

# The Effect of Good Governance and Regional Expenditures on Community Welfare in the Province of Bali

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**Abstract:** This study aims to determine the effect of good governance and regional spending on people's welfare in regencies/cities in Bali. The research location was focused on regencies/cities in the Province of Bali; this was based on the achievement of the level of welfare of the people of the Province of Bali in the last ten years, which was classified as high, namely the upper middle class which ranged from 70 to 80. The results showed that good governance positively and significantly affected district/city regional spending in the Province of Bali. Good governance and regional spending have a positive and significant effect on the welfare of the district/city community in the Province of Bali. Through regional spending, good governance has a positive and significant effect on people's welfare.

**Keywords:** Good Governance, Regional Expenditures, Community Welfare.

## INTRODUCTION

Prosperity is the goal of all governments in this country. All governments continue to carry out sustainable development to achieve the welfare of their people. The Indonesian government's goal of development is to realize the welfare of a just society. The goal of national development in the Unitary State of the Republic of Indonesia (NKRI) is the embodiment of the national goal of Preamble IV of the 1945 Constitution of the Republic of Indonesia, namely to protect and advance the entire Indonesian nation and all of Indonesia's bloodshed. . the bloodshed of the common good, shape life and contribute to freedom, lasting peace and social justice based on the realization of world order. To realize these national goals, the government continues to make efforts with various policies so that the ideals of independence, namely the benefit of the community, are immediately achieved (Solikatu et al., 2014).

Fig. (1) shows that the Regencies/Cities of Denpasar, Badung, Gianyar and Tabanan, or the Sarbagita area, have HDI levels above the average. Meanwhile, five other regions still posted HDI levels below the average in Bali. The level of HDI felt by the people of districts/cities in Bali is influenced by various factors such as the level of good governance, regional expenditure allocations and regional development performance. The decentralization policy is one of the strategic strategies that align with the national objective, namely equitable distribution of development throughout Indonesia. The granting of autonomous rights to the regions means that the central government gives the broadest possible powers to the regions to regulate and administer their government outside of the six matters that the central government, namely, still regulate:

Foreign Politics, Defense, Security, Justice, Monetary and National Taxation and Religion (UU No. 23 of 2014).

Implementing decentralization policies gave local governments more power and responsibility to use their resources to improve people's welfare (Lewis, 2005). Suhandak and Nugroho (2007) state that in implementing regional autonomy, regional administration must be supported by a sound, fair, inclusive, transparent and accountable regional economic management system. With the development of an excellent regional financial system, a clean government and good governance will likely emerge. Santosa (2017) argues that good governance requires a synergistic and constructive relationship between the state (government), the private sector and society (society).

The benchmark for the success of the state government in realizing regional autonomy is the success of the state government in establishing, managing, directing and controlling the regional revenue and expenditure budget (APBD) in accordance with established policy guidelines and priorities. The autonomous regional governments of Bali have made every effort to create a prosperous society in their respective regions. The principles of good governance and optimizing regional spending are implemented to improve regional development performance and people's welfare. The regional government of Bali has yet to succeed in realizing a prosperous society because there are still many poor people in the area. Various development measures taken by the provincial government have yet to be able to overcome and eliminate poverty, even though the poverty rate has increased in several regions (Solikatu et al., 2014).

Fig. (2). shows that the percentage of poor people in Bali Province between 2014 and 2020 generally declines. However, there were also several areas where the number of poor people increased compared to the previous year. As of 2020, it has generally decreased in Bali, but it has increased in the Sarbagita and Buleleng areas. This was caused by the decline

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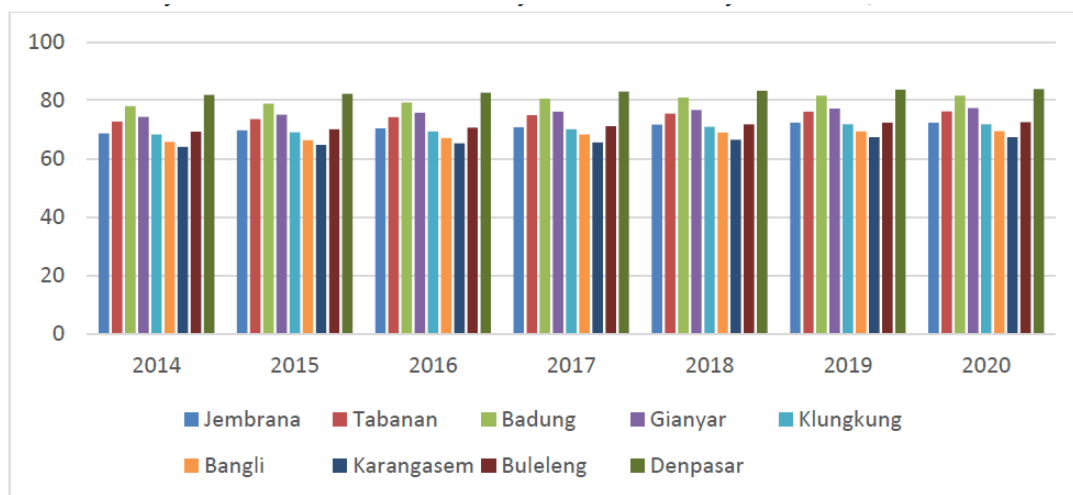


Fig. (1). Regency/City Human Development Index (IPM) in Bali Province 2014-2020 year.

Source: BPS Bali Province, 2021.

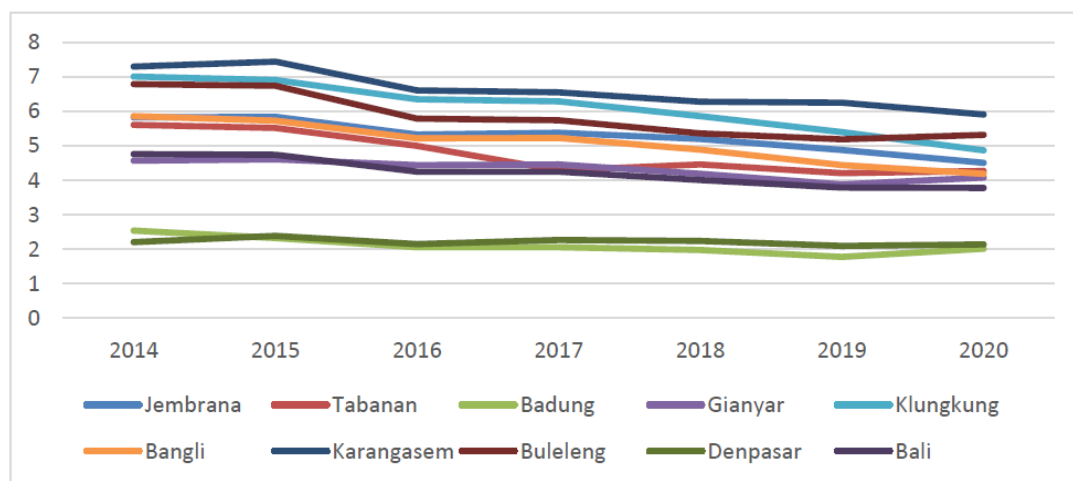


Fig. (2). Percentage of Poor Population in Bali Province in 2014-2020.

Source: BPS Bali Province, 2021.

in the tourism sector, which is the central pillar of the region's economy due to the corona outbreak that has hit the world. Nationally, the poor population in Indonesia in 2020 was recorded at 10.19 percent. Even though the percentage of poor people in the Province of Bali is still below the percentage of poor people nationally, this is still a problem that must be taken seriously so that all the people of the Province of Bali can feel prosperity. The government's efforts to achieve public welfare must be supported by applying the principles of good governance in the implementation of government. Good governance provides certainty for the community in business development so that it will be able to improve people's welfare (Helliwell et al., 2018).

The state government continues its innovative activities by planning and implementing programs and budget allocations that lead directly to meeting the people's basic needs, thereby achieving development objectives, viz. H. the good of society can be realized. The state government's targeted spending budget policy aims to have a macro effect on development. it will strengthen the regional economy and increase people's

prosperity. Faisol (2017) found that allocating public spending to provincial spending can increase regional economic growth and community welfare. The budget allocation stipulated in the APBD aims to influence investment growth and create jobs to reduce unemployment and achieve quality economic growth. The success of the provincial government in reducing unemployment and implementing income inequality has had an impact on the growth of people's wealth.

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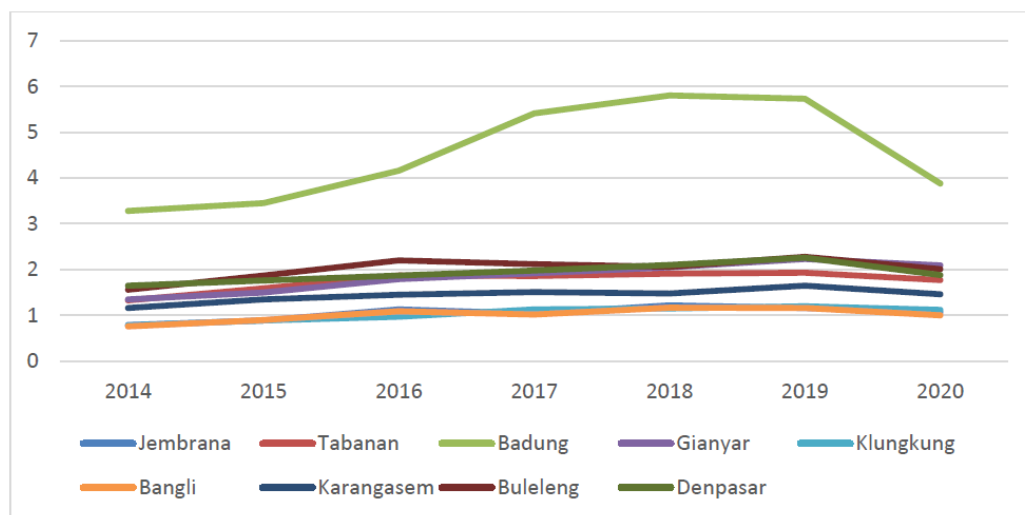


Fig. (3). Realization of District/City Regional Expenditures in the Province of Bali 2014-2020 year.

Source: BPS Bali Province, 2021.

economic growth. The success of the provincial government in reducing unemployment and implementing income inequality has had an impact on the growth of people's wealth.

The data shown in Fig. (3) shows that the total realization of district/city regional spending in Bali generally continues to increase. However, in 2020 all regencies/cities in Bali will experience a decline in expenditure realization figures. Badung Regency experienced the highest decline in expenditure figures, namely nearly 2 trillion rupiahs. This was caused by a decrease in regional income sourced from the tourism sector due to the Covid-19 pandemic that hit the world. This substantial expenditure allocation has not been able to have the maximum impact on improving people's welfare, so there are still productive-age residents in regencies/cities in Bali Province who have not found work or are still unemployed.

Within the current development framework, looking at how the Regional Government allocates spending for the benefit of the community will have a multiplier effect on increasing the welfare of its people. Local government policies in optimizing spending allocations will be able to realize regional macroeconomic goals, especially those related to economic growth and social welfare. Keynes shows this correlation in Mankiw (2018) that public sector investment will encourage economic growth and employment opportunities and reduce poverty through a multiplier effect.

The implementation of good governance in the management of regional government, especially in the management of regional expenditures, is expected to realize the objectives of the development carried out by the regional government, namely increasing the welfare of society in general. Budget management by applying the principles of good governance has been carried out so that all Regency/City Governments in the Province of Bali in 2020 receive an Unqualified Opinion (WTP) from the Supreme Audit Agency (BPK). Regional expenditure allocated for development and services to the community each year by each Regency/City Government is relatively high. The allocation of a high regional budget sup-

ported by the implementation of good governance should be able to improve people's welfare.

The regional budget is only capable of bringing prosperity to some of the people of the Province of Bali. According to Wardhan et al. (2017), the main problems that cause regional economic governance to fail to create wealth are the ineffectiveness of regional spending and weak governance. BPS data shows that Bali Province still has a significant number of poor people, 3.78 percent, in 2020. Karangasem Regency has the highest number of poor people, namely 5.91 percent. Meanwhile, the unemployment rate in Bali Province will reach 5.63 percent in 2020. Most of the unemployed are in Denpasar, which is 7.62 percent of the total population. Applying the principles of good governance in government administration, especially in managing regional expenditures, has not been able to maximize regional development activities to achieve people's welfare. The focus of this research is on regencies/cities in Bali Province. It aims to examine the influence of good governance principles and regional expenditure allocations on regional development efficiency and community welfare.

RESEARCH METHODS

This study uses a quantitative research design, namely research based on the philosophy of positivism. The quantitative research design used is associative, namely testing the relationship or influence between two or more variables. Influence variables (exogenous) in this study include good governance and local spending. The variable influenced (endogenous) in this study is community welfare. The locations or objects of this research are regencies/cities in Bali Province from 2011 to 2020. The data is panel data (pooled data) by combining cross-section and time series data from 9 regencies/cities.

The data used is panel data which is a combination of cross-section data consisting of 8 (eight) districts and 1 (one) city (i = 9) as well as time series data from 2011 to 2020 or 10 observations (t = 10) which totals 90. The data analysis tech-

nique used in this study uses structural equation analysis or Structural Equation Model (SEM) with an alternative Partial Least Square (PLS) (component-based SEM).

**RESULT AND DISCUSSION**

The research analysis results show that most constructs' indicators have a loading factor (original sample) above 0.7. In addition to the results of the loading factor coefficient showing a number greater than 0.7, it is also illustrated that the T-statistics number is more significant than 1.960 and the probability value is lower than 0.05 for all indicators. This shows that all valid indicators reflect their respective constructs, meet the required criteria, and are worthy of further analysis.

**Tabel 1. Uji Fornell-Larcker Criterion.**

	X1	X2	Y2
X1	0,797		
X2	0,431	0,829	
Y2	0,603	0,791	0,939

Source: processed data, 2022.

Information: X1 = Good Governance, X2 = Regional Expenditures, Y1 = Regional Development Performance, Y2 = Community Welfare

In Table 1 it can be seen that the value of the square roots of the AVE for the variable is greater than the correlation of other latent variables. This shows that from the results of the Fornell-Larcker Criterion test above it can be concluded that the construct is declared valid.

**Table 2. Cross Loading Discriminant Validity Test.**

	X1	X2	Y1
X1.1	<b>0,813</b>	0,310	0,518
X1.2	<b>0,879</b>	0,418	0,558
X1.3	<b>0,687</b>	0,293	0,335
X2.1	0,325	<b>0,931</b>	0,649
X2.2	0,142	<b>0,706</b>	0,496
X2.3	0,528	<b>0,835</b>	0,774
Y2.1	0,599	0,745	<b>0,956</b>
Y2.2	0,492	0,660	<b>0,866</b>
Y2.3	0,587	0,788	<b>0,969</b>
Y2.4	0,580	0,771	<b>0,961</b>

Source: processed data, 2022.

Information: X1 = Good Governance, X2 = Regional Expenditures, Y1 = Regional Development Performance, Y2 = Community Welfare

Based on Table 2 it can be seen that each indicator has a higher cross-loading value than the latent variable. This shows that all indicators have met discriminant validity in the Cross Loadings test. Thus all indicators are declared eligible to be included in further analysis stages.

**Table 3. Construct Reliability Test.**

Constructs	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1	0,741	0,838	0,635
X2	0,804	0,867	0,688
Y1	0,958	0,967	0,881

Source: processed data, 2022.

Information: X1 = Good Governance, X2 = Regional Expenditures, Y1 = Regional Development Performance, Y2 = Community Welfare

The results of the construct reliability test as presented in Table 3, show that all variables have a value of rho\_A variable above 0.70. Moreover, all of them also have a composite reliability variable value above 0.7. Likewise, for the Average Variance Extracted (AVE) Role of Thumb value, the AVE value is all greater than 0.5; this is acceptable in exploratory studies (Hair et al, 2010).

**Table 4. R-square Value.**

Latent variable	R-Square	Information
Regional Expenditures	0,186	Weak
Public welfare	0,839	Strong

Source: processed data, 2022.

Based on the R2 coefficient in Table 4, the magnitude of the Stone Geiser Q-Square test or Q2 coefficient can also be calculated (Ghozali, 2011), namely.

$$Q^2 = 1 - \{(1 - R_1^2) (1 - R_2^2) (1 - R_3^2)\}$$

$$Q^2 = 1 - \{(1 - 0,186) (1 - 0,402) (1 - 0,839)\}$$

$$Q^2 = 1 - \{(0,814)(0,598)(0,161)\}$$

$$Q^2 = 1 - (0,078) = 0,922$$

Based on the calculation results, a Q2 number of 0.922 is obtained, so this model has a robust predictive prevalence. Most of the variations in the dependent variable can be explained by the constructs included in this research model. Substantial predictive prevalence with several 0.922, means that the resulting model is suitable for making predictions.

The results showed that good governance affects regional spending with a regression coefficient of 0.431 with a significance level in the form of a P value of 0.006. This means that the implementation of good governance has a positive and significant effect on regional spending, so the hypothesis is accepted. This shows that implementing the principles of good governance can improve the performance of regional expenditures allocated by Regency/City Governments in the Province of Bali.

The effect of good governance on people's welfare has a regression coefficient of 0.231 and a significance level in the form of a P value of 0.014. This figure means that good governance has a positive and significant effect on people's welfare or the hypothesis is accepted. This shows that the implementation of good governance has improved the welfare of the community in districts/cities in the province of Bali.

**Table 5. Coefficient Value of the Direct Effect of Research Constructs The Influence of Good Governance and Regional Expenditures on Regional Development Performance and Community Welfare in Regencies/Cities in the Province of Bali.**

Variable Relations	Original Sample	Standard Devisiasi	T Statistics	P Values	Information
X1 -> X2	0,431	0,156	2,767	0,006	Significant
X1 -> Y1	0,231	0,093	2,472	0,014	Significant
X2 -> Y1	0,408	0,136	2,992	0,003	Significant

Source: processed data, 2022

Information: X1 = Good Governance, X2 = Regional Expenditure, Y1 = Community Welfare.

Regional spending influences people's welfare with a regression coefficient of 0.408 and a significance level in the form of a P value of 0.003. This shows that regional spending has a positive and significant effect on people's welfare and the hypothesis can be accepted. This statement implies that regional spending has improved people's welfare in districts/cities in the Province of Bali.

The direct influence of implementing good governance on regional spending is positive and significant. The direct influence of regional spending on people's welfare is also positive and significant. Likewise, the direct influence of good governance on social welfare is positive and significant. So the nature of the relationship  $X1 \rightarrow X2 \rightarrow Y2$  is partial mediation.

Data analysis on the study results shows that good governance has a positive and significant effect on district/city regional spending in the Province of Bali. The results of the study show that the regression coefficient value of the effect of good governance on regional spending is positive, which means that the increasing good governance is reflected by the predicate of audit reports on local government financial reports, scores of Government Agencies Performance Accountability Reports (LAKIP) and the Audit Agency findings index. Finance against the Regional Government's financial reports, the regional expenditure reflected by the percentage of direct expenditure, the percentage of capital expenditure and the percentage of transfer expenditure of the total regional expenditure will be better, and vice versa.

Research conducted by Caleb and Godwins (2012) also found a relationship between the implementation of good governance and the government budgeting process. Regional expenditure budgeting will be good if it is supported by good governance because one of the objectives of implementing good governance is to realize good, effective and efficient budgeting. By applying the principles of good governance in the implementation of government activities, especially in the process of preparing the budget, it will be able to make the allocated funds more effective and efficient in realizing the vision and mission of the Regency/City Government according to what is stated in the RPJMD.

The results of the research and data analysis show that the implementation of good governance has a positive effect, as indicated by the regression coefficient which is positive but not significant to regional development performance. This shows that the application of the principles of good governance which is reflected in the predicate of the audit report on the Regional Government financial reports, the LAKIP score

and the Audit Board finding index on the Regional Government financial reports, has not been able to improve regional development performance in the form of growth in Gross Regional Domestic Product (GRDP). )/economy, labour absorption, the percentage of the population above the poverty line, and the level of income distribution in districts/cities in the Province of Bali.

The research and data analysis results show that good governance has a positive and significant effect on the welfare of the district/city communities in the Province of Bali. This influence is shown by the positive regression coefficient, which means that the increasing quality of good governance implementation, the welfare of society will also increase, and vice versa. Wardhani et al (2017), stated that the problem of low governance and inefficiency in government spending is one of the main problems in managing the public sector, which fails to improve people's welfare.

The research and data analysis results show that regional spending has a positive and significant influence on the welfare of the district/city communities in the Province of Bali. This is indicated by the positive value of the regression coefficient, which means that an increase in regional spending as reflected by the percentage of direct expenditure, the percentage of capital expenditure and the percentage of transfer expenditure in regional expenditure will be able to increase the HDI value as a manifestation of social welfare, namely in the form of life expectancy, long life expectancy. Schooling, the average number of years of schooling and spending per capita of the Regency/City community in the Province of Bali. Research conducted by Sasana (2012), found that the realization of district/city regional spending in Central Java Province had a positive and significant effect on the Human Development Index (IPM). Similar research results were conducted by Yousaf, et al. (2015), Helliwell et al (2018), Wekan, et.al (2019), and Rezayee, at al (2020).

The research and data analysis results show that regional development performance has a positive and significant impact on the welfare of the district/city communities in the Province of Bali. This influence is shown by the regression coefficient number which is positive, which means that increasing regional development performance in the form of GRDP growth, employment, the percentage of the population above the poverty line, and the level of income equity will be able to improve people's welfare in the form of increasing life expectancy, increasing long-term expectations. Schools and the average number of years of schooling as

well as the increase in expenditure per capita of the Regency/City community in the Province of Bali.

## CONCLUSION AND SUGGESTION

In general, this study aims to determine the effect of good governance and regional spending on regional development performance and the welfare of the district/city community in the Province of Bali. The study results show that good governance positively and significantly affects district/city regional spending in the Province of Bali. Good governance and regional spending have a positive and significant effect on the welfare of the district/city community in the Province of Bali. Based on the research results, especially on the discussion and conclusions that have been stated previously, it can be suggested that implementing the principles of good governance requires commitment or political will from government leaders. All elements in the Regency/City Government in the Province of Bali will continue to strive to realize effective and efficient budget management per the priority scale stipulated in the RPJMD. Regency/City Governments in the Province of Bali must continue to strive to improve the performance of regional development to achieve community welfare by constantly trying to realize high economic growth, increase employment, reduce income gaps and reduce the poverty rate in society.

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