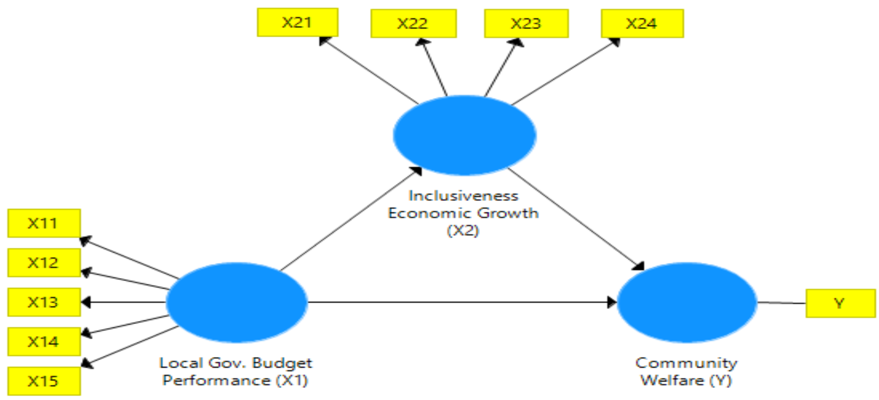

Figure 1. The Concept of Interconnected Relations in Regional Financial Performance, Inclusive Economic Growth, and Community Welfare in Districts / Cities in Bali Province

Where:

X1 = Regional Financial Performance	X2 = Inclusive Economic Growth
X11 = regional financial effectiveness	X21 = level of economic growth
X12 = regional financial efficiency.	X22 = level of eveness income
X13 = regional financial independence	X23 = level of employment
X14 = regional financial harmony	X24 = percentage of non-poor population
X15 = PAD collection effort	Y = Community Welfare

Evaluation of the measurement model or outer model

Evaluation of the measurement model or outer model is done according to the shape of the relationship between the indicator and the construct. In the PLS it is known that there are two types of relationships between the indicators and their constructs, in this study used a reflective model. The processed data is then evaluated in two stages, namely evaluating the outer model and inner model. The first step is to evaluate the measurement model or outer model which is done according to the type of relationship between the indicator and the construct. In this study because all constructs use the reflective model, the evaluation of the measurement is done in several ways, namely: 1) Convergent Validity (CV) on reflective indicators, namely by looking at the correlation or loading factor between measured variables and latent variables. Values tolerated at least 0.50 are considered sufficient (Chin, 1998). 2) Construct Reliability and Validity, generally used for reflective indicators measured by internal consistency (ρc), cronbach alpha and variance extracted (AVE). Pc and cronbach alpha values are required to be greater than 0.70, the minimum AVE value is 0.50. 3) Discretion Validity (DV) on reflective indicators, namely by looking at crossloading of the construct or latent.

Evaluation of the inner model

The second evaluation is done by looking at the validity of the inner model. In PLS inner model also called inner relations which describes the relationship between latent variables based on the substance of the theory. There are three types of evaluations that are important to the inner model, namely (1) evaluation of goodness of fit, (2) direct influence test, and (3) test of indirect influence or mediation. Before evaluating the inner model, a structural equation system is first made. Based on Figure 3.1 a structural equation system is made as follows:

1. Relationship between X1 to X2

   $X2 = \beta1X1 + \varepsilon1$ .... (1)

2. Relationship between X1 and X2, to Y

   $Y = \beta2\ X1 + \beta3\ X2 + \varepsilon2$ ………… ....(2)

Where:

X1 is Regional Financial Performance

X2 is Inclusive Economic Growth
Y is Community Welfare
β1, β2, … β3 is the path coefficient
ε1, ε2 ...... ε3 is an error

RESULTS

Structural Equation Model

Overall, the full model of the effectiveness of poor rice distribution in Badung Regency is presented in Figure 2.

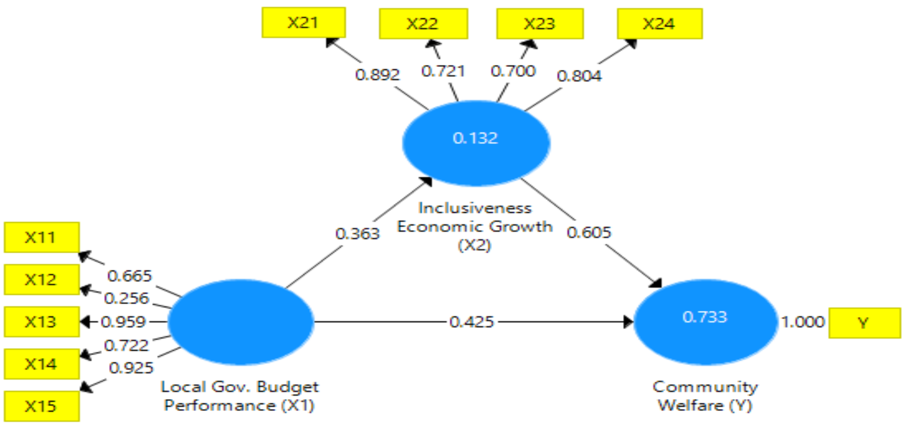

Figure 2. Full Model of the Effect of Regional Financial Performance on District / City Inclusive and Community Welfare Growth in Bali Province, 2012 - 2017

Validity of Outer Models

To find out whether the indicator used to form a construct or latent variable is valid, the analysis is carried out as follows.

1. Convergent Validity

The PLS output results regarding convergent validity are presented in Figure 1. It is known that the X12 indicator has a loading factor of 0.256 or less than 0.50 as required. Therefore the indicator is removed from the model. After the X12 indicator is issued, the revised model is presented in Figure 2.

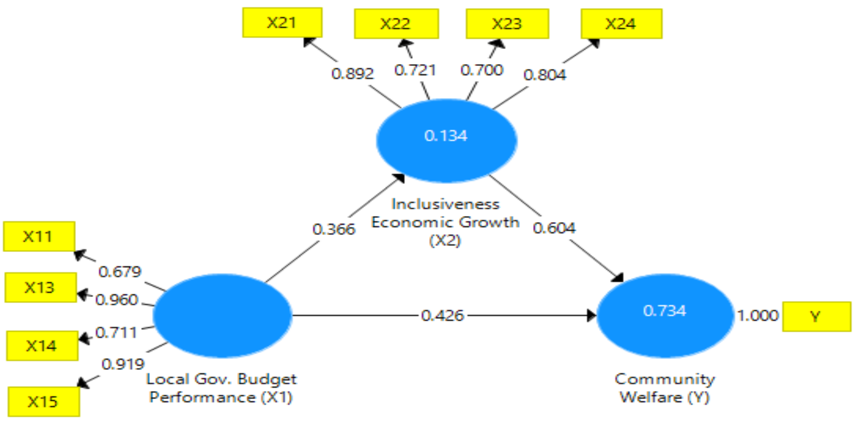

Figure 3. Full Model of the Effect of Regional Financial Performance on District / City Inclusive and Community Welfare Economic Growth in Bali Province, 2012 - 2017 (After Revision)

In Figure 2, all indicators in the construct of Regional Financial Performance (X1) Inclusive Economic Growth (X2) and Community Welfare (Y) are statistically significant with a t value greater than 1.96 with a p value of 0,000. Likewise all loading values are above 0.50, which means that the constructs made meet the convergent validity requirements.

2. Discriminant Validity

To find out the validity of a construct can also be seen from the discriminant validity. Discriminant validity on reflective indicators is to look at the crossloading of indicators for the construct or latent. A good DV where the indicator has greater crossloading of the construct compared to other constructs. Table 2 shows that the results of the crossloading of indicators on the constructs of Regional Financial Performance on Inclusive Economic Growth and Community Welfare have been well fulfilled because the indicators have more crossloading on their constructs compared to other constructs.

Table 2. Crossloading Indicators of Regional Financial Performance, Inclusive Economic Growth, and District / City Community Welfare in Bali Province, 2012 – 2017

Construct	Indicator	Regional Financial Performance (X1)	Inclusive Economic Growth (X2)	Community Welfare (Y)
Regional Financial Performance (X1)	X11	**0.679**	0.494	0.454
	X13	**0.960**	0.353	0.585
	X14	**0.711**	0.070	0.462
	X15	**0.919**	0.188	0.478
Inclusive Economic Growth (X2)	X21	0.436	**0.892**	0.692
	X22	0.095	**0.721**	0.437
	X23	0.249	**0.700**	0.479
	X24	0.278	**0.804**	0.698
Community Welfare (Y)	Y	0.547	0.760	**1.000**

Source: Research Result

The construct feasibility can also be seen from the discretionary validity (DV) through Average Variance Extracted (AVE), composite reliability (ρc) generally used for reflective indicators that aim to measure the internal consistency of a construct, and Cronbach Alpha. The data processed are presented in Table 3. Based on Table 3, it can be seen that the contruction of Regional Financial Performance, Inclusive Economic Growth, and Community Welfare is very good, because it has a discretionary validity that is far greater than 0.50 for Average Variance Extracted (AVE), and above 0.70 for Composite Reliability and Cronbach Alpha.

Table 3. Average Variance Extracted (AVE), Composite Reliability and Cronbach Alpha, Constructs of Regional Financial Performance, Inclusive Economic Growth, and Community Welfare in Districts / Cities in Bali Province, 2012 – 2017

Konstruk	*Average Variance Extracted*	*Composite Reliability*	*Cronbach Alpha*
Regional Financial Performance (X1)	0.837	0.894	0.683
Inclusive Economic Growth (X2)	0.789	0.863	0.613
Community Welfare (Y)	1.000	1.000	1.000

Source: Reseach Result

Inner Model Evaluation

1. Goodness of Fit Evaluation

The inner model test is first done by evaluating the goodness of fit, namely by looking at R square or R^2. For R^2 in this study there are two dependent constructs, namely Inclusive Economic Growth (X2) and Community Welfare (Y), as presented in

Table 4. R Square Value of the Dependent Constructions of Inclusive Economic Growth, and Community Welfare in Districts / Cities in Bali Province, 2012 – 2017

Contruct Variable	Nilai R Square	Relation Category
Inclusive Economic Growth (X2)	0.134	Weak
Community Welfare (Y)	0.734	Strong

Source: Reseach Result

Based on Table 4 it can be seen the R^2 of Inclusive Economic Growth (X2)= 0.134. Because the number is less than 0.19, it means that the model of the influence of Regional Financial Performance (X1) on Inclusive Economic Growth (X2) is classified as "weak". On the other hand R2 from the influence of Regional Financial Performance (X1) on Inclusive Economic Growth (X2) on Community Welfare (Y) is 0.734 because less than 0.667 is classified as "strong", according to Chin's opinion (Ghozali, 2011). The results of the Q2 or Stone-Geiser Q Square test are equal to 0.770. This value is quite large, and can be said to have a high predictive prevelance, so that the resulting model is worthy of predicting. The Q2 or Stone-Geiser Q Square test value of 0.682 means that 77 percent of the variation in District Welfare in the Province of Bali, 2012-2017 is explained by Regional Financial Performance and Inclusive Economic Growth, while the remaining 23 percent is explained by other variables which is not in the model.

2. Direct Influence

The results of testing the significant influence of interconnections are presented in Table 5. From Table 5 it can be seen that all constructs are positively and significantly related to probabilities of less than 1 percent. The larger variable influences the welfare of the people in the Regency / City in Bali Province, 2012 - 2017 is inclusive economic growth with a coefficient of 0.604, while the financial performance is smaller, which is equal to 0.426.

Table 5. Direct Interconnected Influence of Regional Financial Performance, Inclusive Economic Growth, and Community Welfare in Districts / Cities in Bali Province, 2012 – 2017

Hubungan	Loading	Std. Dev	t statistic	p value
Regional Financial Performance → Inclusive Economic Growth	0.366	0.111	3.290	0.001
Regional Financial Performance → Community Welfare	0.426	0.079	5.411	0.000
Inclusive Economic Growth → Community Welfare	0.604	0.058	10.373	0.000

Source: Reseach Result

3. Indirect Effects

The role of the mediating variable Inclusive Economic (X2) on the influence of Regional Financial Performance (X1) on Community Welfare (Y) is obtained from the indirect effect results as presented in Table 6.

Table 6. Indirect Effects of Regional Financial Performance on Community Welfare Through Inclusive Economic Growth in Regency / Cities in Bali Province, 2012 – 2017

Correlation	Coefisien	Dev Std.	T. Statistic	P. Value
Regional Financial Performance → Community Welfare	0.221	0.073	3.032	0.003

Source: Reseach Result

In Table 6 can be seen P. Valuenya indirect effect of 0.003. It can be said that the Inclusive Economic Growth variable (X2) on the influence of Regional Financial Performance (X1) on Community Welfare (Y). Or it can be interpreted that the better the financial performance of the region causes the increased quality of economic growth or so-called inclusive economic growth, and ultimately causes the welfare of the people in the regencies / cities in Bali Province during 2012 - 2017 to increase.

DISCUSSION

Effect of Regional Financial Performance on Inclusive Economic Growth of Regency / Cities in Bali Province

Statistically, regional financial performance has a positive effect on inclusive economic growth in regency / cities in Bali Province. This means that if the financial performance of a district / city in the province of Bali is good, then inclusive economic growth is also good. The financial performance in this study was measured by the indicators of regional financial effectiveness ratios, regional financial independence ratios, harmonization of budget allocation ratios, and efforts to collect Regional Original Income (PAD). On the other hand, inclusive economic growth uses indicators of economic growth, the income evenness index calculated by one minus Gini Ratio, employment is calculated from one hundred percent minus the open cut rate, and the percentage above the poverty line is calculated as one hundred percent less the open unemployment rate (Badan Pusat Statistik Provinsi Bali, 2019). The positive influence of regional financial performance on inclusive economic growth is in accordance with the opinion of Guritno (2001) who said that increasing government revenue would encourage the government to increase its expenditure in providing services to the public, so that income increased, unemployment and poverty reduced. The results of this study are also in line with the research conducted by (Hendriwiyanto & Nurkholis, 2014) Effect of Regional Revenues on Economic Growth with Capital Expenditures as a Mediation Variable based on data from 38 district / city governments in East Java Province for the period 2010-2012 showing the results shows that simultaneously PAD, DAU, DAK and DBH have a significant effect on economic growth.

The positive influence of financial performance on inclusive economic growth in research 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 regional governments to fund government activities, development, and services to paying communities taxes and levies. If the income obtained 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 in accordance with (Iimi, 2005), (Feltenstein & 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 in accordance with the study conducted by (Abdullah, 2005), Providing extensive autonomy and decentralization to regency and cities provides a way for local governments to carry out reforms in the regional financial management system and regional budgets. In managing regional finance, local governments are required to carry out regional financial management oriented to the public interest (Herminingsih, 2009).

Effect of Regional Financial Performance and Inclusive Economic Growth on Community Welfare in Regency / City in Bali Province

The results of this study are statistics showing a positive influence on financial performance on people's welfare. As mentioned in the previous section, the financial performance in this study was measured by the indicators of regional financial effectiveness ratios, regional financial independence ratios, harmony of budget allocation ratios, and efforts to collect Regional Own Revenue (PAD) while the public welfare was seen from the Human Development Index (HDI) . HDI is a composite index of the variable per capita expenditure, life expectancy represents the level of health, and the average length of school as an indicator of education level. The positive influence of regional financial performance on community welfare in accordance with the opinion of Minassian (1997) in (Blanchard & Shleifer, 2000) states that increasing public welfare can be achieved because public government decisions are implemented in the role of allocation and distribution of economic resources owned. The allocation of economic resources is intended to improve the welfare of the community, the Regional Government must optimally utilize the resources they have to increase local revenue. Furthermore, local revenue (PAD) is reallocated to more budgets for the public, so that public welfare increases.

The link between spending on the public sector on human development is actually easy to trace. Expenditures for the health sector are expected to be able to increase life expectancy and reduce maternal and infant mortality as one component in determining human development (Sahrah, 2007). The budget in the education sector will increase people's access to good and cheap education, so as to increase literacy rates. The budget in the infrastructure sector is expected to be able to increase public access to the economy so that efficiency will occur and in turn increase real consumption per capita (Delavallade, 2006). In this regard (Todaro, 2001) suggests that the level of health and education level of the population is far better in high-income countries. Because with high income, the community and the government are able to spend more on health and education. These two sectors are basic human needs that need to be owned in order to be able to increase their potential. With better health and education, higher productivity and income will be more easily achieved. This study also supports (Agung & Harahap, 1993) which concluded that the better the economic condition of a person the better the level of prevention of the person towards morbidity. This finding is in accordance with the opinion of (Gregory & Stuart, 1992) that income growth generally brings an increase in people's welfare. The positive influence of regional financial performance on community welfare is in accordance with the opinion expressed by (Cardiman, 2006), which states that increasing regional income also means increasing regional budget. The increase in regional expenditure will improve the welfare of the community, because the increase in regional expenditure will increase the development of economic infrastructure and facilities in the regions which in turn will create various employment opportunities for the community which will ultimately improve the welfare of the people of the area. This is in line with one of the APBD functions, namely the allocation function, the regional budget must be directed at creating employment or reducing unemployment, as well as increasing the efficiency and effectiveness of the economy.

The results of this study are also in accordance with the results of an empirical study conducted by (Utama, 2006) which examined regional financial performance measured by calculating regional financial ratios that had 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 performance of regional finance causes the welfare of the district / city community in the area of South Bali is getting better.

Indirect Effects of Regional Financial Performance on Community Welfare Through Inclusive Economic Growth

The statistical results of this study indicate that regional financial performance has an effect on community welfare through regional development performance in regency / cities in Bali Province during 2012 - 2017. This means that the more effective, the more independent, the more harmonious, and the higher efforts to collect PAD in regency / cities in Bali Province, can increase inclusive economic growth, with indicators of economic growth, income evenness index, employment, percentage above the poverty line. Furthermore, increasing inclusive economic growth has an influence on people's welfare, because access to education and health services has increased (World Bank, 2001).

The indirect influence of regional financial performance on people's welfare through inclusive economic growth in accordance with the theory put forward by (Sasana, 2009) which states fiscal decentralization as measured by regional government spending causes significant economic growth in the regions. In the era of fiscal decentralization with the transfer of funds from the central government and extensive authority to the regions to manage and optimize the economic potential that exists, it has a positive effect on regional economic growth. Fiscal decentralization will be able to increase economic growth that affects people's welfare because sub-national / regional governments will be more efficient in the production and supply of public goods.

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 tax revenues and regional retributions will have a positive impact on increasing local revenue, especially the receipt of regional taxes. Local governments can encourage regional economic growth through various policies reflected in the Regional Budget. If the regional government determines that the development budget is greater than routine expenditure, then this regional budget expansion policy boosts regional economic growth, increases employment opportunities, reduces poverty rates and reduces income inequality, and in turn increases people's welfare.

CONCLUSION AND SUGGESTIONS

Based on the previous discussion some conclusions can be taken as follows: (1) Regional financial performance has a positive effect on inclusive economic growth in regency / cities in Bali Province during 2012 - 2017. This means that the better regional financial performance in regency / cities in Bali Province during 2012 - 2017, the better the quality of economic growth. (2) Regional financial performance and inclusive economic growth have a positive effect on the welfare of the people in regencies / cities in Bali Province during 2012 - 2017. This means that the better regional financial performance and inclusive economic growth in regency / cities in Bali Province during 2012 - 2017, the better welfare of the people. (3) There is an indirect influence between regional financial performance on community welfare through inclusive economic growth in regency / cities in Bali Province during 2012 - 2017. This is intended, the better financial performance of regions in regency / cities in Bali Province during 2012 - 2017 causes the higher the quality of its economic growth, and the further the quality of its economic growth leads to the better welfare of its people.

In terms of financial performance, economic growth, and HDI, the development area of South Bali or more commonly called "Sarbagita" (Denpasar, Badung, Gianyar, and Tabanan) is superior to other regions. This has led to an income gap between the regency / cities in the Province of Bali. Therefore in the long and medium term it is recommended to the government to change the sectoral development strategy in Bali Province to more equitable regional development, namely by building adequate infrastructure to generate economic activities outside the South Bali region, to increase employment opportunities and poverty alleviation.

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