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The Implications of Good Governance Performance, Development Budget Allocation, and Economic Growth Inclusion on People's Welfare in Bali Province

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Abstract: *The welfare of the people in Bali Province is inseparable from the contribution of HDI of regencies/city in Bali Province, the condition of HDI of regency/city in Bali Province until now uneven. Many factors influence the inequity of HDI achievement of regency/cities in Bali Province, one of which is the budget allocation in apbd of each regency/city that are imbued by good governance implementation in each regency/city. economic growth in the Province of Bali and regencies/city is good enough and has increased year by year but behind it the phenomenon of the gap between people increasing from year to year. The purpose of this research is to analyze: (1) the effect of good governance performance on development budget allocation; (2) the effect of good governance performance and development budget allocation on economic growth inclusion; (3) the effect of good governance performance, development budget allocation and economic growth inclusion on people's welfare; (4) the indirect effect of good governance performance on economic growth inclusions through development budget allocation; (5) the indirect effect of good governance performance on community welfare through development budget allocation and economic growth inclusion; (6) the indirect effect of development budget allocation on the welfare of the community through economic growth inclusion. The results of research and data analysis show that: (1) the performance of good governance have a positive and significant effect on development budget allocation; (2) the performance of good governance and development budget allocation have a positive and significant effect on the economic growth inclusion; (3) the performance of good governance, development budget allocation economic growth inclusion have a positive and significant effect on people's welfare; (4) the performance of good governance have a significant indirect effect on economic growth inclusion through development budget allocation; (5) the performance of good governance have a significant indirect effect on people's welfare through development budget allocation and economic growth inclusion; (6) the development budget allocation have a significant indirect effect on the people's welfare through economic growth inclusion.*

Keywords: *development budget allocation, economic growth inclusion, good governance performance, people's welfare*

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I. INTRODUCTION

The welfare state concept emphasizes the responsive role of government in organizing and managing the economy so as to carry out its responsibilities to ensure the availability of basic welfare services at a certain level for its citizens (Andersen 1997).

The implementation of the principles of good governance is very important in the implementation of government activities to realize welfare and equity, this is because one of the purposes of development is to realize changes in the bureaucracy that has a commitment on people's welfare (Simatupang, 2007).

The synergy between the government and the principle of good governance is absolutely necessary for the implementation of every policy that has been produced, the implementation of good governance affects human development and poverty reduction (Sebudubudu, 2010) which will ultimately lead to the welfare of the community. This is reinforced by the opinion (Rodrik et al., 2003) that the role of institutions (government), trade, and geography affects economic growth.

Implementation of the public policy to create absolute prosperity requires budget support, budget allocation policy that supports the implementation of good governance is a determining factor in implementing good governance in order to realize the people's welfare. Caleb and Godwyns (2012) found that there is a relationship between good governance and good budgeting, good budgeting without good governance is impossible because one of the goals of good governance is to create good budgeting.

The condition of community welfare in Bali Province shown by the HDI rate in 2013 was 72.48 and ranked 17th nationally, as indicated by the achievement of community life expectancy was 71.2. The literacy rate was 91.03, mean years of schooling is 8.58, with per capita expenditure 643.78. The HDI is inseparable from the contribution of HDI regencies/city in Bali Province, the condition of HDI for each regencies/city in Bali Province until now not evenly distributed. Many factors affect the inequality of achievement of HDI regencies/city in Bali Province, one of which is the allocation of public budget in the local government budget (APBD) of each regency/city is imbued by the implementation of good governance in each regency/city. Economic growth in the Bali Province and regencies/city is good enough and has increased year by year but behind it the phenomenon of the gap between people increasing from year to year. Such good growth has not maximally reduced the gap in society or has not been able to create an inclusive growth. This study establishes the focus of research on the area of Bali Province, namely to examine the implications of the implementation of good governance performance, the implementation of budget allocation policy, to the inclusiveness of economic growth and the welfare of the people in Bali Province.

The implementation of decentralization is very important in accelerating the improvement of public welfare affirmed by jean and faguet (2002), that the implementation of decentralization has had an impact on the level of local government's sensitivity to the needs of local communities. Stansel (2008), added that decentralization has enabled the improvement of the relative importance of local government, especially in the provision of public services, supported by the position of the local government that is better able to recognize the needs of its people because its position is closer to the community.

The demands of the globalization and transparency era, require good governance, the realization of good governance in the indonesian government system among others is through the assessment of the government performance accountability report (LAKIP) and local government financial reports (LKPD) which is have 4 (four) types of opinions. The criteria used in giving the opinion to local government i.e.: (1) conformity with government accounting standard (SAP); (2) adequacy of disclosure; (3) compliance with laws and regulations; and (4) effectiveness of internal control system.

Table 1: Development of Audit Opinion of Audit Board of Republic of Indonesia (BPK-RI) to Province/Regency/City in Bali Province, Year 2009 -2014

No.	Province/Regency/City	Audit Opinion On The Budget Year					
		2009	2010	2011	2012	2013	2014
1.	Jembrana Regency	TW	TW	WDP	WDP	WDP	WTP
2.	Tabanan Regency	WDP	WDP	WDP	TMP	WDP	WTP
3.	Badung Regency	WDP	WDP	WTP	WTP	TW	WTP
4.	Gianyar Regency	WDP	WDP	WDP	WDP	WDP	WTP
5.	Klungkung Regency	WDP	WDP	WDP	WDP	WDP	WDP
6.	Bangli Regency	WDP	WDP	WDP	WDP	TMP	WDP
7.	Karangasem Regency	WDP	TMP	WDP	WDP	WDP	WDP
8.	Buleleng Regency	WDP	TMP	WDP	WDP	WDP	WTP
9.	Denpasar City	WDP	WDP	WDP	WTP	WTP	WTP
10.	Bali Province	WDP	WDP	WDP	WDP	WTP	WTP

Source: Representative Office Of BPK- RI in Bali Province, 2015

Note: WTP = *Wajar Tanpa Pengecualian* (Unqualified Opinion)

WDP = *Wajar Dengan Pengecualian* (Qualified Opinion)

Based on Table 1, the implementation of good governance and clean government in the form of the evaluation of local government financial report (LKPD) in Bali Province shows the better improvement from year to year, one of which is shown by the opinion on the better local government financial reports (LKPD), in 2014 only 3 (three) regencies who get qualified opinion with exceptions, while the other (province/regency/city) get unqualified opinion.

Gross domestic regional product (GDRP) is a description of the state of economic growth of an area at a time. Similarly, the economic development of the regencies/city in Bali Province can be shown by looking at the development of its GDRP. In aggregate GDRP per capita at constant prices has increased every year, the development of each year is always dominated by the Denpasar City as the first rank, followed by Badung Regency as the second rank, in general GDP per capita growth of regencies/cities always showed an increase, especially Bali Province which experienced a very significant increase in 2011, for details of GDRP per capita at constant prices can be seen in Figure 1.

In Billion IDR (Indonesian Rupiah)

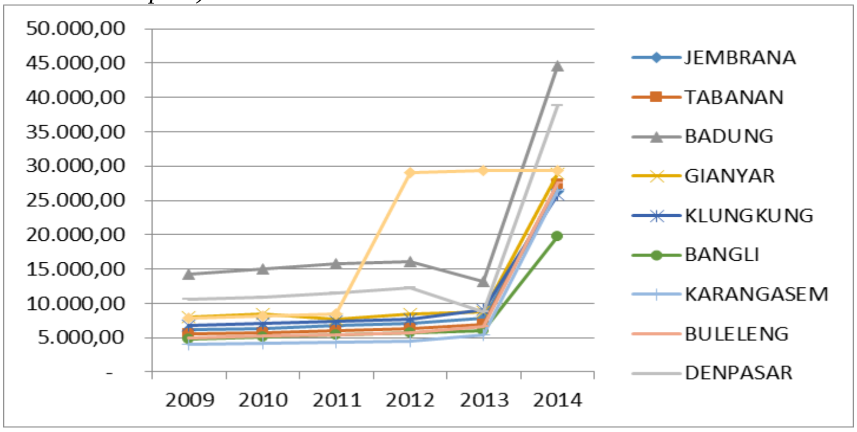

Figure 1: GDRP per Capita of Regency/City in Bali Province Based on Constant Price, Year 2009 - 2014
Source: Central Bureau of Statistics of Bali Province, 2015

The average ratio of capital expenditure to total regency/city government spending in the Bali Province is in the range of 20 percent, the highest achieved by Badung Regency with a range of 21.95 percent. As we know that capital expenditure has a strategic role in triggering economic growth in the region concerned, capital expenditure is an investment of local governments in providing multiplier effects for people in the area.

The average ratio of local own source revenue (PAD) to total revenue indicates fiscal independence of a region, it can be shown that the highest ratio recorded by Badung Regency with the achievement in the range of 74.38 percent. In general, Bangli Regency has a ratio of local-own source revenue (PAD) to low total income of only 6.35 percent, it indicates the level of fiscal independence of Bangli Regency is still low so it should try harder to explore the potentials of local-own source revenue (PAD) in the region in order to reduce dependence fiscal. The welfare of the people is inseparable from the poverty of the population, poverty has become so complex and chronic problems both nationally and regionally as well as Bali Province which is not spared from poverty.

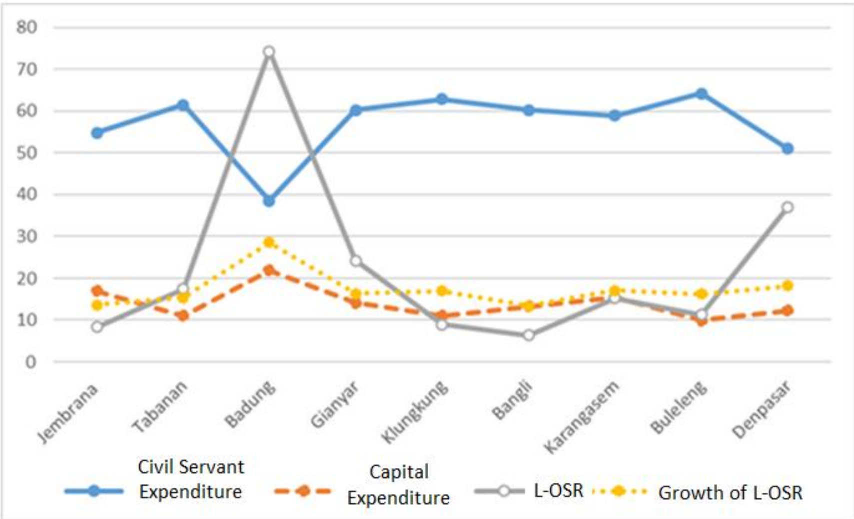

Figure 2: Average Ratio of Civil Servant Expenditure to Total Government Expenditure, Capital Expenditure on Total Government Expenditure, Local Own Source Revenue (L-OSR) to Total Revenue, and Growth L-OSR of Regency/City in Bali Province, Year 2008-2014
Source: Central Bureau of Statistics of Bali Province, 2015
Note: L-OSR = Local-Own Source Revenue (PAD)

Based on Figure 2, it can be seen the description of regencies/city budgets in Bali Province, the average ratio of civil servant expenditure of each regency/city is still in the range of 50 percent to 70 percent except badung regency which is in the range below 40 percent. It is influenced by the amount of regional income and the number of civil servants owned by the regency/city government.

Regional revenue growth in 9 (nine) regency/city in Bali Province shows an average growth above 10 percent annually. Even the Badung Regency achieves an average growth of 28.55 percent per year which is the highest income growth in Bali Province. The above budget description shows how the development inequality widened, especially when viewed from the side of development financing in Badung Regency. On the contrary, Bangli and Jembrana Regency are the lowest with the lowest local government budget (APBD), if this continues, inclusive growth will be more difficult to achieve, as government financing of development still plays an important role in Indonesia, including Bali.

Research on the effect of good governance performance on budget allocation is done by caleb and godwins (2012) also found that there is a relationship between good governance and good budgeting, good budgeting without good governance is not possible because one of the objectives of good governance is to create a good budget, supported also by public interest theory proposed by posner (1974), this theory considers that regulation should improve social prosperity, the theory seeks to show that the regulation is the result of public demand for correction for market failure.

Research on the effect of good governance performance and budget allocation on economic growth inclusion. Sodik (2007) who found that the budget allocation that processed into government expenditure, especially expenditure in the field of development affect the economic growth of a region. Raghbendra Jha, et al. (2000) found that government-allocated education budgets are significant for reducing poverty, especially if the government focuses on higher education, honesty, and technical education. Hapsari (2014) finds that inclusive economic growth occurs in areas that focus on poverty reduction through increased government spending through budget allocation to physical capital, education, empowerment of the middle class so as to grow rapidly and strongly through budget allocations for pro-poor development programs through stimulus to labor-intensive economic programs and create labor migration from labor-intensive sectors to capital-intensive sectors through empowerment of human resources.

Another research by Mulyati (2014) with the results of research that good governance affects the welfare of the community with indicators of public consumption and HDI, good governance affects the welfare of the community with indicators of public consumption and HDI through local financial capacity, good governance affect the people’s welfare with indicators such as people’s consumption and HDI through the opinion at report of audit finding (LHP) and value for money.

Based on the background of the condition of economic growth, budget, community gap and people’s welfare in bali province, and its relevance to the references that have been described above, there is a problem in this research, "how the role of government in implementing good governance performance through budget allocation in realizing the economic growth inclusion and improving people's welfare in Bali?".

The purpose of this research is to analyze:

1) The effect of good governance performance on development budget allocation;
2) The effect of good governance performance and development budget allocation on economic growth inclusion.
3) The effect of good governance performance, development budget allocation and economic growth inclusion to people’s welfare.
4) The indirect effect of good governance performance on economic growth inclusion through development budget allocation.
5) The indirect effect of good governance performance on people’s welfare through development budget allocation and economic growth inclusion.
6) The indirect effect of development budget allocation on people’s welfare through economic growth inclusion.

II. LITERATURE REVIEW

2.1 Good Governance Performance

The concept of good governance includes good governance, good governance, and clean governance. According to Quadrat (2009) and prasetijo (2009), in good governance, there are three important pillars, namely people's welfare (economic governance), decision-making process (political governance) and administrative governance.

The synergy between the government and the principle of good governance is absolutely necessary for the implementation of every policy that has been produced, the implementation of good governance affects human development and poverty reduction (Sebudubudu, 2010) which will ultimately lead to the welfare of the community. This is reinforced by opinion (Rodrick et al., 2003 and Septiana, 2008) that the role of institutions (government), trade, and geography affects economic growth.

Implementation of budget allocation policies that support the implementation of good governance is a determining factor in implementing good governance in order to realize the welfare of society. Caleb and Godwyns (2012) found that there is a relationship between good governance and good budgeting, good budgeting without good governance is not possible because one of the goals of good governance is to create good budgeting.

2.2 Development Budget Allocation

Budget is one of the important instrument in management because it is part of the management function, be it in the business organization or government organization. The budget is part of an important activity that is carried out regularly, in government organizations made the budget recording in every government activity. Wildavsky (1975) in Gozali (2001) defines budgets as future plans, past records, resource allocation mechanisms, methods for growth, income distribution tools, organizational aspiration expectations, mechanisms for negotiation, a form of control and tool power or communication network.

According to Darlis (2000), uncertain environmental conditions will make the individual budget executing budget slack, in which case the organization's commitment to support the objectives, values, and objectives to be achieved by the budget is supported by (Mowday et al, 1979 in Darma, 2004). In addition, organizational commitment can be a psychological tool in running the organization for the achievement of expected performance (Nouri and Parker, 1996; McClurg, 1999; Chong and Chong, 2002; Wentzel, 2002).

The concept of allocating the government budget is one form of government policy, according to James E.Anderson, "formulating policy is the direction of action that has the intention set by an actor or a number of actors in overcoming a problem or a change" (Winarno, 2002). So the concept of a policy is implemented in order to overcome a problem or to make changes so as to achieve a situation that becomes the main goal.

Another theory that underlies the budget allocation is the public interstory theory proposed by Posner (1974), this theory considers that regulation should improve social prosperity, the theory seeks to show that the established regulation is the result of a public demand of correction results market failure. In this theory, which is assumed to have the best interests in the heart of society and can regulate the public interest so as to maximize social welfare is the central authority, as well as regulatory oversight bodies.

2.3 Economic Growth Inclusion

Economic growth in a country is an enhancement of a country's ability to provide economic goods to its population, where the increase in this capability is due to institutional, technological advancement, as well as the ideological adjustment it needs (Todaro and Smith, 2012).

According to Birdsall (2007), inclusive growth is a conducive growth in order to increase the size of middle-class economic capability. This can be shown by the economic growth that is accompanied by the significant growth of the middle class. Growth can be said to be inclusive if the growth is qualified as indicated through poverty reduction, decreasing inequality of income distribution and more employment absorption.

According to Suryanarayana (2007), through his literary study, the concept of inclusive growth can be interpreted, as follows.

1) According to the world bank, growth focuses on expanding economies of scale, expanding access to economic assets and successfully expanding markets and creating equitable opportunities for future generations.
2) An important requirement for inclusive growth is that income disparities between workers in agriculture and non-agricultural sectors should not be too large (Sen, 2007).
3) Besley et al. (2007) use the growth elasticity of poverty to measure inclusiveness of the growth process against poverty.
2) Provide a definition of inclusive growth based on the production side and GDP (gross domestic product) revenue, which is the process and outcome of growth where all parties can participate and benefit equally from that growth. Thus inclusive growth represents equity.

Another concept of inclusive growth proposed by Rusastra (2011) mentioned that the paradigm of inclusive economic growth is basically by implementing pro-poor development; economic growth rate, and prevent environmental damage. In order to achieve this, efforts should be made, among others, as follows.

1) Stabilization of macroeconomic indicators supported by fiscal policy alignments and incentive systems for agricultural sector development;
2) Increased production capacity with infrastructure development and conservation of natural resources in order to sustain long-term economic growth;
3) Integrated and integrated poor community empowerment program;
4) Increased access for the poor, production control of production assets and accelerated increase in income.

Habito (2009) mentions another concept of inclusive growth, which is defined as GDP growth that can reduce poverty, an important factor affecting that growth is the economic structure and sectoral composition of the economic growth. For example, in developing countries whose economic growth is dominated by the agricultural sector where the sector absorbs the most labor requires special attention by the government, as well as the health, education and housing sectors to create inclusive economic growth.

Hapsari (2014) finds that inclusive economic growth occurs in areas that focus on poverty reduction through increased government spending through budget allocation to physical capital, education, empowerment of the middle class so as to grow rapidly and strongly through budget allocations for pro-poor development programs through stimulus to labor-intensive economic programs and create labor migration from labor-intensive sectors to capital-intensive sectors through empowerment of human resources.

Ali and Zhuang (2007) find that inclusive economic growth focuses on creating economic opportunities and ensuring equitable economic access, in order to achieve maximum economic growth targets should be supported by a three policy pillar strategy. (2) social inclusion to ensure equal access to opportunities, (3) social safety net to prevent high levels of poverty.

2.4 People's Welfare

The concept of welfare society is a concept that is widely applied to a country, welfare society seeks to reduce the negative access that arises from liberalism as in pure capitalism that is by uniform the role of the state. According to Chapra (1995), in principle, a system relies on a market system, but efforts to reduce market imbalances that cause market inefficiency persist through various government efforts. Some of the government's efforts are pursued, among others, by various government regulations, the nationalization of key companies, the optimization of fiscal policy and others (Andersen, 1997).

The welfare society emphasizes the concept of a responsive government role in managing and optimizing the economy so that it can assume its responsibility in ensuring the availability of basic welfare services at the highest level for its citizens (Andersen, 1997). This concept is seen as one form of state involvement in promoting the welfare of the people after the emergence of some empirical evidence of market failure in capitalist and socialist societies (Husodo, 2006). It can be argued that the welfare state is the middle ground of the ideology of capitalism and socialism in which this concept thrives in democratic and capitalist countries, not on socialist countries (Suharto, 2006).

Welfare level can be studied according to various fields that become the reference in the effort of achieving the improvement of the quality of life, which is demography, education, employment, health and nutrition, level and consumption pattern, housing. These six aspects can be identified through various indicators of welfare, among which are the HDI (human development index) is a benchmark of human development success seen from the fundamental development component, including life, knowledge, decent living standards, where the three things is an activity of education, health, and home economics (Susetiawan, 2009).

The welfare of one can be achieved through economic development, it has been mentioned by various opinions and research. Simanjuntak and Muklis (2012) pointed out that economic development is a multidimensional process encompassing not only economic growth but also involves changes in structure, attitudes, and institutions, which are ultimately shown through decreasing inequality in income distribution, poverty reduction, and declining unemployment. Todaro (2000) generally mentions that the development is a phenomenon that is not fully captured by the visible because of the form of material and financial human life. Therefore, ideal development should involve organizing and reviewing the entire economic and social system, attitudes, customs, customs, belief systems and other social aspects.

The united nations development program (UNDP) began in 1990 to develop an indicator of human well-being that can show human progress based on factors, such as literacy rates, mean life expectancy, the average length of schooling, and overall wellbeing. This report considers that human development is essentially a process of enlarging human choices. The public welfare indicators compiled by undp are known as the human development index (HDI) (UNDP, 1994). The opening sentence in the report, clearly emphasizes the importance of human-centered development that places humans as the ultimate goal, and not as a development tool (Central Bureau of Statistic, 2015).

III. RESEARCH METHOD

3.1 Research Object

The study area covers all regency/city in bali province. The objects in this study are the results of the audit by audit board of Republic of Indonesia (BPK-RI), budget allocation, economic growth, gini ratio, poverty of the population, employment and community welfare in all or nine regencies/city in Bali Province during 2008-2015. In the theory of economic base (economic base theory) mentioned that the economic growth rate of a region is determined by the large increase in exports from the region, economic activities are grouped on the basis of activities and non-base activities. Only basic activities can encourage regional economic growth (Tarigan, 2005). According to Andros and Sugata (1996) that in countries that have the dominant government expenditure the country's economic growth is affected by the government's expenditure. One tool to measure economic growth is gross regional domestic product or gross domestic product (Pambudi, 2013).

3.2 Variables Identification

The variable of good governance performance in this research is exogenous variable. The development budget allocation and the inclusiveness of economic growth are the intermediate variables because they function doubly, i.e. they function as independent variables in a relationship, and as dependent variables on other relationships. The community welfare variable is an endogenous variable.

3.3 Operational Definition of Variables

1) Good governance performance can be seen from the results of the audit of local government financial reports by audit board of republic of Indonesia (BPK-RI), government performance accountability report (LAKIP) scores of local governments, the ratio of findings by audit board of Republic of Indonesia (BPK-RI) to the financial statements of local government regencies/city during the year 2008 - 2015.
2) The allocation of the budget for the construction of the placement of the budget amounts at the designated budget heading through the applicable provisions of that organization, in the regencies/city during 2008-2015.
3) Inclusiveness of economic growth is the enhancement of a country's ability to provide economic goods to its population, where the increase in this capability is due to institutional, technological progress, and ideological adjustment, accompanied by reduced levels of public inequality. The form of measuring inclusiveness of economic growth is through economic growth, gini ratio, population above the poverty line, employment absorption in regencies/city during 2008 - 2015.
4) People's welfare. In this case, the welfare of the community used human development index (HDI) which is a composite index of health, education and economic indicators. Health indicators are measured using life expectancy. Educational indicators are measured by the average length of school that is assumed to describe the ability of human resources to find and utilize knowledge and technology, in regencies/city during 2008 - 2015.

3.4 Data Types and Source

The data used in this research is quantitative and qualitative data. Quantitative data, ie data in the form of numbers include the number of audit board of Republic of Indonesia (BPK-RI) findings on local government financial reports (LKPD), budget allocation, inclusiveness of economic growth, and the welfare of regencies/city communities in Bali Province during 2008 - 2015.

The data used in this research is secondary data consisting of realization data of local-own source revenue (PAD), and regional revenue and expenditure budget, infrastructure performance, economic performance, and prosperity of regencies/city in Bali Province during 2008 - 2015. The quantitative data used in this study is panel data, where panel data is a combination of time series data from 2008 to 2015 and cross section of nine regencies/city in Bali Province.

3.5 Data Analysis Technique

This research uses structural equation analysis (SEM) with alternative partial least square PLS (component based sem). The structural equation model (SEM) is a statistical technique that allows the testing of a relatively complex series of complex relationships simultaneously and gradually. Complex relationships can be built between one or more dependent variables with one or more independent variables. In sem, the possible variable is a single indicator or is a construct variable or latent variable formed by several indicators. There may also be a variable that doubles as an independent variable in a relationship, but a dependent variable on the relationship, or with a tiered causality relationship.

Based on theoretical and implicit studies, it can be possible to establish relationships among variables in this study are presented in detail in Figure 3.

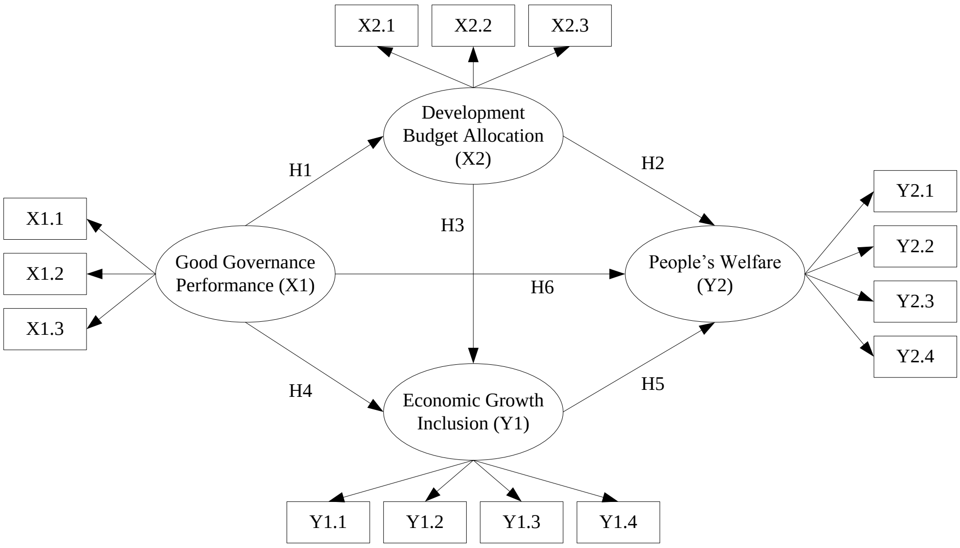

Figure 3: Model of Path Analysis

Where: X1= Good Governance Performance; X1.1= Predicate of Report of Audit Finding (LHP); X1.2= Score of Government Performance Accountability Report (LAKIP); X1.3= Ratio of The Sum of The Audit Results by Audit Board of Republic of Indonesia (BPK-RI); X2= Allocation of Development Budget; X2.1= Human and Community Development Sector; X2.2= Developing The Superior Sector; X2.3= Economic Development Sector; Y1=Economic Growth Inclusion; Y1.1= Economic Growth; Y1.2= Gini Ratio; Y1.3= Poppulation Above The Poverty Line; Y1.4= Employment; Y2= People's Welfare; Y2.1= Life Expectancy; Y2.2= Literacy Rate; Y2.3= Average Years of Schooling; Y2.4= Expenditure per Capita.

By using the pls technique to specify the relationships among variables, among others: (1) outer model, (2) inner model, and (3) direct and indirect effects are described as follows:

3.5.1 Outer Model

Outer model is often also called measurement model or measurement model which is the relationship between indicators with latent variables. In accordance with Figure 3., in this research, there is a measurement model that is a formative indicator that is: community welfare. The indicators are life expectancy, literacy rate, average school duration, and per capita expenditure.

To evaluate the validity of the outer model with formative indicators, it is necessary to observe:

(1) Substantive content is to see the significance of the weight. Insignificant formative indicators need not be excluded, as they will reduce the meaning of the construct. So the note is the outer weight, in this case, the loading factor to evaluate the validity of the formative construct.

(2) Multicollinearity of the indicator by looking at the variance inflation factor (VIF). Indicated by a VIF value more than 10 indicates there is a multicollinear in the model.

3.5.2 Inner Model

In PLS Inner Model Also Called Inner Relation That Describes The Relationship Between Latent Variables Based On The Substance Of Theory. The Equation Model In This Study According To Figure 3 Is:

$X2 = B_1 X1 + e_1$ ....(1)

$Y1 = B_2 X1 + B_3 X2 + e_2$ ....(2)

$Y2 = B_4 X1 + B_5 X2 + B_6 X3 + e_3$ ....(3)

Where:

X1 = Good Governance Performance
X2 = Allocation of Development Budget
Y1 = Economic Growth Inclusion
Y2 = People's Welfare
$B_1, B_2, \ldots\ldots\ldots B_6$ = Path Coefficient
e_1, e_2, e_3 = Inner Residual

The evaluation of the inner model is done by looking at the magnitude of its structural path coefficient, as well as its statistical t-test value obtained by the bootstrapping method. In addition, also note R^2 for the latent variable dependent.

Besides R^2, the pls model can also be evaluated predictive or predictive prevalence through Stone-Geiser Q Square Test (Ghozali, 2011). The influence of a variable on other variables is tested through direct influence or path coefficient, and to know the existence of the role of mediation variable on the influence of independent variable to the dependent variable in pls will automatically release the result, through the indirect effect or indirect effect.

IV. Results And Discussion

4.1 Structural Equation Modelling (SEM)

Based on the results of data processing obtained estimation results of structural equation model as presented in Figure 4. based on Figure 3. will also be analyzed the validity of the outer model, and inner model as follows.

4.1.1 Evaluation of Measurement Model (Outer Model)

To find out whether the indicator used to form the construct or latent variable is valid, then the following analysis is performed. The first step is to evaluate the substantive content by looking at the significance of the weight for the formative indicator. Based on Figure 4 it can be seen that almost all indicators contribute significantly or with p. Value less than 0.05 and are statistically significant with t-count values greater than 1.96, except for indicator X1.3 (number of audit findings by audit board of republic of indonesia (BPK-RI)) to construct X1 (good governance performance).

New model after the issued indicator X1.3 can be tested discriminant validity by looking at the value of cross loading. The correlation value of the indicator with its construct must be greater than the correlation value between the indicator and the other construct. Indicates that the cross-loading value of each indicator is higher in its construct compared to other constructs, except on the indicator Y1.2 (Gini Ratio).

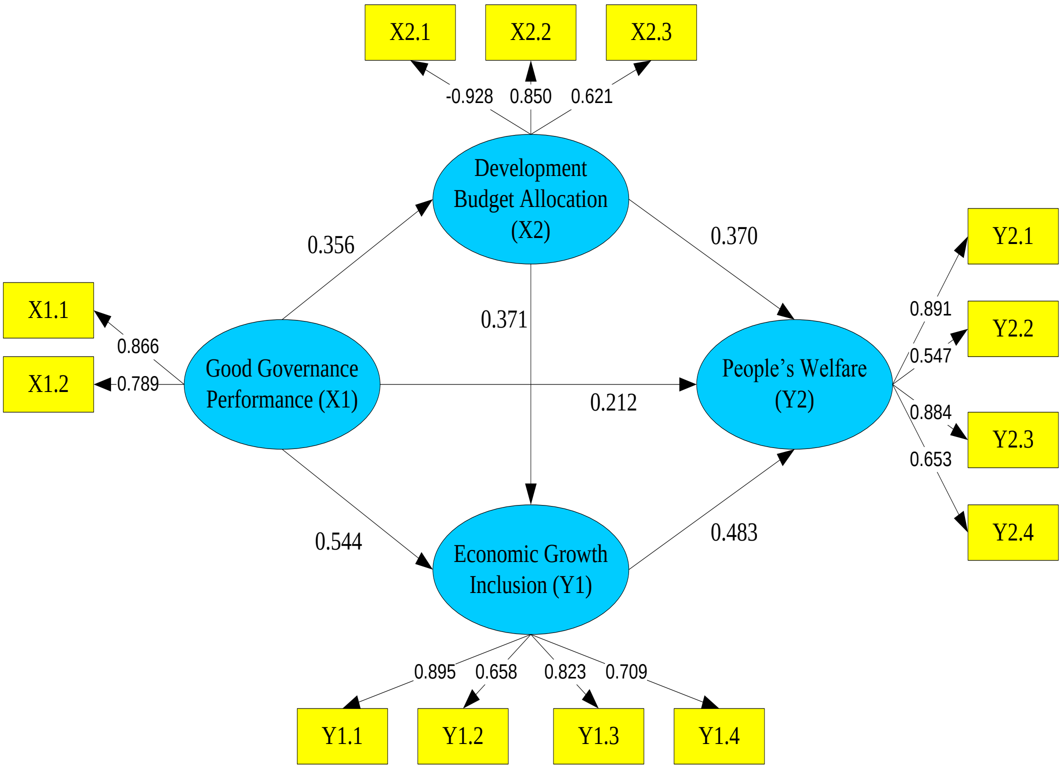

Figure 4. Interrelated Research Relationships

Where: X1= Good Governance Performance; X1.1= Predicate of Report of Audit Finding (LHP); X1.2= Score of Government Performance Accountability Report (LAKIP); X1.3= Ratio of The Sum of The Audit Results by Audit Board of Republic of Indonesia (BPK-RI); X2= Allocation of Development Budget; X2.1= Human and Community Development Sector; X2.2= Developing The Superior Sector; X2.3= Economic Development Sector; Y1=Economic Growth Inclusion; Y1.1= Economic Growth; Y1.2= Gini Ratio; Y1.3= Poppulation Above The Poverty Line; Y1.4= Employment; Y2= People's Welfare; Y2.1= Life Expectancy; Y2.2= Literacy Rate; Y2.3= Average Years of Schooling; Y2.4= Expenditure per Capita.

In addition to using discriminant validity, constructed feasibility can also be viewed through the value of Composite Reliability (CR) and Average Variance Extracted (AVE), which are generally used for reflective indicators, aiming to measure the internal consistency of a construct. The ave value is presented in Table 2.

Table 2: Composite Reliability

Construct	Original Sample (O)	Standar Error (STERR)	T Statistics (IO/STERRI)	P Values
Good Governance Performance (X1)	0,814	0,043	19,056	0,000
Allocation Development Budget (X2)	0,223	0,078	2,850	0,005
Economic Growth Inclusion (Y1)	0,857	0,023	37,734	0,000

Based on Table 2., the variables that have composite reliability value that meet the provisions are good governance (X1) and economic growth inclusion (Y1) as they have composite reliability value > 0.7. While the development budget allocation variable (X2) has composite reliability value < 0.7 so it does not meet acceptable limits.

The second step to validate the formative indicator is to look at the Variance Inflation Factor (VIF), the goal being to know the presence of multicollinear in the model. Based on table 19 it is also known that all indicators are feasible to be used for prediction since there is no multicollinearity of the indicator since Variance Inflation Factor (VIF) is a maximum of 1.866 or none greater than 10.

Table 3: Outer Weights and VIF Indicators Against Constructs With Formative Indicators

Variable	Original Sampel	Standard Deviation	T Statistics	P.Value	VIF Value
Y2.1 → Y2	0,218	0,143	1,525	0,128	3,493
Y2.2 → Y2	0,007	0,096	0,077	0,939	1,198
Y2.3 → Y2	0,489	0,134	3,654	0,000	3,477
Y2.4 → Y2	0,525	0,094	5,577	0,000	1,187

Where: Y2= People's Welfare; Y2.1= Life Expectancy; Y2.2= Literacy Rate; Y2.3= Average Years of Schooling; Y2.4= Expenditure per Capita.

4.1.2 Test of Inner Model

Inner model evaluation can first be seen from R^2 value of variable or endogenous construct. In this study, there are four variables and endogenous constructs, namely development budget allocation (X2), economic growth inclusion (Y1), and people's welfare (Y2). The value of R^2 for the endogenous construct is presented in Table 4.

Table 4: Value of Variable R^2 and Endogenous Constructs

Description	Endogenous Construct	R Square (R^2)	Result
Allocation of Development Budget (X2)	X1	0.127	Weak
Economic Growth Inclusion (Y1)	X1, X2	0.577	Moderat
People's Welfare (Y2)	X1, X2, Y1	0.812	Strong

The value of R^2 for the construction of the budget allocation below 0.19 means that the construct in the model is said to be weak, the construct of economic growth inclusion value R^2 is above 0.33 so the model in the construct is said to be moderate, while the people's welfare construct R^2 value is above 0.67 this means the construct in the model is said to be good. The R^2 value of the public budget allocation of 0.127 shows that the variable construct of development budget allocation that can be explained by the good governance performance of the remaining 12.7 percent is explained by other variables. The R^2 value of economic growth inclusion of 0.577 indicates that the variability of constructions of economic growth inclusion that can be explained by the performance of good governance and development budget allocation of 57.7 percent is explained by other variables. The R^2 value of people's welfare of 0.812 indicates that the variability of people's welfare constructs that can be explained by the performance of good governance, development budget allocation and economic growth inclusion of 81.2 percent is explained by other variables.

Based on R^2 in Table 4. can be calculated Q^2 or Stone Geiser Q Square test, namely:

$$Q^2 = 1 - \{(1-0.127)(1-0.577)(1-0.812)\}$$
$$= 1- \{(0.873)(0.423)(0.188)\}$$
$$= 0.930$$

The calculation results from Q^2 of 0.930 so it can be said to have a high predictive prevalence, so that the resulting model worthy to be used to predict. The figure of 0.930 can be interpreted that the variation of community welfare by 93 percent can be explained by the variation of performance variable of good governance, development budget allocation, and economic growth inclusion, while the remaining seven percent is explained by other variables outside the model.

4.1.3 Direct Effect Test

Based on the results of data processing can be made a direct relationship between research variables as presented in Table 5.

Table 5: Direct Variable Direct Influence on Tied Variables

Construct			Original Sample	Standard Error	T Statistic	P Value
Good Governance Performance (X1)	→	Allocation Development Budget (X2)	0,356	0,104	3,436	0,356
Good Governance Performance (X1)	→	Economic Growth Inclusion (Y1)	0,544	0,087	6,269	0,544
Good Governance Performance (X1)	→	People's Welfare (Y2)	0,212	0,085	2,513	0,212
Allocation Development Budget (X2)	→	Economic Growth Inclusion (Y1)	0,371	0,106	3,499	0,371
Allocation Development Budget (X2)	→	People's Welfare (Y2)	0,370	0,108	3,428	0,370
Economic Growth Inclusion (Y1)	→	People's Welfare (Y2)	0,483	0,118	4,094	0,483

Based on Table 5 it can be seen that all relationships have a very high significance, i.e. less than 0.01. This means that all direct effect hypotheses can be supported by data. The relationship of variables as presented in Table 5. can also be illustrated through the path diagram, as shown in Figure 5.

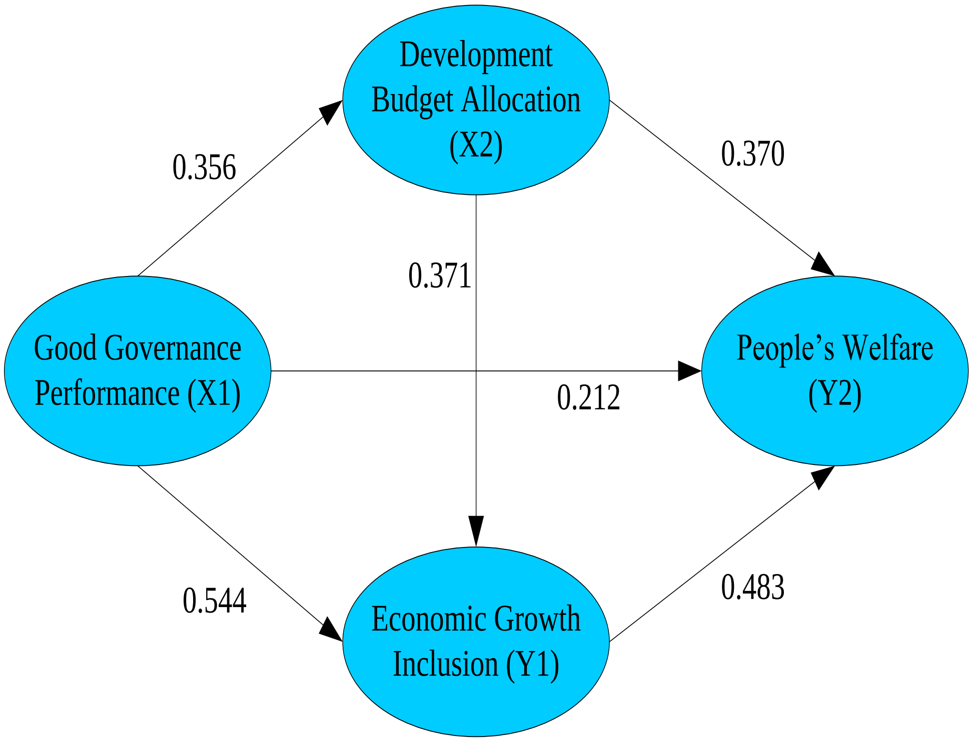

Figure 5: Interconnection Line Coefficient Coefficient

Figure 5. showed that the influences of good governance performance (X1) on economic growth inclusion (Y1) with the coefficient equal to 0.544 then followed by development budget allocation (X2) with coefficient equal to 0.371. Variable of people's welfare (Y2) influenced by the economic growth inclusion (Y1)

with the coefficient equal to 0.483, development budget allocation (X2) with the coefficient equal to 0.370 then most influenced by good governance performance (X1) with the coefficient equal to 0.212.

4.1.4 Indirect Effect or Mediation

Based on the result of indirect effect the influence of independent variable to the dependent variable, through the mediation variable or the intermediate variable, in this research is the development budget allocation and economic growth inclusion variables. The results are presented in Table 6. Table 6 shows that good governance performance has an indirect effect on the economic growth inclusion through development budget allocation. Good governance performance has an indirect effect on people's welfare through development budget allocation and economic growth inclusion. Likewise, the development budget allocation has an indirect effect on the welfare of the community through the economic growth inclusion.

Tabel 6: Indirect Influence Or Mediation

Construct			Original Sample	Standard Error	T Statistic	P Values	Result
Good Governance Performance (X1)	→	Economic Growth Inclusion (Y1)	0,132	0,061	2,148	0,032	Partial Mediation
Good Governance Performance (X1)	→	People's Welfare (Y2)	0,458	0,078	5,873	0,000	Partial Mediation
Development Budget Allocation (X2)	→	People's Welfare (Y2)	0,179	0,074	2,422	0,016	Partial Mediation

4.2 Discussion

4.2.1 The Effect of Good Governance Performance on Development Budget Allocation

The results showed that the variable of good governance performance has a positive and significant influence on development budget allocation. It means that the increasing value of good governance performance with report of audit finding (LHP) predicate indicator, predicate of government performance accountability report (LAKIP), and number of audit results by ratio of the sum of the audit results by audit board of Republic of Indonesia (BPK-RI) will increase the budget allocation of development shown in budget allocation of human and community development sector, sector of superior sector development, and economic development sector.

The results of this study are in line with the public interest theory proposed by Posner (1974), this theory considers that regulation should improve social prosperity, this theory tries to show that the regulation is the result of public demand from the correction of market failure.

4.2.2 The Effect of Good Governance Performance and Development Budget Allocation to Economic Growth Inclusion

The results of the analysis show that during the period of 2008-2015, the performance of good governance has a positive and significant impact on the economic growth inclusion. This indicates a direct relationship between the performance of good governance and economic growth inclusion, so improving the performance of good governance will increase the economic growth inclusion in each regency/city in Bali Province.

The results of this study are also in line with the study conducted by Sodik (2007) who found that budget allocations that process into government expenditures, especially expenditure in the field of development affect the economic growth of a region. The budget in this field of development is needed by the region to grow and develop. Supported also by, Raghbendra Jha et al. (2000) conducted a study entitled an empirical analysis of the impact of public expenditure on education and health on poverty in India, examining the government's budget allocation to the education sector, found that significant government budget allocations for reducing poverty, especially if the government focus on higher education, honesty, and technical education.

4.2.3 The Influence of Good Governance Performance, Development Budget Allocation, Economic Growth Inclusio on Community Welfare

The results of this study indicate that the performance of good governance significantly affects the people's welfare. In this research, good governance performance indicator consisting predicate of report of audit finding (LHP), predicate of government performance accountability report (LAKIP) and number of audit results by ratio of the sum of the audit results by audit board of Republic of Indonesia (BPK-RI) have significant effect to people's welfare consist of indicator of life expectancy, literacy rate, average of school duration and expenditure per capita. It proves that the implementation of good governance performance of regency/city in Bali Province is able to directly improve the people's welfare in Bali Province.

This result is supported by Mulyati's research (2014) with a study entitled implementation of good governance to achieve people's welfare in local government in south-east sulawesi. This study analyzes the influence of good governance towards the welfare of society, the influence of good governance towards the welfare of the community through the ability of local finance and the influence of good governance towards the welfare of society through the disclosure of local government financial reports (LKPD), opinion of report of audit finding (LHP) and value for money. The results of this study found that good governance affects the people's welfare with indicators of public consumption and HDI, good governance affects the people's welfare with indicators of public consumption and HDI through local financial capacity, good governance affect the people's welfare with indicators of public consumption and HDI through report of audit finding (LHP) opinion and value for money, but on the results of good governance research does not affect the welfare of the community with indicators of GRDP through report of audit finding (LHP) opinions and value for money, contrary to the results of research authors.

In addition, it is also supported by Purbadharmaja (2011) research with a study entitled (dissertation) implications of fiscal decentralization and good governance in the field of budget governance on economic capacity and welfare of the community (study on regency/city in Bali). This study takes the object of research on the implications of fiscal decentralization associated with the budget structure, economic growth, regional disparity and good governance in the economic field in an effort to improve the welfare of the community. In this study found that regional disparity has a significant negative effect on the welfare of the community, but the results of research on good governance and economic growth did not affect an siginficant to the people's welfare, is the result of research that is contrary to the results obtained by the study authors.

4.2.4 The Influence of Good Governance Performance on Economic Growth Inclusion Through Development Budget Allocation

The results showed that indirectly the performance of good governance significantly influenced inclusiveness of economic growth through development budget allocation. This means that the indirect effect of good governance performance on budget allocation can be achieved because the performance of good governance directly affects development budget allocation and directly affects the inclusiveness of economic growth.

4.2.5 Effect of Good Governance Performance on Community Welfare Through Development Budget Allocation and Economic Growth Inclusion

The results showed that the performance of good governance has a positive and significant impact on the people's welfare through the allocation of development budget and the economic growth inclusion. Directly also has a significant effect on development budget allocation and economic growth inclusion. This means that good governance performance has a positive and significant impact on the people's welfare directly or indirectly through development budget allocation and economic growth inclusion. Through the implementation of indicators of good governance, performance can optimize the implementation of local government development budget allocation and economic growth inclusion so that ultimately can made people's welfare.

4.2.6 Effect of Allocation of Development Budget to Community Welfare Through Economic Growth Inclusion

Regional development planning that focuses on the improvement of social development and economic development become the future development strategy. Implementation of government authority in allocating development budget to fulfill the public need for public service, public goods so that able to create inclusiveness of economic growth will finally able to create prosperity of society.

This study has found some important findings, namely:

1) Implementation of effective budgetary allocation to increase the economic growth inclusion is followed by the realization of good governance performance by maximizing the performance of government agencies, improving the implementation of the local government financial administration, and obedience to the rules applicable to the implementation of the budget. The budget that has been allocated to the sectors that have been determined will be more effective, efficient to achieve the output and outcome that have been determined in accordance with the development plan, the quality of the implementation of budget governance with aspects of good governance performance is a necessary condition in the implementation of allocations budget.
2) To realize the welfare of the community it is necessary to realize inclusive economic growth consistently by maximizing the achievement of economic growth, reducing the income gap of the community, increasing the population above the poverty line, and increasing the number of employment in the community.

V. Conclusion And Implication

6.1 Conclusions

Based on the description of the discussion can be drawn several conclusions as follows.

1) Good governance performance has a positive and significant impact on development budget allocation. Local governments have an important role in the implementation of good governance performance so as to achieve budget allocation in accordance with applicable provisions. It takes commitment and political will from each central and regency/city government to always try to improve the quality of good governance performance implementation.
2) Good governance performance and development budget allocation have a positive and significant impact on the economic growth inclusion. This means that good governance performance and development budget allocation indicate a unidirectional relationship so that improved implementation of good governance performance and development budget allocation will increase the economic growth inclusion consisting of increasing economic growth, employment and population above the poverty line and decreasing gini ratio.
3) The performance of good governance, development budget allocation, and economic growth inclusion have a positive and significant impact on people's welfare. The welfare of the people in Bali Province can be realized through the implementation of good governance performance in order to implement public budget allocation to encourage the creation of inclusiveness of economic growth. The performance of good governance as a policy implemented by the government in the implementation of government activities, services and development, budget allocation as one means to allocate resources owned by the government to create services and public goods that benefit the community, inclusive economic growth is a means of measuring the achievement of development in an area that ultimately accumulates in the people's welfare.
4) The performance of good governance significantly influences the economic growth inclusion through the allocation of development budget. Implementation of policies to improve the performance of good governance by local government in Bali Province capable of guarding the implementation of budget allocation against the planning stage to the stage of reporting well can accelerate the economic growth inclusion. Implementation of good governance performance to support the realization of government budget based on performance, transparent, accountable and efficient will able to realize the economic growth inclusion.
5) The performance of good governance has a significant effect on the people's welfare through development budget allocation and economic growth inclusion. Implementation of policies to improve the performance of good governance by the local government in Bali Province capable of guarding the implementation of budget allocation against the planning stage to the stage of reporting well can accelerate the realization of people's welfare. Implementation of good governance performance to support the realization of government budget based on performance, transparent, accountable and efficient will able to realize the prosperity of society.
6) The allocation of the development budget has a significant effect on the people's welfare through the economic growth inclusion. Budget allocation is one form of redistribution of public services for the community in accordance with applicable regulations. Through this budget allocation, the government can provide services, development, and public goods that can promote the realization of the economic growth inclusion so that ultimately will be able to realize the people's welfare.

6.2 Suggestion

Based on the results of this study, the discussion and conclusions that have been stated before, it can be suggested things as follows:

1) The local government of the regencies/city in Bali Province should always focus on implementing the indicators of the good governance performance in the budget allocation process, such as for the regencies/city government which has obtained the predicate of local government financial reports (LKPD) from the unqualified exceptionary BPK to focus on maintaining the title meanwhile, for those who have not been able to focus to be able to achieve the qualified predicate, the effort done among others are: by involving Finance and Development Supervisory Agency (BPKP) as partners in the process of budget allocation up to the preparation of local government financial statements, carrying out various efforts to increase the competence of apparatus involved in the process budget allocation up to the preparation of the financial statements so that the budget allocation is in accordance with the prevailing provisions, effective, efficient and ultimately presented local government financial statements in accordance with applicable standards. To improve the value indicators of government performance accountability report, especially the government performance accountability report (LAKIP) of local governments can implement various innovations related to the preparation of performance accountability reports of government agencies through the application of information technology that is one of them through the implementation of e-

SAKIP (electronic-government performance accountability system) program, intensify mentoring by the team from kemenpanrb so as to achieve government performance accountability report (LAKIP) in accordance with applicable provisions and able optimize organizational performance.

2) The regencies/city government in Bali Province is expected to always undertake efforts to improve the quality of performance achievement so that it is in accordance with the established performance targets, especially to realize activities to reduce the income gap of the community and increase the number of literacy rate of the community. The local government may regulate technical performance agreements, performance reporting and review procedures for the performance reports of government agencies with local regulations, it is expected that through the enactment of these regulations can provide measurable performance information and can be made continuous improvement for the civil servant to always improve their performance.
3) Regency/city in Bali Province are expected to always try to improve the quality, quantity, effectiveness of budget allocation implementation to realize the inclusiveness of economic growth and community welfare, the focus to realize it is by streamlining the budget allocation especially for human and community development sectors in order reducing the income-level gap and increasing literacy rates. Local governments through the local budget planner team must always ensure that all budget allocations realized in an activity should support the achievement of priority programs from local government, the allocation of funds is directed only to programs and strategic activities that are priorities of each local government (money follow program) primarily to realize the inclusiveness of such economic growth.
4) Regency/city governments in Bali Province are expected to always undertake efforts to increase the inclusiveness of economic growth to achieve community welfare with a focus on efforts to reduce income-level gaps and increase literacy rates in communities. The local government may improve its innovation in designing programs to empower low-income communities.

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