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The Influence Of Regional Financial Capability Index And Financial Independence Level On Economic Growth And Community Welfare In Regencies/City In Bali

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Abstract: The research is related to regional fiscal through a scientific analysis based on a regional financial ratio. The analysis is considered from the perspectives of direct influence and indirect influence of financial capability index (Indek Kemampuan Keuangan (IKK)) and financial independence level (Tingkat Kemandirian Daerah (TKD)) on community welfare mediated by economic growth variable in regencies/city in Bali in the period 2012-2017.
The research method used is a descriptive method with associative-quantitative approach. Data obtained are analyzed using path analysis. The research uses secondary data in form of panel data in 2012-2017 in 8 (eight) regencies and a city in Bali Province.
The regression analysis result of the first structural equation indicates the influence of both IKK (t-value of -1.603 (sig=0.155)) and TKD (t-value of -0.681 (sig.=0.499)) on economic growth is not significant. The regression analysis result of the second structural equation also indicates an insignificant influence for both IKK (t-value of -1.539 (sig.=0.130)) and economic growth (t-value of -0.621 (sig.=0.537)) on community welfare. The influence of TKD is significant on community welfare with t-value of 8.341 (sig.=0.000). IKK and TKD have no indirect influence on community welfare through economic growth in regencies/city in Bali Province, with z-value of 0.617 and 0.464, respectively.
It can be concluded that IKK and TKD are not the main requirements to encourage regional economic growth. Efforts to improve community welfare are not merely set by regional financial capability. Economic growth does not have a significant role in mediating the influence of financial capability index and financial independence level on efforts to improve community welfare in regencies/city in Bali.

Keywords: IKK, TKD, Economic Growth, Community Welfare

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I. INTRODUCTION

Referring to the basic principles of regional autonomy theory that a region has more knowledge on its own condition and requirements, regional government should recognize their regional fiscal capability as well as independence condition toward the central government. It is imperative since an increasing regional fiscal capability would stimulate regional economic growth; hence, regional autonomy policy goals that include community welfare improvement can be achieved.

Private sector contribution in stimulating regional economic growth in regencies/city in Bali Province is larger for the last few years than the government contribution. It suggests two points: a rapid growth in private sector investment and the less optimum of government role in encouraging economic growth through its budget politics.

Regional autonomy implementation should be capable of empowering local potentials and its people to achieve prosperity in regional capability. An extensive autonomy given to the local government is directed to accelerate the achievement of community welfare in the region. Conceptually, regional autonomy aims to run a more efficient and transparent governance. An important criterion indicating the regional capability in organizing and governing its affairs is the regional financial capability. In other words, financial factor is the upmost factor in arranging regional capability level in the regional autonomy implementation.

Gross regional domestic income (*Pendapatan Domestik Regional Bruto* (PDRB)) is one of economic growth indicators of a country/area/region. PDRB is the aggregate of gross value added of all producer units in a certain region or the aggregate of end goods and services value produced by all economic units. PDRB at prevailing price illustrates the value added of goods and services and is measured using price in each year, whereas PDRB at constant price indicates the value added of goods and services calculated using price in a certain year as a basic year of its calculation. The PDRB at prevailing price can be used to understand the shift in economic structure (Dethan, 2017).

Prud'homme (1995) in Zulyanto (2010) explains several factors causing the failure of fiscal decentralization in stimulating economic growth:

a. The regional government is unable to meef local community preferences due to politics as well as less motivated apparatus or unqualify for the tasks.
b. An increase in corruption for local politician and buraucrats are more vulnerable and they are easy to be accessed by groups that have certain interest. If the corruption can be reduced or eliminated then allocation efficiency can be achieved and it encourages economic growth.
c. The existence of undemocratic political system causing a basic premis that regional government has stronger incentives to provide local public goods efficiently.

Mardiasmo (2005) states that an evaluation towards regional government financial performance in managing its financial is essential to be conducted to understand a region's success level in regional autonomy implementation. Measurement is a concept that describes a process to assess a performance according to a set of rules (Dicker, 2010). The financial performance measurement has several goals including improving regional government accountability. Moreover, it will be useful in policy making regarding regional financial management.

A research conducted by Kuncoro (2004) entitled "*Pengaruh Transfer antar Pemerintah pada Kinerja Fiskal Pemerintah Daerah Kota dan Kabupaten di Indonesia* (The Influence of Intergovernmental Transfer on the Government Fiscal Performance of Cities and Regencies in Indonesia)" indicates that an increase in transfer allocation from the central to local government is followed by higher regional budget expenditure. There is an indication that the high increase in expense is due to inefficiency in regional government expenditure, especially routine expenses. It suggests that regional budget structure tends to be large in expenditure for government administration. The tendency, in a long term, will cause an increase in fiscal inequality horizontally.

Financial capability is the fittingness of financial performance result to the planned target. The measurement of regional government financial performance is carried out to improve government performance in decision making (Pratiwi, 2017). Evaluation on regional financial performance and capability is a necessity to drive government to improve its performance in the following year.

The regional financial capability can be employed as a benchmark to measure regional financial management, in this case by using financial capability index (*Indek Kemampuan Keuangan* (IKK)). IKK is the average of growth index, share index and elasticity index. IKK's role in stimulating economic growth can be seen from the regional income source contribution used in the development funding (Purba dan Mimba, 2019). In addition to IKK, financial independence is one of important aspects of regional autonomy.

Economic growth reflects a regional economic development growing through the contribution of all regional economic sectors. Increasing economic growth is the goal of economic development. Theoretical consequences of the increasing economic growth due to the regional financial capability and low fiscal independence as well as a rising economic growth rate will accelerate community welfare improvement that indicates by, among others, an increase in human development index number in regencies/city in Bali Province.

According to Mardiasmo (1999) the benefits of fiscal independence include driving an improvement in community initiative participation and creativity in development and encouraging equitable development outcomes in all regions by utilizing resources and potentials available in the regions. Improving productive resources allocation is conducted through the shift in public decision making to the lower level of government that has more complete information. Regional financial independence depicts regional government capability in increasing PAD (locally-generated revenue) such as tax and regional retribution and so on. Regional development can only be achieved if it is accompanied by an effective fiscal independence.

Human development index (*Indeks Pembangunan Manusia* (IPM)) is an indicator used as a measure for a state's or region's welfare or success in human development field (Artaningtyas, 2011). The term is firstly introduced by the United Nation Development Program (UNDP). The UNDP measures welfare based on three indicators, namely: life expectancy at birth, adult literacy rate, average years of schooling, and purchasing power (UNDP, 1990). Referring to the current development, the Bureau of Statistics (*Badan Pusat Statistik* (BPS)) replaces the literacy number with expected years of schooling and gross domestic product (*Produk Domestik Bruto* (PDB)) per capita with gross national product (*Produk Nasional Bruto* (PNB)) per capita.

The BPS records that the average of IPM for regencies/city in Bali Province in 2012 to 2017 is 71.87 point. The number indicates that the IPM is in good achievement. The achievement, however, is not experienced by all regencies in Bali as a whole. There are several regencies in Bali where its IPM in 2012-2017 has not reached 71.87 point. The regencies include Bangli Regency (66.26 point), Buleleng Regency (69.98 point), Jembrana Regency (69.29 point), Karangasem Regency (64.36 point), and Klungkung Regency (68.74 point).

A research by Suci (2013) stated that financial independence had a significant and positive influence on the increase in economic growth in Banten Province. The research result implies that financial independence is a mean to increase economic growth.

Budget politics in a regional government is highly dependent on its fiscal capability to achieve the planned development goals. Moreover, the regional financial capability will turn the region's fiscal into a capability source to trigger economic growth. A region's fiscal position can be observed from its government spending. According to Keynesian theory in Yacoub and Resty (2011), government spending is one of a driving engines of economic growth; the stronger the fiscal the bigger the space provided for higher economic growth.

Based on the result of theoretical and empirical studies related to the regional fiscal capability management in Bali Province, the urgency of the research is to analyze the financial capability and independence of regencies/city in Bali Province in 2012-2017 through a scientific analysis based on regional financial ratio calculation related to economic growth and community welfare in the regencies/city in Bali. The research main problem is "**How does the influence of regional fiscal condition from the perspectives of regional financial capability and independence on economic growth and community welfare in regencies/city in Bali Province in 2012-2017.**"

II. RESEARCH METHOD

A research design is defined as a research plan, structure, and strategy to be used to obtain answer of a research question or problem (Rahyuda, 2016:104). The research used a descriptive quantitative research design. A descriptive research method with quantitative approach is employed to describe or explain an event that occurs at the present time in form of meaningful numbers (Sudjana, 2004:53). The research method was used in the current research since it analyzed data quantitatively that descriptively elaborated.

Data used in the research were secondary data. Secondary data were the main data to support description of research problem background. It obtained from related institutions or websites through internet browsing and other documentations based on the existing reports or documents, such as APBD, accountability reports, regional regulations as well as other documents on budget and regional economic development published by other related institutions.

The research was conducted in Bali Province that included 8 (eight) regencies and 1 (one) city. The location was selected purposively with consideration that Bali Province is the only province that has regencies with a relatively high PAD and economic growth level in Indonesia. The research object was the influence of regional financial capability and independence on community welfare through economic growth in the period of 2012-2017.

A research object is an attribute or nature or value of a person, object or activity that has variation determined by the researchers to be studied and concluded (Sugiyono, 2014). The current research object included the regional financial capability and independency of regencies/city in Bali Province based on the economic growth aspect and community welfare.

The research method used was a descriptive method with an associative-quantitative approach. Data obtained would be analyzed using path analysis. Path analysis is a technique developed from multiple linier regression. The technique is used to test contribution indicated by path coefficient in every path diagram of causal relationship between exogenous variable and its impact on endogenous variable. Path analysis is a technique to analyze causal relationship that occurs in multiple regression if its independent variable influences the dependent variable both indirectly and directly.

A variable, according to Sugiyono (2014:58), is everything in form of anything set by a researcher to be studied to obtain information and to draw a conclusion about it. Variable identification is a part of research steps performed by a researcher by determining variables in the research.

Variables in the research could be defined as follows.

a) Exogenous variable (X) is a variable that causes changes to the dependent variables (Sugiyono, 2014:59). The independent variables in the research comprised financial capability index (IKK) and financial independence level (TKD)
b) Intervening variable is a variable that mediates the relationship between independent variable and dependent variable through indirect relationship (Utama, 2016:160). The intervening variable in the research was economic growth (*Pertumbuhan Ekonomi* (PE)) based on PDRB at prevailing price.
c) Endogenous variable (Y) is a variable influenced by its independent variables (Sugiyono, 2014:59). In the research, the dependent variable was community welfare (*Kesejahteraan Masyarakat* (KS)).

The variable operational definition explains how a variable will be measured and what measuring instrument to use. It describes a variable so it becomes specific (not dual integration) and integrated. In addition, it indicates the property or type of variables in line with its measurement level and the position of variables in a theoretical framework. The proxied regional financial performance is defined as follows.

1) Financial Capability Index (IKK)

IKK is a method that shows the financial capability measured based on growth index, share index, and elasticity index. Growth index is PAD growth; share index is PAD contribution to APBD; and elasticity index is PAD sensitivity to economic growth in the period 2012-2017 in regencies/city in Bali Province that is measured by a composite index.

2) Financial Independence Level (TKD)

TKD is a measuring instrument indicating government financial capability to self-financing its government activities, development, and public services based on its financial capability originated from its own region (PAD) in the period 2012-2017 in regencies/city in Bali Province that is measured in percentage.

3) Economic Growth (PE)

Economic growth is a regional economic output rate measured from PDRB rate at prevailing price in the period 2012-2017 in regencies/city in Bali Province that is measured in percentage.

4) Community Welfare (KS)

Community welfare is a general community welfare level illustrated in community welfare index (*Indeks Pembangunan Manusia* (IPM)) in the period 2012-2017 in regencies/city in Bali Province that is measured in a composite index unit.

Based on its nature, type of data used in the research was quantitative data. According to Sugiyono (2014:14), quantitative data are data stated in form of words or qualitative data that are converted into numbers that can be stated in a unit of calculation. The quantitative data used in the research were numbers in the realization of the state budget (*Anggaran Pendapatan dan Belanja Daerah* (APBD)) of regencies/city in Bali Province in the period 2012-2017 and data from government institutions, such as Bureau of Statistics (BPS).

According to its sources, data used in the research was secondary data. Secondary data is a research data source indirectly given to the data collector (Sugiyono 2014:129). The secondary data in the research included the realization of APBD of regencies/city in Bali Province in the period 2012-2017 consisted of: (1) PAD; (2) Total Regional Expenditure; (3) Total Regional Income; and (4) Transfer Income. Other secondary data used were gross regional domestic product (PDRB) of regencies/city in Bali Province obtained from BPS.

The research used quantitative (associative) descriptive as data analysis technique. The method was done by calculating financial data obtained to solve problem according to the research purposes. The research used path analysis technique, which is the extension of multiple linear regression analysis, to predict causal relationship between variables (causal model) previously set based on the theories.

In the path analysis, there are variables with double role as an independent variable in a relationship as well as a dependent variable in other relationship. The variable is known as mediating (intervening) variable. The mediating or intervening variable is a mediator variable between the independent variable and dependent variable; hence, the independent variable does not directly influence the dependent variable (Suyana Utama, 2016:159).

The main purpose of the path analysis is to predict the meaningfulness of a relationship between a variable and other variables and the existence of indirect influence. The meaningfulness of a relationship between variables consists of the significance, direction and magnitude of the influence or relationship. Through the path analysis, the direct and indirect influence between variables can be calculated.

The financial capability index and financial independence level had direct influence on economic growth and community welfare in regencies/city in Bali Province. The financial capability index and financial independence level had indirect influence on community welfare in regencies/city in Bali Province.

There was a disturbance's error e_1 in the research model with variable (Y_1) that indicated the number of variations of variable (Y_1) unexplained by variable (X_1), and (X_2). Whereas, e_2 variable (Y_2) was unexplained by variable (X_1), (X_2), and (Y_1). The standard error of estimate could be calculated using the following formula:

$$e_i = \sqrt{(1 - Ri^2}$$

The interpretation of R_m^2 is similar to the interpretation of coefficient of determination (R^2) in regression analysis. Total data diversity can be explained by the model was calculated using the following formula:

$$R^2m = 1 - e_1^2 \,.\, e_2^2 \,\ldots\ldots\, e_p^2$$

The validity test of path coefficient in every path for direct influence was similar to regression analysis, which is using p value of t-test, namely a partially standardized variable regression coefficient test. Path coefficient is a standardized regression coefficient that is obtained by creating two regression equations indicating the hypothesized relationship. In the research, the two equations are:

$$Y1=\beta_1X_1+\beta_2X_2 +e1$$

$$Y2=\beta_3X_1+\beta_4X_2 +\beta_5Y_1 + e2$$

III. RESULT AND DISCUSSION

In order to compile the structural equation used, data obtained were processed and calculated using SPSS Version 24.0 and the analysis result is indicated in Table 3.1 and Table 3.2.

Table 3.1: Result of Regression Path Analysis I

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std. Error	Beta		
1	(Constant)	0.252	0.054		4.662	0000
	IKK	-0.139	0.087	-0.218	-1.603	0.115
	TKD	-0.075	0.110	-0.093	-0.681	0.499

a. Dependent Variable: Economic Growth
$R^2 = 0.057$
F = 1.550
F sig = 0.222

Source: *Processed Secondary Data, 2019*

Based on Table 3.1, the sub-structural equation 1 is:
$Y_1 = \beta_1 X_1 + \beta_2 X_2$
$Y_1 = -0{,}218X_1 - 0{,}093X_2$

Table 3.2: Result of Regression Path Analysis 2

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	**Std. Error**	**Beta**		
1	(Constant)	68.498	1.360		50.380	0.000
	IKK	-2.879	1.871	-0.142	-1.539	0.130
	TKD	19.496	2.337	0.756	8.341	0.000
	Economic Growth	-1.832	2.949	-0.058	-0.621	0.537

a. Dependent Variable: Community Welfare
$R^2 = 0.594$
F = 24.335
F sig = 0.000

Source: *Processed Secondary Data, 2019*

Based on the result indicated in Table 3.2 the sub-structural equation 2 is:
$Y_2 = \beta_3 X_1 + \beta_4 X_2 + \beta_5 Y_1$
$Y_2 = -0{,}142X_1 + 0{,}756X_2 - 0{,}058Y_1$

The e_1 value indicating the numberof variance in economic growth unexplained by financial capability index and financial independence level variables could be calculated using the following formula.

$e_1 = \sqrt{1 - R_1^2}$
$= \sqrt{1 - 0{,}057}$
$= \sqrt{0{,}943}$
$= 0.971$

e_2 value indicating variance in community welfare unexplained by financial capability variable, financial independence level, and economic growth variables could be calculated using the following formula.

$e_2 = \sqrt{1 - R_2^2}$
$= \sqrt{1 - 0{,}594}$
$= \sqrt{0{,}406}$
$= 0.637$

Total coefficient of determination is an indicator to check the model validity. The result is as follows.

$R^2_m = 1 - (e_1)^2 (e_2)^2$
$= 1 - (0.971)^2 (0.637)^2$
$= 1 - (0.942) (0.405)$
$= 1 - 0.381$

= 0.619

Where:

R^2_m = Total coefficient of determination

e_1, e_2 = Standard error of estimate

Total coefficient of determination of 0.619 suggested that 61.9 percent of variation in community welfare were influenced by model formed by financial capability index, financial independence level, and economic growth and the remaining 38.1 percent were influenced by other variables excluded in the model.

Table 3.3: Result of Direct Influence, Indirect Influence, and Total Influence between Variables

Relationship of Variables	**Influence**		**Total**
	Direct	**Indirect**	
$X_1 \rightarrow Y_1$	-0.218	-	-0.218
$X_1 \rightarrow Y_2$	-0.142	0.012	-0.13
$X_2 \rightarrow Y_1$	-0.093	-	-0.093
$X_2 \rightarrow Y_2$	0.756	0.005	0.761
$Y_1 \rightarrow Y_2$	-0.058	-	-0.058

Source: *Processed Secondary Data, 2019*

Table 3.3 suggested that the direct influence of financial capability index on economic growth was -0.218 and the direct influence of financial independence level on economic growth was -0.093. The direct influence of financial capability index and financial independence level on community welfare was -0,142 and 0,756, respectively. The direct influence of economic growth on community welfare was -0.058. The indirect influence of financial capability index on community welfare through economic growth was 0.012; hence, the total influence was -0.13. The indirect influence of financial independence level on community welfare through economic growth was 0.005; thus, the direct influence was 0.761.

IV. RESEARCH RESULT DISCUSSION

Direct influence of financial capability index on economic growth and community welfare in regencies/city in Bali Province

Regarding the influence of financial capability index on economic growth the analysis obtained a standardized coefficient beta value of 0.218 and a significance value of 0.115 > 0.05. It signifies that H_0 was accepted and H_1 was rejected. Therefore, it can be concluded that financial capability index had a negative and insignificant influence on economic growth in regencies/city in Bali Province.

As for the influence of financial capability index on community welfare, the analysis resulted a standardized coefficient beta value of -0.142 and a significance value of 0.130 > 0.05. It implies that H_0 was accepted and H_1 was rejected. Thus, it can be inferred that financial capability index had a negative and insignificant influence on community welfare in regencies/city in Bali Province.

The research was different to a research by Risyanto (2015) stated that regional financial capability had a positive and significant influence on economic growth. In other words, the higher the regional financial capability level, the more capable of increasing economic growth; it indicated the amount of PAD contribution to total income. The capability of regional government in executing decentralization can be observed from the amount of PAD contribution.

The financial capability of a region indicates its capability to produce original source of income to fund its development. The regencies/city in Bali Province had different level of capability to create income source. It depended on its potential, economic capacity, and tax effort.

Theoretically, it was likely that a condition where the regional financial capability was not significant in influencing economic growth since it is highly dependent on investment and regional production activities and is not merely dependent on government consumption spending as the region’s economic driver. Another cause is related to the narrowness of regional fiscal space. Fiscal space is the allocation of available budget to stimulate economy and public service originated from APBD after being reduced by routine spending. A narrow fiscal space compounds government efforts to encourage economy and improve community welfare.

It is, however, assumably that regional economic growth is high in narrow regional fiscal space since the growth that occurs is due to private sector contribution in the regional economy. A wider fiscal space allows the regional government to increase public service financing. Better public service will encourage community welfare improvement. Hence, the regional financial capability was not the main requisite to drive regional economic growth, instead it was the creation of better fiscal space and the increase in sustainable private sector contribution.

Direct influence of financial independence level on economic growth and community welfare in regencies/city in Bali Province

Regarding the influence of financial independence level on economic growth the analysis obtained a standardized coefficient beta value of 0.093 and a significance value of 0.499 > 0.05. It suggested that H_0 was accepted and H_1 was rejected. Therefore, it can be concluded that financial independence level had a negative and insignificant influence on economic growth in regencies/city in Bali Province.

The research was in line with a research by Risyanto (2015) asserted that regional financial independence had no influence on economic growth. Financial independence depicts the regional government capability in increasing PAD, such tax, regional retribution and so on. Regional development can only be achieved if it is accompanied by an effective fiscal independence. It suggested that the regional government should financially independent of the central government by exploring as much PAD sources as they can, such as tax, retribution and so on (Aminudin, 2017).

A research by Suci (2013) proposed that financial independence had a positive and significant influence on the increase in economic growth in Banten Province. According to the perspective, the regional government should be more concentrated on the empowerment of local economic power to create economic growth rather than issuing legislation products related to tax and regional retribution.

As for the influence of financial independence level on community welfare, the analysis resulted a standardized coefficient beta value of 0.756 and a significance value of 0.000 > 0.05. It implied that H_0 was rejected and H_1 was accepted. Thus, it can be inferred that financial independence level had a positive and significant influence on community welfare in regencies/city in Bali Province.

The research was in line with a research by Iskandar dan Subekan (2014) stated that financial independence had a positive and significant influence on community welfare. The positive relationship implied that the higher the regional financial independence level, the higher the community welfare. It suggested that the higher the PAD ratio to total receipt of balanced fund, the more it is to drive the creation of community welfare. It became a good opportunity for the local government to maximize PAD achievement since it had positive and significant influence on the attainment of community welfare as the regional development goal.

The higher the regional financial effectiveness level, the higher the community welfare. It indicated that the higher the ratio of regional income originated from PAD, balanced fund (transfer), and other legal sources to the regional income target, the more it is to stimulate the realization of community welfare (Nilam Ulandari dan Purbadharmaja, 2019).

Direct influence of economic growth on community welfare in regencies/city in Bali Province

As regards the influence of economic growth on community welfare the analysis obtained a standardized coefficient beta value of 0.058 and a significance value of 0.537 > 0.05. It implied that H_0 was accepted and H_1 was rejected. Therefore, it can be concluded that economic growth had a negative and insignificant influence on community welfare in regencies/city in Bali Province.

The research was aligned with a research by Noviatamara dkk, (2019) that economic growth had a negative and insignificant influence on human development index in the Special Region of Yogyakarta in the period 2011-2017. Human development index is an indicator of a region's prosperity level. The economic growth, nonetheless, indicates to what extent an economic activity will produce additional community income in a certain period.

The economy is considered experiencing growth if all real retaliation for the use of production factors in a certain year is bigger than the previous year. An indicator used to measure economic growth is the growth level of gross regional domestic product (PDRB) at constant price (Chalid dan Yusuf, 2014). Economic growth is expected to increase community welfare of a region since the amount of regional income will increase the region's production capacity and it will absorb labors. The labors absorbed will reduce unemployment; thus, it will drive income equity per capita and increase human development index (Putong, 2009).

Indirect influence of financial capability index and financial independence level on community welfare through economic growth in regencies/city in Bali Province

The result of calculation obtained a comparison of z-value of 0.617 < 1.96; therefore, H_0 was accepted and H_1 was rejected. It implied that financial capability index had no indirect influence on community welfare through economic growth in regencies/city in Bali Province.

Likewise, the result of calculation obtained a comparison of z-value of 0.464 < 1.96; hence, H_0 was accepted and H_1 was rejected. It indicated that the financial independence level had no indirect influence on community welfare through economic growth in regencies/city in Bali Province.

It suggested that the economic growth did not have a significant role to mediate the influence of financial capability index and independence level on the efforts to improve community welfare. According to

Mankiw (2012), economic growth is one of variables that determine the success of welfare improvement; however, non-quality economic growth would not increase the proportion of prosperous community.

It is a quality economic growth that should be created from development, which is an economic growth that accompanied by income equity or equity for most of the community, especially those with low and medium income to enjoy the result of development. On the other hand, the creation of higher economic growth does not immediately achieved due to the regional financial capability and independence level; it is more to the creation of wider fiscal space and outcome-based budget allocation as well as the increase in private sector participation in the developmentt.

V. CONCLUSION

Conclusion

1) Financial capability index and independence level were not the main requirement in driving the regional economic growth; however, they were an important requirement that should be achieved by the government of regencies/city in Bali Province.
2) Efforts to improve community welfare were not merely determined by the regional financial capability. The community welfare could be improved when a high financial capability is able to provide a wider fiscal space in the regional budget. The absolute condition should be met to improve the community welfare through wider fiscal space was the realization of an ever increasing regional independence level.
3) The economic growth did not have a significant role to mediate the influence of financial capability index and independence level on the efforts to improve community welfare. A high economic growth would not have a significant meaning for the efforts to improve community welfare if there was no income and opportunity equity in development for community in the region.

Suggestion

1) In regional budget policy making it is essential to consider an orientation towards the creation of wider fiscal space and the use of outcome-oriented budget.
2) The regional economic growth could not depend on the amount of government consumption, yet the regencies/city government could give more emphasize on economic activities that allow the creation of tax effort with direct contribution to the increase in regional income.
3) Regional policies of regencies/city in Bali Province in the efforts of improving community welfare should pay attention on three essential matters, namely: fiscal space, quality economic growth, indicators and criteria of development financing achievement, and income equity.

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