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The Role Of Good Governance In Economic Growth: Mediated By Regional Financial Performance And Capital Expenditure Allocation

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ABSTRACT

This study aims to analyze the effect of good governance on regional financial performance and allocation of capital expenditures and their impact on economic growth in districts and cities in Riau Province. The research was conducted quantitatively with a causal and descriptive research design. The population in this study were 12 districts and cities in Riau Province. Data samples were obtained from the Revenue Service and the Regional Financial and Asset Management Office of Riau Province. The research was carried out by census on budget realization reports from 2016 to 2020 so that 60 data were obtained. The data analysis technique used was Partial Least Square (PLS) analysis. The results of this study indicate that good governance has a significant effect on regional financial performance and allocation of capital expenditures. Regional financial performance has a significant effect on the allocation of capital expenditures and does not have a significant effect on economic growth. Direct capital expenditure allocation has no significant effect on economic growth. Indirectly, good governance has a significant effect on economic growth through regional financial performance and allocation of capital expenditures.

Keywords: Good Governance, Growth, Regional Finacial Performance

INTRODUCTION

Good governance has become important for every entity both the private sector and the public sector and government. Stakeholders use good governance as a measure or benchmark in making decisions, especially investment decisions. An assessment of the implementation of good governance in private and government entities has begun to be carried out both at the national and international levels.

In Indonesia, governance has been implemented since the reform era wherein that era there has been an overhaul of the government system for a clean democratic process so that governance/good governance is one of the reform tools that absolutely must be applied in the new government both at the centre and regions (Adisetiawawan, 2013). However, from the development of reforms that have been going on so far, the implementation of governance in Indonesia cannot be said to be fully successful. There are still many frauds and leaks in budget management.

Regional financial management is an important part of government activities, including regional government activities. The main mission of regional management is to increase the efficiency and effectiveness of the management of regional financial resources to improve welfare and services to the community. According to (Mardiasmo, 2018), regional financial management is divided into two parts, namely regional revenue management and regional expenditure management. The evaluation of regional financial management and regional development financing has very broad implications. These two components will determine the position of a regional government in implementing regional autonomy.

Local government as an entity that runs the wheels of government at the regional level cannot be separated from the conditions of globalization. Awareness of the importance of good governance has increased after the crisis which became known as the reform era. The economic crisis is not only due to macroeconomic factors but also due to bad governance in these countries, such as a lack of legal and accounting standards, financial audits have not been implemented, the absence of supervisory commissioners and ignoring the rights of minority stakeholders. This means that the implementation of good governance will have an impact on national economic growth (Fajerin, 2018). Regional financial management has a huge influence on the fate of a region because a region can become a strong and powerful region and can develop its greatness or become powerless depending on how to manage its regional finances. In connection with this background, the problem is the management of regional finances in Riau Province, which in this study will be specifically limited to financial performance and allocation of capital expenditures which can have an impact on economic growth.

Riau Province is one of the autonomous regions in Indonesia that organize government and carries out development. To carry out the government and realize this development, a substantial amount of funds is needed and besides that, it must be with its regional strength in addition to assistance from the Provincial and Central Governments. In government administration, the budget becomes a guide in carrying out government activities. Ironically, budget management in various regions is still ineffective. This is shown, among others, by the ever-increasing allocation of personnel expenditures, on the other hand, the portion of capital expenditures for regional development has decreased (Prihastuti, Taufik, & Agusti, 2015). Three factors in the economic growth of each country, namely capital allocation, population growth and technological progress (Todaro & Smith, 2020). Capital accumulation here is closely related to investment. One of the progress of a region can be shown by good economic growth, where one of the factors that influence economic growth is the investment issued by the local government. To increase investment, the regional financial capacity must also be adequate. The indicator for the size of regional investment is the high ratio of capital expenditures in the budget.

The more capital spending, the higher the productivity of the economy because capital expenditure in the form of infrastructure has an impact on economic growth and job creation. The allocation of capital expenditures to local governments is also influenced by whether the regional financial performance is good or not. Thus there is a link between regional economic growth and the allocation of capital expenditures and financial performance.

Regional financial management is an important part of government activities, including regional government activities. The main mission of regional management is to increase the efficiency and effectiveness of the management of regional financial resources to improve welfare and services to the community. This research implies that local governments must constantly manage their financial performance because it has an impact on increasing capital expenditures, so they must get adequate priority.

Capital expenditures made by local governments are also used, among others, for the development and improvement of infrastructure in the education, health, and transportation sectors so that the community can also enjoy the benefits of regional development. The availability of good infrastructure is expected to create efficiency and effectiveness in these various sectors. The productivity of the community is getting higher and in the end, there is an increase in economic growth in the area (Akbar & Mar'aini, 2020).

The increase in the share of personnel expenditures in the Regional Revenue and Expenditure Budget is closely related to the addition and appointment of new Regional Civil Servants every year, which in many cases do not match their competence and needs. Unfortunately, part of the capital expenditure was also used for the construction of official houses, procurement of official cars, and other improper expenditures. Supposedly, capital expenditures are used for infrastructure development, such as roads and bridges, which need to be increased (Director General of Regional Finance, Ministry of Home Affairs, 2013).

According to Government Regulation No. 71/2010, capital expenditure is expenditure by local governments whose benefits are more than one fiscal year and will increase regional assets or assets and result in routine expenditures. Capital expenditures are classified into two groups, the first group is public expenditure, namely expenditures whose benefits can be directly enjoyed by the community, such as building bridges, buying an ambulance for the public, and others. Meanwhile, the second group is personnel expenditure, which is expenditure whose benefits are not directly enjoyed by the community but can be felt directly by the apparatus, for example, building council buildings, purchasing official cars, and others (Halim, 2013).

The Central Government (on the website of the Ministry of Home Affairs http://keuda.kemendagri.go.id/artikel/detail/41-belanja-modal-pemda-harus-capai-30-persen) continues to urge local governments to increase the percentage of capital expenditures by 30 percent of the total Regional Revenue and Expenditure Budget, moreover from the total capital expenditure that has been allocated, most of it is spent on the interests of regional institutions or work units. Meanwhile, the percentage of capital expenditure towards total realized expenditure in regencies/cities in Riau Province was still much below this percentage.

The problem faced by Local Governments in public sector organizations is regarding budget allocation. Budget allocation is the number of funds allocated for each activity program. With limited resources, the Government must be able to allocate the revenues obtained for productive regional expenditures (capital expenditures).

The program to increase capital expenditures will inevitably touch directly on increasing the development of various infrastructures, such as agricultural facilities, transportation, and other infrastructure that directly support people's productivity and welfare. This means that in the future, all spending will be oriented to the regions because building the nation is regional development and forming capital or capital that is getting bigger in the regions.

There is no doubt that infrastructure plays an important role as one of the driving forces for economic growth and the development of this sector becomes the foundation for further economic development. The existence of adequate infrastructure is needed to sustain a higher, more equitable, and more prosperous economic growth for the community. The limitations of infrastructure development have slowed the rate of investment in the country in recent years. On the other hand, it must be admitted that infrastructure in Indonesia is still unable to increase the competitiveness of the real sector.

Because the budget for infrastructure, agriculture, health, and transportation will be doubled, operational costs, official travel, or unproductive capital expenditures must be reduced. The demand for changing the spending structure is strong, especially in regions experiencing low fiscal capacity. This development budget allocation strategy is in turn capable of encouraging and accelerating national economic development, as well as being a tool to reduce regional disparities. Furthermore, the planned and more pro-public budget allocation for development is expected to mediate and bridge the realization of public welfare and optimal economic growth with the availability of funds in the form of regional income as a source of financing.

Realizing economic growth requires fixed assets such as infrastructure and infrastructure that can support economic activity. In regional government, additional fixed assets are carried out through the allocation of capital expenditures. With the increased allocation of capital expenditures, it is hoped that economic growth will also increase. The allocation of capital expenditures is of course inseparable from the financial management carried out by local governments.

Based on research conducted by (Horota, Riani, & Marbun, 2017) stated that the income of each region is only able to cover routine expenditures, and to cover other expenses each region still expects transfers from a higher-level government. In other words, each region is still dependent on the Central Government. When viewed from the revenue realization of the Riau Provincial Government compared to the regional routine expenditure from operating expenditures for the last five years, it has experienced a fairly large difference each year. This means that local revenues are not able to cover routine expenses.

Like development spending, regional governments undertake capital expenditures to procure regional assets as investment, to finance the implementation of regional autonomy which ultimately aims to increase regional economic productivity. The more capital expenditure, the higher the economic productivity because capital expenditure in the form of infrastructure has an impact on economic growth and job creation. The allocation of capital expenditures to local governments is also influenced by whether the regional financial performance is good or not. Thus there is a link between regional economic growth and the allocation of capital expenditures and financial performance.

The financial performance simultaneously has a significant effect on the allocation of capital expenditures. Although partially the ratio of financial dependence, independence, and the degree of contribution of local companies have a negative effect on the allocation of capital expenditures. The local government financial performance in the form of dependency ratios, degree of fiscal decentralization, fiscal space ratios have a significant effect on the allocation of capital expenditures. The influence of local revenue and capital expenditure on economic growth (Yuliana, 2014).

Research by positioning the allocation of capital expenditures as a mediating variable, among others, was carried out by (Sularso & Restianto, 2012) on the effect of financial performance on the allocation of capital expenditures and economic growth in districts/cities in Central Java.

From these studies, it is found that the allocation of capital expenditures is influenced by financial performance. The allocation of capital expenditures affects economic growth and economic growth is indirectly influenced by regional financial performance. The implication of this research is that local governments must constantly improve their financial performance because it has an impact on increasing capital expenditures, so they must get adequate priority. In this study, the effect of financial performance on economic growth is not measured directly.

A different finding is expressed by Prihastuti, Taufik and Agusti (2015) who found that the allocation of capital expenditures does not mediate the relationship between financial performance and economic growth. The effect of decentralization, the effectiveness of local revenue, and the degree of contribution of regionally owned enterprises to economic growth with the interaction of capital expenditure allocations have no significant effect. This shows that the allocation of capital expenditures does not affect the economy, however, financial performance can directly affect economic growth.

The allocation of capital expenditures moderates the relationship between financial performance through self-reliance and regional financial effectiveness with economic growth. The relationship between regional financial management performance and economic growth is moderated by the allocation of capital expenditures (Putro, 2017).

The various research results above indicate that the mediating nature of capital spending in the relationship between regional income and economic growth shows positive and negative results. Aside from the inconclusive findings of research findings on the mediating nature of capital expenditure allocations, research related to public sector finances has so far only focused on technical discussions of financial accounting and budget allocations without any further discussion regarding the impact/outcome of budget allocations. The scope of the budget becomes relevant and important in the local government environment because it is related to the impact of the budget on government performance, in relation to the government's function in providing services to the community (Muis, 2012).

One way to measure performance is through the achievement figures for economic growth as a very important indicator for identifying and evaluating development outcomes. The existence of economic growth data will show the extent to which the government has performed in generating added value or public income in a certain period. Positive growth indicates an increase in performance and vice versa if negative means a decrease in performance (Suwandi & Tahar, 2015).

The consequence of the implementation of autonomy lies in the readiness and ability of the regions to accept the burdens and responsibilities they have in managing and managing their own households. This means that the Regional Government of Riau Province must be able to improve its performance through its various potentials. If this is not done, in addition to increasing the burden on the central government budget, the autonomy which is expected to create independence will be difficult to implement.

Based on the above problems, the formulation of problems that can be identified is how the effect of good governance directly on regional financial performance and allocation of capital expenditures, as well as how good governance affects regional economic growth indirectly through regional financial performance and allocation of capital expenditures in cities. and Districts in Riau Province.

The implementation of Good Government Governance (GGG) in local government is simply by applying the principles of GGG into the system and management of local government properly. The implementation of Good Government Governance has a big role and benefits that can bring positive changes to both local governments, the central government and the general public. The optimal implementation of the implementation of principles of Good Governance will be able to improve the performance of the existing government and will provide added value for all parties involved. As well as the goal of good government governance is the application of a good governance system which is expected to increase added value for all parties in the long term and can protect the welfare of society.

Good Governance

Good Governance is an approach concept oriented towards public sector development towards good governance (Mardiasmo, 2018). As a system that regulates the relationship between the role of the Board of Commissioners, the role of the Board of Directors, shareholders and other stakeholders. Good governance is also referred to as a transparent process for determining governance goals, their achievements, and assessing their performance (Agoes & Ardana, 2011).

The concept of managing public sector organizations is fundamental to three main elements, namely economy, efficiency and effectiveness (Mardiasmo, 2018). Referring to research (Masnun, 2018) which concluded in his study that the better the quality of government management, the better regional financial accountability and the principles of good governance have been implemented. Likewise with (Kaufman, 2005) states that there is a strong positive relationship and influence between good governance and budget allocation. This is measured through government effectiveness which is defined as the government's capacity in formulating and implementing policies, both socially and economically.

A well-ordered government becomes the capital of a country in serving the needs of its people. The allocation and realization of budget absorption become more efficient and free of corruption towards a clearer human development because the government is implemented in a people-oriented manner and to achieve this, a country must apply the principles of good governance.

H1. Good governance has a direct effect on regional financial performance.

H2. Good governance has a direct effect on the allocation of capital expenditures.

Regional Financial Performance

Regional Government Financial Performance is the achievement of a work result in regional finance which includes the budget and capital expenditures using financial indicators that are determined through a policy or statutory provisions from one budget period. The form of performance measurement is in the form of financial ratios which are formed from the elements of the regional head's accountability report in the form of budgeting calculations. In government organizations to measure financial performance, there are several performance measures, namely Regional Financial Independence, Regional Original Revenue Effectiveness, Activities (Ratio of Conformity), Degree of Decentralization, Financial Dependence.

Measurement of financial performance for the public interest can be used as an evaluation and restoring performance against a comparison of work schemes and their implementation. Besides, it can also be used as a benchmark for improving performance, especially local government finances in the next period. The existence of regional autonomy has resulted in the decentralization of the government system in the Riau Provincial Government. Therefore, the District and City Governments in Riau Province as the party in charge of running the wheels of government, development and community services are required to submit a regional financial accountability report to assess whether the Riau Provincial Government has succeeded in carrying out its duties properly or not.

The regional capacity in managing finances is stated in the budgeting, which directly or indirectly reflects the ability of the regional government to finance the implementation of governmental tasks, development and community social services. Evaluation of regional financial management and regional financial financing will greatly determine the position of a regional government in implementing regional autonomy.

Research conducted by Sularso and Restianto (2011) on the effect of financial performance on the allocation of capital expenditures in districts/cities in Central Java. From these studies, it is found that the allocation of capital expenditure is influenced by financial performance. The allocation of capital expenditures affects economic growth and economic growth is indirectly influenced by regional financial performance. This research implies that local governments must constantly improve their financial performance because it has an impact on increasing capital expenditures, so they must get adequate priority.

The financial performance is also closely related to economic growth. The results of research by Mone et al (2016) prove that regional financial performance has a positive and significant effect on economic growth. Meanwhile, the results of research by Tobi & Idayati (2016) on the East Flores Regional Government show that the level of independence is at a very low level of ability to meet the need for funds for carrying out government tasks, development and community social services so that it affects economic growth.

H3. Regional financial performance has a direct effect on the allocation of capital expenditures.

H4. Regional financial performance has a direct effect on economic growth.

Capital Expenditure Allocation

Local governments allocate funds in the form of a capital expenditure budget in budget to increase fixed assets. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and the quality of public services. The amount of capital expenditures allocated by local governments in the budgeting is of course strongly influenced by the financial position of the region. The higher the income of a region, the higher the capital expenditure allocation will be. Capital expenditure allocation is a budget for obtaining fixed assets and other assets (Halim, 2013).

According to Government Regulation No. 71/2010, capital expenditure is regional government expenditure whose benefits exceed 1 fiscal year and will increase regional assets or assets and further add routine expenditures such as maintenance costs in the general administrative expenditure group. Capital expenditures are used to obtain local government fixed assets such as equipment, infrastructure and other fixed assets. How to get capital expenditure by buying through an auction or tender process.

Some factors mediate regional financial performance that plays a role in economic growth, namely the need to allocate capital expenditures. The capital expenditure budget is based on regional needs for facilities and infrastructure, both for the smooth implementation of government duties and public facilities. Therefore, to improve the quality of public services, local governments should change the composition of their spending. So far, regional spending has been mostly used for routine expenditures which are relatively unproductive. The use of spending should be allocated for productive things, for example, development activities (Saragih, 2013).

The allocation of capital expenditure affects regional economic growth. The policy of implementing regional autonomy and fiscal decentralization is based on the consideration that it is the regions that know more about the needs and service standards for the people in their regions so that the provision of regional autonomy is expected to trigger an increase in the welfare of the people in the regions through increased economic growth (Prihastuti, Taufik, & Agusti, 2015).

Likewise, Yuliana (2014) has proven that capital expenditure has a positive effect on economic growth in districts and cities on the island of Sumatra. However, the amount of this capital expenditure allocation is still small, namely 0.319. This needs attention from the government to further increase government spending, especially in capital expenditures.

H5. The allocation of capital expenditures has a direct effect on economic growth.

Economic growth

Economic growth can be interpreted as an increase in the production capacity of an economy which is manifested in the form of an increase in national income so that economic growth can be used as an indicator of the success of economic development. Economic growth is a change in the level of economic activity that applies from year to year. So to find out, a comparison of national income must be made from year to year, which is known as the rate of economic growth. Economic growth is measured using the Gross Regional Domestic Product (GRDP) (Sukirno, 2015).

Good governance should be realized by managing the budget in an economical, effective and efficient manner to increase the rate of economic growth. Based on the results of previous research by Fajerin, Fahmi and Dalimunthe (2018) which states that government management can have a positive and significant effect both directly and mediate by capital spending. One of the government's efforts to increase development is by allocating a budget for expenditure. However, the slowdown in economic growth is not in line with the increase in the allocation of capital expenditures, GDP per capita and the government's commitment to continue realizing good governance.

The local governments must continually improve their financial performance because they have an impact on increasing capital expenditures, so they must get adequate priority. In this study, the effect of financial performance on economic growth is measured indirectly. The results of research (Sularso & Restianto, 2012) in districts and cities in Central Java, show that financial performance indirectly has a significant effect on economic growth through the allocation of capital expenditures. The allocation of capital expenditure is influenced by financial performance, the allocation of capital expenditure affects economic growth and economic growth is indirectly influenced by regional financial performance. This means that local governments must continually improve their financial performance because they have an impact on increasing capital expenditures so that they must receive adequate priority.

On the other hand, research with the same variables as in the results of research (Prihastuti, Taufik, & Agusti, 2015) shows that there is a mediating role in the allocation of capital expenditures in influencing financial performance and economic growth in Riau Regency / City. The financial performance of districts and cities in the province has an influence on the allocation of capital expenditures with a contribution of 59.29%. While direct financial performance has a significant effect on economic growth with a contribution of 30.25%, however, the allocation of capital expenditures does not have a direct effect on economic growth, so that indirect financial performance (through the allocation of capital expenditures) has no significant effect on economic growth in the district and city in Riau Province. In this study, the authors try to add the local revenue variable as an influencer of capital expenditure allocations and regional economic growth.

H6. Good governance has an indirect effect on economic growth through the allocation of capital expenditures regional financial performance.

H7. Good governance has an indirect effect on economic growth through the allocation of capital expenditures.

METHOD

The population in this study is the financial statements of 12 regencies and cities in Riau Province, with sample data from the Revenue Service and the Regional Financial and Asset Management Office of Riau Province. The research was carried out by census on reports on the realization of the APBD from 2014 to 2018 so that the data was obtained totalling 60.

The design of the analysis in this research is quantitative using secondary data, which functions from the report on the realization of the regional income and expenditure budget (Akbar Y. R., 2020). To obtain the data and information needed in this study, use secondary data from the Revenue, Financial and Asset Management Office in the form of annual Budget Realizations published through Regional Regulations concerning budget accountability where there are financial reports that are used as basic data for analysis. Meanwhile, to find out the regional cash flow per month, it is collected by processing data on the realization of the budget for a certain period (e.g. per month or per quarter) obtained from the processing of the Regional Financial Information System (SIKD) which has been synchronized with the Regional General Treasury and the use of a single treasury account.

The data collection method used in this research is by collecting secondary data obtained from the media through the website www.dupk.depkeu.go.id. Which are the official website of the regional government that publishes APBD data and the Riau Province Central Bureau of Statistics (BPS) for 2016-2020. As revealed in the object of research, the main problem under study is Governance (X) which consists of economics, effectiveness and efficiency as exogenous variables. Regional Financial Performance (Y1) consists of (Regional Financial Independence, Original Regional Income Effectiveness, Activity, Degree of Decentralization, Financial

Dependence as intervening variables. Meanwhile, endogenous variables are Capital Expenditure Allocation (Y2) and Economic Growth (Z). In analyzing the data to test hypotheses H1 – H7, the analysis tool used is Partial Least Square (PLS).

RESULT AND DISCUSSION

The PLS analysis process is carried out in three stages, namely evaluation of measurement models, evaluation of structural models and testing of hypotheses.

Evaluation of the Measurement Model (Outer Model)

The measurement model (outer model) describes the relationship between indicators and their latent variables. Evaluation of the measurement model includes constructing validity and reliability as depicted in Figure 1.

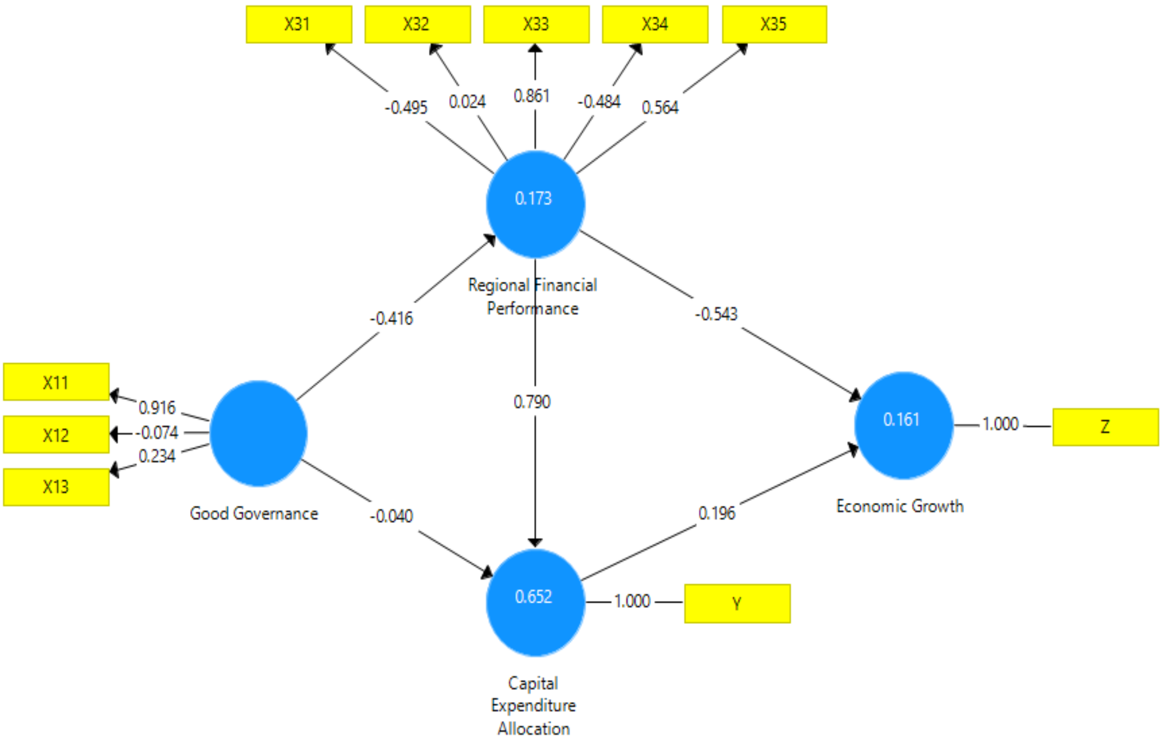

Figure 1. Outer Model

Convergent validity testing based on outer loading will be declared valid if the loading factor value is above 0.70 (Hair, Black, Babin, & Anderson, 2014). Outer loading test, several indicators are invalid because the value is below 0.70. The invalid indicators are X1.2 and X1.3 on the Governance variable, and indicators X3.1, X3.2, X3.4, X3.5 on the Financial Performance variable. Meanwhile, composite reliability and Cronbach alpha have met the requirements above 0.60. Likewise, the AVE value is above 0.50. So, it can be concluded that the constructs in this study are reliable. So that overall, the results of the construction measurement model (outer model) have met the requirements for further analysis by issuing invalid indicators.

Evaluation of the Structural Model (Inner Model)

The structural model in PLS is evaluated using the coefficient of determination (R-square). The higher the R2 value, the better the prediction of the proposed research model. The test results (in table 1) show that the good governance variable can explain the variance that occurs in regional financial performance by 0.173 (17.3%). The variables of good governance and regional financial performance can explain the variance that occurs in the allocation of capital expenditures of 0.652 (65.2%). Meanwhile, good governance, regional financial performance and allocation of capital expenditures can explain the variance that occurs in Regional Economic Growth of 0.161 (16.1%), the rest is explained by other factors not included in this research model.

Table 1. Coeficient of Determination

Variable	R-Square
Regional Financial Performance	0.173
Capital Expenditure Allocation	0.652
Economic Growth	0.161

Source: PLS output

Hypothesis Test

Hypothesis testing is seen from the t-statistic and p-value. The hypothesis is accepted if the t-statistic> 1.96 and the p-value <0.05, whereas if the opposite is true the hypothesis is rejected. The test results are in table 2:

Table 2. Hypothesis Test

Path	t-stat	p-value	Result
Good Governance -> Regional Financial Performance	1.962	0.05	Accepted
Good Governance -> Capital Expenditure Allocation	4.357	0.00	Accepted
Regional Financial Performance -> Capital Expenditure Allocation	40.994	0.00	Accepted
Regional Financial Performance -> Economic Growth	1.086	0.27	Rejected
Capital Expenditure Allocation -> Economic Growth	0.542	0.58	Rejected
Good Governance -> Regional Financial Performance -> Economic Growth	2.047	0.04	Accepted
Good Governance -> Capital Expenditure Allocation -> Economic Growth	3.219	0.00	Accepted

Source: PLS output

The conditions that exist in the Riau Province government with the number of data (N) tested were 60 obtained from the total number of districts and cities in Riau Province with each within a period of 5 years, from 2016 to 2020. Consolidated, governance in Riau Province which is proxied from the economy shows an average value of 86.31% which means that it is in an economic condition with a minimum of 67.37% and a maximum of 97.38%. In terms of effectiveness in budget management, there are still ineffective conditions with a minimum value of 74.75%. Although there are still some districts and cities that have very high effectiveness (121.37%), on average, the effectiveness is at an effective level of 92.98%. There is also inefficient government management with an efficiency level of 101.32% with an average of 75.17%.

Regional financial performance in terms of financial independence or autonomy is still low with an average of 12.7%. Likewise, the activities (harmony) of local governments prioritizing their allocation of funds for routine expenditure and development expenditures are still low with an average of 21.28%. Meanwhile, the ability of local governments to realize Local Own Revenue is quite high, with an average of 92%. However, the degree of decentralization, which reflects the contribution of own-source revenue to total regional revenue, is still low with an average of 10.55% and high financial dependence an average of 87%. The allocation for capital expenditure is still at an average rate of 21% with a 5-year economic growth rate of 2.82%.

A well-ordered government becomes the capital of a country in serving the needs of its people. The allocation and realization of budget absorption have become more efficient and free of corruption and the direction of human development has become clearer because the government is implemented in a people-oriented manner. The results of this test support the results of previous studies, including Kaufmann et. al (2019). The results of these studies indicate that there is a strong positive relationship and influence between good governance, which can also be measured through the effectiveness of government, and the level of development.

The effect of financial performance on the allocation of capital expenditures is accepted in this study. These findings indicate that the size of the allocation of capital expenditures determined by regional governments is influenced by regional financial performance, particularly the effectiveness of locally-generated revenue. With a low financial dependency ratio, the less regional dependence on the central/provincial government, which means that the financial capacity of the regional government is better so that it can allocate more capital expenditure.

The results of this study support the research conducted previously by Sularso and Restianto (2011), which states that since regional autonomy there has been an increase in general financial capacity, but mostly due to significant changes in locally-generated revenue growth. Meanwhile, the share of the budget to expenditure did not increase. In public sector financial management, analysis of financial performance on investment allocations or capital expenditures has not been done much, but in the private sector, this is very common. Good financial performance should increase the allocation of fixed asset investment.

The results of this study also tested hypotheses about how financial performance affects economic growth either directly or indirectly through the allocation of capital expenditures. Based on the results of the analysis and testing that has been done, it can be concluded that the indirect effect of financial performance on economic growth is rejected in this study.

The results showed that there was no mediating role for the capital expenditure allocation variable which was able to encourage the strength of the influence of financial performance on economic growth. The contribution of the capital expenditure allocation variable is considered relatively small in increasing economic growth. The results of this study support research conducted previously by (Prihastuti, Taufik, & Agusti, 2015), which concluded that indirect financial performance (through the allocation of capital expenditures) has no significant effect on economic growth.

Then the next discussion is to find out how the influence of the allocation of capital expenditures on economic growth. Based on the analysis and testing that has been carried out, the results show that the allocation of capital expenditures does not have a significant effect on economic growth. The increase in the allocation of capital expenditures in the form of fixed assets such as infrastructure, equipment and infrastructure will further increase capital spending and it is hoped that the productivity of the economy will also increase. However, in this study, capital expenditure does not affect the economic growth of the people of an area.

This condition is due to the small proportion of capital expenditure, which only ranges from 15% to 20% of the 2014 - 2018 APBD. The capital expenditure budget fluctuates from year to year. The amount of capital expenditure should be followed by the effectiveness of capital expenditure for the public interest which will directly impact development activities in the region. However, in reality, a large capital expenditure budget is used to add assets such as roads, buildings, land, and others.

Economic growth by managing existing resources and forming a partnership pattern with the community should create new jobs that will affect the development of economic activity in the area. This economic development is marked by increased productivity and increased per capita income of the population, resulting in improved welfare.

These results indicate that in the framework of implementing fiscal decentralization, the Riau Province government has not been wise in allocating its budget for investment in various sectors, both in the construction of facilities and infrastructure that support development.

Government investment as referred to in this case is expenditure made by the government which is made by the government in the APBD for capital expenditure or development. As explained in the previous chapter, government spending on capital expenditures in Riau Province on development is considered to be expansive, which means that if government spending increases, it will encourage higher economic growth. Government investment can take the form of infrastructure development and improvement. Increased government investment will be able to improve the quality of public services which in turn can increase the level of public participation (contribution) to development. However, government investment that is issued should still prioritize efficiency, effectiveness and savings by the expected development priorities.

The fundamental condition for economic development is a level of provision of development capital that is balanced with population growth. It is hoped that additional infrastructure and improvements by local governments will spur regional economic growth. In theory, consumption-sustained economic growth will not be sustainable growth. Sustainable economic growth is growth that is supported by investment. Investment-supported growth is thought to be able to increase productivity and thus help increase economic growth.

The results of this study do not support previous research conducted by Sularso and Restianto (2011), which in their research shows that government spending, which includes capital expenditure and personnel expenditure, has a very strong influence on economic growth. But on the other hand, the results of the research are similar to the research by Fajerin (2018) that capital expenditure does not have a positive and insignificant effect on economic growth.

CONCLUSION

Based on the results of the analysis and testing that has been carried out, it can be concluded that good governance has a significant effect on regional financial performance and allocation of capital expenditures. Regional financial performance has a significant effect on the allocation of capital expenditures and does not have a significant effect on economic growth. Direct capital expenditure allocation has no significant effect on economic growth. Indirectly, good governance has a significant effect on economic growth through regional financial performance and allocation of capital expenditures. Good governance has a partially significant effect on regional financial performance and the allocation of capital expenditures. Meanwhile, regional financial performance and allocation of capital expenditures have not been able to have a significant effect on economic growth. Therefore, good governance can have a significant effect on economic growth through the mediation of regional financial performance and allocation of capital expenditures.

This study obtained some evidence of data analysis based on research findings. The results of the research findings can recommend several policy implications according to priorities that can be given as input to the government. The government must continue to strive to improve government governance through bureaucratic reform. In addition, the government must support anti-corruption programs, increase government effectiveness, have clear rules, political stability, and the quality of rules in society, especially those related to economic activities. District/city governments must continuously improve financial performance because it can have an impact on increasing the allocation of capital expenditures used for public services. Carry out the budget allocation function effectively and efficiently. The budget must be right on target to maximize the welfare of the community. The government and the DPRD must increase the synergy value in managing the state budget. The government effectively and efficiently runs the APBD for the welfare of the people. Meanwhile, the DPRD acts as a partner in monitoring the government in implementing the APBD for the realization of an effective and efficient budget allocation. Capital expenditures allocated by district/city governments are a stimulus for the regional economy, so they must receive adequate priority. Because development is an ongoing process, it is suggested that the investment of the Riau Provincial Government in the absorption of capital expenditures that are considered to be sufficiently good should be further increased in the proportion of expenditures that always prioritize the public interest, such as in infrastructure development and improvement as well as improving the quality of public services. This is aimed at maintaining the existence of government administration. In addition, in its use, Capital Expenditures must continue to prioritize efficiency, effectiveness, and savings in accordance with priorities, which are expected to provide support for the strategic programs of the Riau Provincial Government.

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