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THE EFFECT OF ECONOMIC GROWTH AND ECONOMIC STRUCTURE OF NON-AGRICULTURE ON REGIONAL FINANCIAL INDEPENDENCE AND DISTRICT / CITY HUMAN DEVELOPMENT INDEX IN THE PROVINCE OF BALI

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ABSTRACT
The ability of local governments in carrying out functions depends on the financial capacity of the region. The low capacity and lack of management will often cause a cycle of negative effects, namely low levels of service for the community or the inability to improve community welfare. The existence of varied economic potential and human resources by each region can result in differences in the implementation of regional autonomy which leads to welfare gap between regions. This study aims to analyze 1) the effect of economic growth and non-agricultural economic structure on regional financial independence, 2) the effect of economic growth, non-agricultural economic structure, and regional financial independence on Human Development Index (HDI), 3) the indirect effect of economic growth and economic structure on the HDI through the regional financial independence of districts / city in Bali Province. This study uses panel data during 2004 - 2018 from nine regencies / city in Bali Province, which were obtained from the Provincial Office of the Statistics Indonesia (BPS, Central Bureau of Statistics) and the Regional Secretariat Finance Bureau of Bali Province. The data obtained were then analyzed by path analysis. The results of the analysis show that: 1) Economic growth and non-agricultural economic structure have a significant positive effect on the financial independence of districts / cities in Bali Province; 2 Economic growth, non-agricultural economic structure, and regional financial independence have a positive and significant effect on the HDI of districts / cities in Bali Province; and 3) Regional financial independence does not significantly mediate the effect of economic growth on HDI, however, regional financial independence is able to mediate the effect of non-agricultural economic structure on district / city HDI in Bali Province.

KEY WORDS
Economic growth, economic structure, financial independence, human development index.

The success of development can be shown from the economic growth, the structure of the non-agricultural economy and the smaller income gap between the population, between regions and between sectors. On the other hand, for some regions, autonomy may cause its own problems given the demands to increase regional independence. Regions experienced an increase in fiscal stress (fiscal stress) which is higher than the era before autonomy. Regions are required to optimize every potential and fiscal capacity in order to reduce the level of dependence on the central government.

Economic pillars are built through a comparative advantage in the tourism sector as the leading sector, causing sectors that are directly related to the tourism industry (tertiary sector groups) together through the multiplier effect, the spread effect and also the downward drop effect (trickle down effect) grows the economy in the Bali region which in turn encourages a structural change (BPS Provinsi Bali, 2012).

The economic growth problem experienced by Bali Province can be viewed as a long-term macroeconomic problem. Economic growth is the key to macroeconomic goals. This is for three reasons. First, the population is always increasing. The increase in population means that the workforce is always increasing. Economic growth will be able to provide employment for the workforce. If the economic growth that can be created is smaller than the growth in the labor force, this will encourage unemployment. Second, as long as wants and needs are always unlimited, the economy must always be able to produce more goods and
services to meet these wants and needs. Third, efforts to create economic equality (economic stability) through income redistribution will be easier to achieve in periods of high economic growth.

Talking about macroeconomics, it cannot be separated from the role of the Government of a country as the regulator of policies and legislators. Responding to the above phenomenon, in 1999 the Government of Indonesia issued Law Number 22 of 1999 and Law Number 25 of 1999 concerning Regional Autonomy and Financial Balance between the Central and Regional Government. Subsequently in 2004, the Government again issued Law Number 32 Year 2004 and Law Number 34 Year 2004 concerning Regional Government and Financial Balance between the Central Government and Regional Government as a substitute for the two laws. The essence of the two laws itself is the existence of regional authority, not delegation (Saragih, 2003), and fiscal decentralization is a direct implication of the authority / function devolved to the regions, namely concerning the need for sufficiently large funds, so that financial balance is needed, vertically between the center and the regions intended to finance the tasks that are their responsibility.

The main concern of regional economic development has also focused on the complex dilemma between growth versus income distribution, both of which are equally important, but are almost always difficult to realize together. Growth as a measure of development is not always followed by equal distribution of income and poverty alleviation. This is because there are other factors that play a role in influencing it, such as the type of economic growth taking place in the region concerned and the various political and institutional arrangements which in practice determine the patterns of income distribution, which must be deliberately created in such a way as to more widely disseminate cakes or fruits of economic growth to the wider community (Todaro, 2003).

At every stage of regional development, the government continues to make efforts to spur economic growth. In order for economic growth to continue, it is hoped that there will be changes or transformation of the non-agricultural economic structure. Structural transformation is a prerequisite for increasing and sustaining economic growth, as well as a support for the sustainability of development itself. The process of changing the structure of the economy is characterized by: (1) decreasing share of the primary sector (agriculture), (2) increasing share of the secondary sector (industry), and (3) share of the tertiary sector (services) also contributing to an increase in line with economic growth.

Economic pillars are built through a comparative advantage in the tourism sector as the leading sector, causing sectors that are directly related to the tourism industry (tertiary sector groups) together through the multiplier effect, the spread effect and also the downward drop effect (trickle down effect) grows the economy in the Bali region which in turn encourages a structural change (BPS Provinsi Bali, 2012).

An increase in regional income also means increasing regional economic growth. Increasing regional economic growth will increase the development of economic infrastructure and facilities in the regions which in turn will create various job opportunities for the community which will ultimately improve the welfare of the local people. An increase in the Regional Revenue and Expenditure Budget (ABPD) should be followed by an increase in the welfare of the community as reflected in an increase in per capita income and the Human Development Index (HDI).

In facing the challenges of globalization, the government will not be strong enough to overcome the problems of poverty and inequality without public support. However, the sustainability of development will also stop when the people who are the backbone of development do not have the ability to manage their resources. In this condition, what will happen is instability and further deterioration.

The ability of local governments to carry out functions such as carrying out functions depends on the financial capacity of the region. The low capacity and capacity of regional financial management will often cause a cycle of negative effects, namely low levels of service for the community or the inability to improve community welfare. The existence of differences in economic potential and human resources owned by each region can result in differences in the implementation of regional autonomy which in turn can lead to imbalances.
in the welfare of the community between regions. Regional financial independence shows the ability of local governments to self-finance government activities, development and services to the community. The higher the self-reliance ratio, the lower the level of regional dependence on external assistance (central and provincial governments) (Halim, 2007).

Based on the background, the purpose of this study is to analyze: 1) the direct effect of economic growth and non-agricultural economic structure on the financial independence of districts / cities in Bali Province. 2) the direct effect of economic growth and non-agricultural economic structure on the HDI of districts / cities in Bali Province. 3) the effect of regional financial independence on the HDI of districts / cities in Bali Province. 4) whether there is an indirect effect of economic growth and non-agricultural economic structure on HDI through the financial independence of districts / cities in Bali Province.

METHODS OF RESEARCH

This study uses a quantitative research design using secondary data in the form of economic growth, the contribution of the non-agricultural sector to GRDP, regional financial independence, and the District / City Human Development Index (IPM) in Bali Province during 2004 – 2018. The data were then analyzed using the path analysis method.

Research Hypotheses:

1) Economic growth and non-agricultural economic structures affect the regional financial independence of districts / cities in Bali Province;
2) Economic growth and non-agricultural economic structures affect the HDI of districts / cities in Bali Province;
3) the influence of regional financial independence on the HDI of districts / cities in Bali Province;
4) There is an indirect effect of economic growth and non-agricultural economic structure on HDI through the regional financial independence of districts / cities in Bali Province.

Operational Definition of Variables:

1) Economic Growth (X1) is the growth in the production of goods and services in an economic region within a certain period of time created by economic sectors in the relevant region which is measured by the amount of growth in the gross domestic regional product (GDRP). In this study, the GDRP of Bali Province from 2004 to 2018 was used which was expressed in percent.

2) Non-agricultural economic structure (X2). In this study, changes in the non-agricultural economic structure are measured based on changes in the value added contribution of the non-primary (secondary and tertiary) sectors in Bali Province, which are expressed in percent.

3) Regional financial independence (Y1) is the ability of local governments to self-finance government activities, development, and services to people who have paid taxes and levies as a source of revenue needed by the region (in percent).

4) Human Development Index (HDI) (Y2), which is a single composite indicator that measures the three main dimensions of human development that are considered to reflect the status of the basic ability of the population. These dimensions include economy, health, education and a decent standard of living. The HDI used is the calculation result of BPS from 2004-2018 (in points).

Path analysis is an extension of multiple linear regression analysis to estimate the causality relationship between variables. In path analysis, there is a variable that has a dual role, namely as an independent variable in a relationship but becomes a dependent variable in another relationship (Utama, 2015), with structural equations as follow.

Effect $X_1$ and $X_2$ toward $Y_1$: $Y_1 = b_1 X_1 + b_2 X_2 + e_1$;
Effect $X_1$, $X_2$ and $Y_1$ toward $Y_2$: $Y_2 = b_3 X_1 + b_4 X_2 + b_5 Y_1 + e_2$;

Where: $b_1$, $b_2$, $b_3$, $b_4$, $b_5$ is the path coefficient; $X_1$ is economic growth; $X_2$ is the non-agricultural economic structure; $Y_1$ is regional financial independence; $Y_2$ is the Human Development Index (HDI); $e_1$, $e_2$ is error.
The model was developed to answer research problems and is based on theory and concept, which can be illustrated in Figure 1.

**Figure 1 – Research Path Diagram the Effect of Economic Growth and Non-Agricultural Economic Structure on Regional Financial Independence and District / City Human Development Index in Bali Province**

The direct effect of the independent variables on the dependent variable was tested by t test. The null hypothesis is accepted if the t value is less than or equal to 1.645, otherwise the null hypothesis is rejected if the t count is greater than 1.645. The indirect effect of an independent variable on the dependent variable through mediating or intervening variables is carried out using the Sobel Test (Utama, 2015). The indirect effect of the independent variable on the dependent variable through the mediating variable if the calculated z value is greater than 1.96.

**DISCUSSION OF RESULTS**

The following will explain the processed results of the research variables used in the study. The results of processed data using SPSS can be presented with descriptive statistics of the research variables as shown in Table 1.

**Table 1 – Description of Research Variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unit</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>Percent</td>
<td>4.01</td>
<td>7.64</td>
<td>5.8182</td>
<td>0.75783</td>
</tr>
<tr>
<td>Non-agricultural economic structure</td>
<td>Percent</td>
<td>64.03</td>
<td>98.58</td>
<td>76.8596</td>
<td>1041663</td>
</tr>
<tr>
<td>Regional financial independence</td>
<td>Percent</td>
<td>2.65</td>
<td>63.46</td>
<td>15.8030</td>
<td>12.20704</td>
</tr>
<tr>
<td>Human Development Index (HDI)</td>
<td>Index</td>
<td>61.40</td>
<td>83.30</td>
<td>72.3430</td>
<td>4.15634</td>
</tr>
</tbody>
</table>

*Source: processed research results, 2019.*

Based on Table 1, it can be explained that during 2004-2018 the economic growth in districts / cities ranged between 4.01 and 7.64 percent, with an average of 5.82 percent. The non-agricultural economic structure in this study is seen from the change in the contribution or share of the non-primary (secondary and tertiary) sectors during the 2004-2018 period to Bali's GDRP, which ranges from 64.03 percent to 98.58 percent, with an average of 76.86 percent. per year. The highest decline in the contribution of the non-primary sector to Ball's GDRP was in 2005 when the Bali Bombing II tragedy occurred in Kuta, while the highest was in 2015 when there was a surge in tourism in Bali. Regional financial independence in Bali Province during 2004-2018 ranges from 2.65 to 63.46 percent, with an average of 15.80 percent. In 1998 as a result of the monetary crisis in Indonesia, the national regional financial independence experienced a slowdown by minus 13.1 percent, this has implications for the Bali economy which also experienced a slowdown of minus 4.0 percent.
The highest regional financial independence in Bali Province occurred in 2013. An increase in the Regional Budget (ABPD) should be followed by an increase in community welfare as reflected by an increase in per capita income and the Human Development Index (HDI). District / city HDI ranged between 61.40 and 83.30 percent, with an average of 72.34 percent.

**Effect of economic growth (X1) and non-agricultural economic structure (X2) on regional financial independence (Y1).** Based on a simple linear regression test, we can see that economic growth and non-agricultural economic structure have a positive and significant effect on regional financial independence with a significance level of α = 5 percent, as shown in Table 2.

<table>
<thead>
<tr>
<th>Source: Processed research results, 2019.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Table 2 – Model 1: Effect of economic growth and non-agricultural economic structure on regional financial independence</strong></td>
</tr>
<tr>
<td><strong>Unstandardized Coefficients</strong></td>
</tr>
<tr>
<td><strong>B</strong></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>economic growth</td>
</tr>
<tr>
<td>non-agricultural economic structure</td>
</tr>
</tbody>
</table>

Based on Table 2, it can be seen that economic growth has a significant effect on regional financial independence on the probability of Ho's acceptance of 0.031, while the non-agricultural economic structure has a positive and significant effect on regional financial independence with a significance of 0.000. Furthermore, following equation can be drawn up:

\[ X_2 = 0.136 (X_1) + 0.724 (X_2) \]

Where: \( X_1 \) = economic growth; \( X_2 \) = non-agricultural economic structure; \( Y_1 \) = Regional financial independence.

The effect of economic growth (X1), non-agricultural economic structure (X2) and regional financial independence (Y1) on HDI (Y2). The results of processed data on economic growth, non-agricultural economic structure and the financial independence of the HDI region are presented in Table 3.

<table>
<thead>
<tr>
<th>Source: Processed research results, 2019.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Table 3 – Model 2: Effects of economic growth (X1), non-agricultural economic structure (X2) and regional financial independence (Y1) on HDI (Y2)</strong></td>
</tr>
<tr>
<td><strong>Unstandardized Coefficients</strong></td>
</tr>
<tr>
<td><strong>B</strong></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>economic growth</td>
</tr>
<tr>
<td>non-agricultural economic structure</td>
</tr>
<tr>
<td>Regional financial independence</td>
</tr>
</tbody>
</table>

**Dependent Variable: HDI.**

Based on Table 3, it can be analyzed that economic growth and non-agricultural economic structure have a positive and significant effect on HDI, with the acceptance of Ho less than 0.01 which is commonly used in social and economic analysis, namely 0.000 and 0.000, respectively. While the regional financial independence variable has a significant effect on HDI with a significance of 0.014 (<0.05). Table 3 can also be arranged the following equation:

\[ Y_2 = 0.406 (X_1) + 0.408 (X_2) + 0.182 (Y_1) \]

Where: \( X_1 \) = Economic Growth; \( X_2 \) = non-agricultural economic structure; \( Y_1 \) = Regional financial independence; \( Y_2 \) = HDI.
Based on Table 2 and Table 3, it can be described that economic growth and non-agricultural economic structure have a significant effect on regional financial independence. Economic growth, non-agricultural economic structure, and regional financial independence have a significant effect on HDI. The path coefficient of the relationship between variables is presented in Figure 1. Based on Figure 1, it can be seen that the Non-Agricultural Economic Structure has a greater effect than Economic Growth on regional financial independence, which is 0.136 versus 0.724. Likewise, the variable with the greatest influence on HDI was the non-agricultural economic structure, which was 0.408, the second was the economic growth variable of 0.406, while the variable with the least influence was regional financial independence.

![Figure 2 – Path diagram of the effect of economic growth, non-agricultural economic structure and regional financial independence on HDI](image)

**Indirect Effect of Economic Growth and Non-Agricultural Economic Structure on HDI through Regional Financial Independence.** Indirectly, economic growth and the structure of the non-agricultural economy affect HDI through regional financial independence as shown in Table 4.

<table>
<thead>
<tr>
<th>Variable Relationships</th>
<th>Unstandardized Coefficient</th>
<th>Z</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>EG → RFI &gt; HDI</td>
<td>0.161</td>
<td>1.639</td>
<td>Non Significant</td>
</tr>
<tr>
<td>ES → RFI &gt; HDI</td>
<td>0.062</td>
<td>2.430</td>
<td>Significant</td>
</tr>
</tbody>
</table>

*Source: Research data processed. Note: EG = Economic Growth; ES = non-agricultural economic structure; RFI = regional financial independence; HDI = Human Development Index.*

Based on Table 4, it can be seen that the results of the calculation of the Sobel test show that the effect of economic growth on HDI is through regional financial independence with a value of $z = 1.639$ which is smaller than 1.96 so that it is concluded that economic growth has no indirect effect on HDI through regional financial independence. The effect of non-agricultural economic structure on HDI through regional financial independence in Bali Province, the Sobel test results show the value of $z = 2.430$. This figure is greater than 1.96 so it can be concluded that indirectly the non-agricultural economic structure has a significant effect on HDI through regional financial independence.

**The effect of economic growth on the financial independence of districts / cities in Bali Province.** Based on the results of data analysis, economic growth has a significant effect on regional financial independence. This indicates that an increase in economic growth leads to increase in regional financial independence. Economic growth is a quantitative measure that describes the development of the regional economy from year to year, while regional financial independence shows the ratio between the region's original revenue and the total
APBD revenue for the same year. So regional financial independence is largely determined by the amount of Local Own-source Revenue (PAD) obtained.

The results of this study are different from those of Tolosang (2018) which conducted research in Tomohon Regency, North Sulawesi, showing that economic growth does not have a significant effect on regional financial independence. PAD has a significant influence on regional financial independence. Together, economic growth and local revenue have a significant effect on the regional financial independence of Tomohon City.

The Effect of Non-Agricultural Economic Structure on Regional Financial Independence of Regencies / Cities in Bali Province. The results of statistical tests show that the non-agricultural economic structure has a positive effect on regional financial independence. The greater the contribution of the non-agricultural sector or the modern sector to GDRP, the higher the ratio of PAD to total regional revenue or regional financial independence in the research area. The change in the economic structure from agriculture to the industrial and service sectors in Bali Province has resulted in more and more regional financial sources, such as market fees, parking fees, tourist attraction fees, entertainment fees, and others. This will increase the Regional Income, and in turn increase the degree of regional financial independence.

The results of this study are in accordance with the research of Alam (2016) in Lampung Province which found that an increase in PAD depends on the contribution of changes in economic structure to the increase in regional finances. The more advanced the regional economic structure causes the more sources of regional income that can increase the PAD. With the increase in PAD, regional financial independence tends to increase.

The effect of economic growth on the HDI of districts / cities in Bali Province. The results of data analysis indicate that economic growth directly during 2004-2018 has a positive effect on the HDI of districts / cities in Bali Province. The results of this study are in line with research conducted by Mahnaz Rabiei & Mazoidi (2012) which examined economic growth on regional financial independence in eight countries with Muslim majority populations, such as Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey. In these countries it was found that economic growth had a positive effect on regional financial independence of each country. The role of economic growth is reflected in regional financial independence, creation of job opportunities, technology transfer, and increased business competitiveness.

This finding is consistent with the opinion of Gregory and Stuart (1995) that the growth in per capita income generally leads to an increase in people's welfare. This study is also in accordance with the World Bank Report 2000/2001 in several countries in Africa entitled Attacking Poverty which concluded that the level of health and education in families is lo low-income household compared to high-income households. Some of the health indicators used in the study were infant mortality, malnutrition, frequency of illness, while for education the indicators used were the number of school-age children enrollment in primary schools. Thus it is concluded that the higher the family income, the higher the access to education and health (World Bank, 2001).

The influence of the non-agricultural economic structure on the HDI of districts / cities in Bali Province. Statistically, this study shows that the economic structure has a positive effect on the Human Development Index (HDI) or the welfare of the people in Bali Province. The results of this study support the results of previous empirical research, namely: First, the results of Kuznet's (1966) study found a positive relationship between a decrease in the percentage of agricultural sector contribution to GDRP or a decrease in the ratio between agricultural and non-agricultural sector production and per capita income level. Second, on the research results of Sarwoprasodjo and Harmini (1995) which concluded that there is a relationship between labor absorption in the agricultural sector and the level of community welfare. This study concludes that the lower the ratio of labor absorption in the agricultural sector to non-agriculture tends to lead to a higher level of community welfare. Third, Sulistyoningh in 1997 in her research with canonical correlation analysis entitled “The Relationship between Economic Structure and Public Welfare in Indonesia” concluded that
the more modern (industrial) the economic structure of a province is, the higher the level of welfare tends to be.

The effect of regional financial independence on the HDI of districts / cities in Bali Province. Based on the results of data analysis, regional financial independence is proven to have a significant effect on HDI. This result means that increasing regional financial independence causes the HDI or the level of community welfare in districts / cities in Bali Province to increase. The results of this study are different from the writings of Emilia Herman (2011) examining the impact of regional financial independence on employment opportunities in European countries. The results of his research show that the relationship between each country is different. This difference is due to differences in the types of regional financial independence (extensive or intensive), differences in the structure of the labor sector, and differences in the flexibility of labor from one country to another.

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

The results of this study are also consistent with the results of an empirical study conducted by Batafor (2011) which evaluated financial independence and the level of welfare of the people of Lembata Regency, NTT Province. The results of research on the variable of regional financial independence show that the increase in PAD causes the variable welfare of the community which is proxied by the level of per capita income to increase, the number of people who receive education and the life expectancy of the community increases in period II before the increase in PAD compared to period I an increase in PAD).

The results of this study are also consistent with the results of an empirical study conducted by Jember (2008), which examines the effect of regional financial independence on community welfare. The simple regression results show that regional financial independence as measured by indicators of regional financial independence, conformity of public budgets to total expenditure, and efforts to increase local revenue have a positive and significant effect on people’s welfare as seen from the indicators of per capita income, life expectancy and community education. in regencies / cities in Bali Province during 2001-2006. This means that the better the regional financial independence, the better the welfare of the people in regencies / cities in Bali Province during 2001-2006. The positive influence of regional financial independence on the welfare of the community is in accordance with the opinion of Minassian (1997) in Blanchard (2000) which states that an increase in community welfare can be achieved because government public decisions are implemented in the role of allocation and distribution of economic resources owned. The increase in regional financial independence means an increase in PAD, then an increase in regional original income (PAD) is reallocated for a more budget for the public, so that people’s welfare increases.

Economic Growth and Economic Structure Does not Indirectly Affect HDI through Regional Financial Independence. The results of statistical analysis show that regional financial independence does not significantly mediate the effect of economic growth on District / City HDI in Bali Province, but is able to mediate the effect of the economic structure on community welfare. Bali Province is an international tourist destination. With the increase in tourist visits, the economy of Bali Province grows relatively faster than the provinces in Indonesia, so that it has an impact on increasing PAD, and thereby increasing the welfare of the community. This finding is in accordance with the viewpoint of a developmentalist perspective put forward by Pyae and Lin (1983), that the tourism industry has contributed a lot to the speed, acceleration, and direction of socio-economic development in developing countries, so that it is considered as an “entrance” for the welfare of society.

Through the growth of GDRP and growth in absorption of labor and the occurrence of changes in the economic structure from agriculture to non-agriculture, the development of the tourism sector causes people’s income to increase. Furthermore, with the increase in
community income, the people’s welfare will increase because access to education and health will be easier for the community.

CONCLUSION

Economic growth and non-agricultural economic structure have a significant positive effect on the financial independence of districts / cities in Bali Province. Economic growth, non-agricultural economic structure, and regional financial independence have a positive and significant effect on the HDI of districts / cities in Bali Province.

Regional financial independence does not significantly mediate the effect of economic growth on HDI, but regional financial independence is able to mediate the effect of non-agricultural economic structure on district / city HDI in Bali Province.

Regional independence on average has increased but the financial independence of districts / cities in Bali Province is still relatively low, with an average of 15.80 percent, or the level of dependence on the central government is still high. The regional government is expected to continue to strive to increase revenue from PAD, then allocate more for public spending that can improve the welfare of the community.

REFERENCES