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Fiscal Capacity, Civil Service Quality, and Community Welfare Mediation and Moderation Analysis

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ABSTRACT

This study investigates the influence of regional financial conditions and the status of the State Civil Apparatus (ASN) on community welfare, with government performance as a mediating variable and local government size as a moderating variable. A quantitative approach is employed, utilizing secondary data from district and city governments in Jambi Province, and the analysis is conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with WarpPLS 8.0. The results demonstrate that regional financial conditions exert a significantly negative effect on government performance, whereas ASN conditions have a significantly positive effect. Both regional financial conditions and ASN status significantly enhance community welfare, whereas government performance has a significantly negative impact on welfare. Furthermore, government performance does not mediate the relationship between regional financial conditions and ASN status and community welfare. Local government size moderates the effect of regional financial conditions on government performance but does not moderate the effect of ASN status. These findings indicate that community welfare is more directly influenced by regional financial conditions and civil servants' status than by government performance.

ABSTRAK

Penelitian ini mengkaji pengaruh kondisi keuangan daerah dan status Pegawai Negeri Sipil (ASN) terhadap kesejahteraan masyarakat, dengan kinerja pemerintah sebagai variabel mediasi dan ukuran kinerja pemerintah daerah sebagai variabel moderator. Pendekatan kuantitatif digunakan, memanfaatkan data sekunder dari pemerintah kabupaten dan kota di Provinsi Jambi, dan analisis dilakukan dengan menggunakan Structural Equation Modeling-Partial Least Squares (SEM-PLS) dengan WarpPLS 8.0. Temuan tersebut menunjukkan bahwa kondisi keuangan daerah memiliki efek negatif yang signifikan terhadap kinerja pemerintah, sedangkan status ASN memiliki efek positif yang signifikan. Baik kondisi keuangan daerah maupun status ASN memberikan pengaruh positif yang signifikan terhadap kesejahteraan masyarakat, sedangkan kinerja pemerintah menunjukkan efek negatif yang signifikan. Kinerja pemerintah tidak memediasi pengaruh kondisi keuangan daerah atau status ASN terhadap kesejahteraan masyarakat. Selain itu, ukuran pemerintah daerah hanya memoderasi pengaruh kondisi keuangan daerah terhadap kinerja pemerintah dan tidak memoderasi pengaruh status ASN. Hasil tersebut menunjukkan bahwa kesejahteraan masyarakat lebih dipengaruhi secara langsung oleh kondisi keuangan daerah dan status ASN daripada kinerja pemerintah.

1. INTRODUCTION

Community welfare is the main goal of local government implementation, as reflected in various development indicators such as the human development index (HDI), poverty rate, unemployment rate, and per capita income (Habbe, 2020). In the context of fiscal decentralization, local governments gain broader authority to manage financial resources and improve the quality of public services and encourage community welfare (Suarti, 2019). The success of local governments in achieving community welfare does not depend solely on the resources they possess but also on their ability to manage them effectively (Ali & Nasution, 2022; Makhya et al., 2023). The implementation of effective participatory policies can strengthen the relationship between local governments and communities, thereby improving the overall well-being of the community. (Rahmat, 2023)

A region's financial condition is important because it affects the ability of local governments to provide public services and carry out development programs (Oates, 1999; Bahl & Bird, 2018). Financially stable regions typically have greater fiscal capacity to finance infrastructure, education, health, and other social programs that improve community welfare (Musgrave & Musgrave, 1989; The World Bank, 2020). However, some studies have shown that funds alone are insufficient to achieve optimal well-being without effective governance (Acemoglu & Robinson, 2012; World Bank, 2017).

Beyond financial considerations, the condition of the State Civil Apparatus (ASN) is crucial for the effectiveness of the local government. The ASN is tasked with planning, implementing, supervising, and evaluating development programs (Grindle, 1997; Fukuyama 2013). When the quality, quantity, competence, and distribution of ASN personnel are sufficient, public services and local government performance tend to improve (World Bank, 2019; OECD, 2021). Conversely, limited ASN capacity can hinder the utilization of regional financial resources, thereby impeding the achievement of development and community welfare objectives (Andrews et al., 2017; Rasul and Rogger, 2018).

The relationship between regional financial conditions, ASN conditions, and community welfare is not always direct or linear. According to public sector management and agency theories, financial resources and administrative apparatuses must be transformed to enable effective government performance and generate societal benefits (Jensen & Meckling, 1976; Boyne, 2002). Empirical evidence indicates that regional financial characteristics and public transparency influence the frequency of fraud in local governments, which reflects the quality of governance and government performance (see, for example, Hendrawan and Sari, 2020, in The Indonesian Accounting Review). Additionally, research employing a logic model approach demonstrates that developing clear, measurable local government performance indicators is a critical step in transforming financial resources and motivation within the apparatus into improved organizational performance (Firmansyah 2020). Recent studies have further revealed that internal controls, public monitoring, and e-government implementation positively impact local government performance and accountability. These findings reinforce the argument that institutional design and performance systems are essential mechanisms that link resources to community welfare (Zamzami & Rakhman, 2023). Thus, government performance can be conceptualized as a mediating variable that elucidates how regional and ASN financial conditions ultimately influence community welfare.

Various studies have examined the influence of regional financial conditions and ASN capacity on government performance and community welfare. However, studies that simultaneously integrate regional financial and ASN conditions by considering the mediating role of government performance and the moderating role of local government size are still limited. These limitations indicate that there are research gaps that need to be filled to gain a more comprehensive understanding of the factors that affect community welfare in the context of local governments. Based on this description, this study is important to analyze the influence of regional financial conditions and ASN conditions on community welfare, taking into account the role of government performance as a mediating variable and the size of the local government as a moderation variable, with the formulation of the problem: How do regional financial conditions and ASN conditions affect community welfare, either directly or through government performance as a mediation variable and the size of the local government as a moderation variable? Develop and test an empirical model that explains the influence of regional financial conditions and ASN conditions on community welfare through government performance as a mediating mechanism and local government measures as moderating factors.

Previous research has investigated the influence of regional financial conditions and apparatus capacity on government performance and community welfare. However, studies that simultaneously integrate regional financial conditions and ASN (Aparatur Sipil Negara) conditions, while considering the mediating role of government performance and the moderating effect of local government size, remain limited. These gaps underscore the need for further research to achieve a comprehensive understanding of the determinants of community welfare within local government contexts. Therefore, this study aims to analyze the influence of regional financial conditions and ASN conditions on community welfare, accounting for government performance as a mediating variable and local government size as a moderating variable. This study seeks to develop and empirically test a model that explains these relationships.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

a. Financial Conditions for Community Welfare

Community welfare is the primary objective of the local government, as stipulated in Law Number 23 of 2014 concerning regional government. This level of well-being is measured using various development indicators, including education, health, per capita income, and poverty rates, all of which are reflected in the Human Development Index (HDI) (Dědeček and Dudzich, 2022). Achieving this objective requires more than just economic growth. Local governments must also manage public resources efficiently, implement transparency and accountability, engage the community, utilize information technology, and enhance the quality of human and institutional resources (Harianto II et al., 2023; Stoker, 2011). From a public finance perspective, a healthy regional financial condition is essential, as it reflects the fiscal capacity of local governments to provide public services and implement development programs that improve the quality of life in the community (Yang, 2020; Musau, 2022). When supported by adequate institutions, human resources, and regional finances, fiscal decentralization can function optimally, enabling more effective budget allocation to priority sectors such as education, health, and basic infrastructure. These measures improve community welfare (Gadzhieva et al., 2021; Zahari et al., 2018). Furthermore, optimizing Regional Original Revenue (PAD), strengthening transparency and accountability in budget management, and developing a more effective regional financial management system can enhance the use of public resources and support inclusive and sustainable development (Akbar, 2022; Prasetiyo et al., 2023; Rahmat, 2021). Thus, a region's financial condition is critical in determining the success of local governments in improving community welfare.

b. Government Measures on Community Welfare

Government size is intrinsically linked to government capacity and encompasses factors such as geographic area, number of local government levels, population, workforce size, and administrative complexity. The geographic area influences the population distribution and structure of the local government, which, in turn, determines the number of employees required to deliver public services (Bartolacci et al., 2022). Understanding the relationship between government size and capacity is essential for local governments to provide effective and efficient public services (Bentayn & Charef, 2020). Larger local governments typically have more resources to implement programs that enhance community welfare (Abelson 2016). The size of the government bureaucracy is a critical determinant of resource availability and directly impacts the effectiveness of public service delivery. Both excessively large and insufficiently small bureaucratic structures pose risks that may hinder optimal budget management and compromise service quality (Yusufova-Aghabalayeva & Isayeva, 2018). Achieving budget optimization and high-quality public services necessitates an ideal, proportionate government. The establishment of such a structure facilitates efficient and sustainable public service delivery, ultimately improving the welfare of society. Furthermore, optimizing the government size promotes community engagement in governance and regional development. Policies that are responsive to local needs foster community participation, thereby strengthening the relationship between the government and citizens and enhancing synergy in pursuing regional development objectives. Proportionate government structures also foster a more inclusive environment, enabling all stakeholders to participate in decision-making processes that affect their communities (Post and Kuipers 2022).

c. The Condition of the State Civil Apparatus on the Welfare of the Community

The State Civil Apparatus (ASN) is integral to the implementation of public policies and provision of services at the local level. Skilled, professional, and disciplined ASN personnel enhance public service effectiveness and support regional development (Republic of Indonesia, 2014; Sedarmayanti 2018). Efficient public service delivery enables optimal budget allocation and infrastructure management, which in turn promotes economic growth, increases income levels, and improves overall welfare (Mahmudi, 2019; Todaro and Smith, 2021). Empirical evidence indicates that competent civil servants improve the quality of public services and government employee performance, thereby improving local government outcomes (Faruk et al., 2023; Zulkieflimansyah et al., 2023; Yulianti & Annisa, 2024). Initiatives such as targeted training, performance-based incentives, and reforms that cultivate a professional, responsive, and ethical workforce are essential for advancing societal well-being (Ciobanu & Androniceanu, 2015; Mulyadi, 2020).

d. The Government's Performance on Community Welfare

Local governments are primarily responsible for delivering public services, including education, health, sustainable infrastructure, and local economic support, and for implementing development programs (Ahmad et al., 2021). The effectiveness of public services is reflected in government performance, which directly enhances citizens' quality of life and well-being (Nugraha & Komarawati, 2022). Good governance is fundamental to the success of public services. In regional contexts, good governance relies on public participation, transparent budgeting and robust institutional frameworks (Meri, 2018). Adhering to the principles of good governance fosters public trust in the local government. This trust serves as a critical social asset that motivates communities to actively engage in planning, implementing, and overseeing development initiatives (Indriastuti 2020b). High-quality local government management significantly contributes to improvements in the Human Development Index (HDI) and regional economic growth (Ahekyan et al., 2022). Strict adherence to good governance principles is associated with public perceptions of fairness and equity in public service delivery (Setiawan, 2022). Enhancing local government performance stimulates economic growth and reinforces the public's confidence. Local governments face challenges in improving public services, stemming not only from budgetary and staffing constraints but also from institutional weaknesses and inadequate monitoring and evaluation systems (Indahsari and Raharja, 2020). The effectiveness of development programs depends substantially on local governments' capacity to employ clear, data-driven evaluation mechanisms and adapt policies to meet community needs (Budiawan et al., 2022). Community involvement in evaluation and oversight processes further enhances accountability and transparency, which are essential components of good governance (Nuris 2020).

Prioritizing the development of local government staff competency is essential. To cultivate a professional, responsive, and ethical workforce, skills-based training, performance-based rewards, and comprehensive government reforms must be implemented (Ciobanu & Andronicanu, 2015). Effective government reform depends on leadership that can drive cultural change and motivate employees to achieve measurable outcomes (Suryosukmono, 2020). Staff competency deficiencies frequently constitute primary obstacles to achieving development goals. Persistent challenges include gaps in technical expertise, management capabilities, and adherence to ethical standards within the bureaucracy (Rahmadi, 2010). Many local governments experience a disparity between the required tasks and their personnel's actual capabilities, resulting in limited progress in implementing development programs, such as poverty alleviation and improvements in basic community services (Siswidiyanto & Sahputri, 2023). The performance of local governments relies on the establishment of equitable, systematic evaluation, and measurement processes. The adoption of key performance indicators (KPIs) within the Government Agency Performance Accountability System (SAKIP) represents such an approach. This system assesses staff performance based on compliance and the attainment of development objectives (Parwoto & Halim, 2020). Consistent implementation of SAKIP across regions can enhance planning processes and increase the effectiveness of public expenditure, thereby improving societal well-being (Sejati, 2017).

The good governance framework is a critical mechanism for promoting responsible and responsive government performance. Core principles such as transparency, accountability, participation, and effectiveness underpin public service-oriented government management (Ilham Sukma et al., 2023). Technical competencies, ethical standards, and organizational culture within the bureaucracy are also pivotal in fostering high staff performance. Establishing a productive, disciplined, and innovative work culture requires incremental development and exemplary leadership (Sunardi et al., 2022). High staff performance should be reinforced through a merit-based reward system. When recognition and advancement are determined by tangible achievements and societal contributions, a competitive and professional environment emerges (Yusriadi 2018). Conversely, reliance on favoritism or personal networks impedes bureaucratic progress and adaptability in the public sector. In this context, the merit system outlined in Law Number 5 of 2014 concerning ASN serves as a vital instrument for cultivating competitive bureaucracy. The relationship between local government performance and community well-being is reciprocal (Saefudin Zenju et al., 2018). Professional staff conduct effective government service delivery, and empowerment and development support yield tangible benefits for communities through good governance (Rohayatin et al., 2019). Conversely, inadequate government performance erodes public trust, diminishes participation, and undermines the focus of development programs (Junanto 2018). Bureaucratic reform and the enhancement of staff competencies must remain central priorities to achieve equitable and sustainable national development.

e. Financial Conditions on Government Performance

The fiscal status of city administrations is a fundamental factor in facilitating development and delivering public services, as it demonstrates the government's ability to manage finances effectively, efficiently, and independently. Robust regional finances, characterized by effectiveness, efficiency, and enhanced fiscal autonomy, enable local governments to fund priority programs, improve public services, stimulate economic growth, and enhance community welfare (Qoriiba et al., 2021; Zein & Septiani, 2024). Optimizing Regional Original Revenue (PAD) and managing expenditures efficiently through financial governance reform, performance-based budgeting, and transparent and accountable supervision can strengthen local government performance and decrease reliance on central government funding (Karianga, 2016; Putri & Aswar, 2022; Rahayu et al., 2023). Furthermore, sound fiscal conditions promote increased capital expenditure on infrastructure and productive sectors, which significantly contributes to economic growth and public service quality (Gadzhieva et al., 2021). Healthy regional finances also enhance governmental responsiveness to community needs, reinforce good governance practices, improve budget accountability and transparency, foster public trust, and support investment in sustainable human resource development (Ambya, 2020; Li et al., 2022; Muliyati et al.).

f. Government Measures on Government Performance

The size of a government entity reflects the level of bureaucracy, number of civil servants, scale of the fiscal budget, and intervention level in various sectors. Government efficacy refers to the effectiveness, efficiency, accountability, and responsiveness of institutions in providing public services (Mahmudi 2019; Setiawan and Pratama 2021). The relationship between government size and performance is complex and not always linear in nature. A large government structure can improve public services and development, but it also has the potential to cause inefficiency, sluggish bureaucracy, and inappropriate budget allocation if governance is inadequate (Arifin & Rahmawati, 2020; Nurkholis et al., 2022). Several studies have shown an inverse U-shaped relationship, where optimal government size can improve performance, while too large or too small a size reduces the effectiveness of governance (Afonso et al., 2010; Rachmawati & Siregar, 2022). The effectiveness of government measures is greatly influenced by fiscal capacity, quality of internal supervision, transparency, accountability, public involvement, and the ability to manage regional finances efficiently (Putri & Hartono, 2023; Putri & Rahman, 2022). In addition, visionary leadership, strong supervision, an organizational culture with integrity, and the application of good governance principles are determining factors in whether the size of the government can produce optimal performance (Wijaya, 2021; Susanto, 2021). Studies from various countries show that large governments can achieve high performance when supported by strong institutions, transparent governance, and results-oriented public management systems. Thus, the management of government measures requires a comprehensive approach, including fiscal capacity building, bureaucratic reform, human resource development, and strengthening public accountability (Afonso et al., 2005; Evans and Rauch, 1999; Pollitt and Bouclitt-Kaert, 2017).

g. The State of the State Civil Apparatus on Government Performance

The state civil apparatus (ASN) is a critical element of government bureaucracy tasked with implementing public policies and delivering community services. Consequently, the quality of ASN personnel directly influences the effectiveness and efficiency of government performance (Saepudin, 2022). A professional, competent, and integrity-driven ASN, managed based on merit, enhances public service delivery, bureaucratic accountability, and the success of development programs (Pratama et al., 2020; Rizki et al., 2024). Competent civil servants not only complete administrative tasks efficiently but also adapt to change, innovate service provision, and respond promptly and accurately to community needs (Sinaga, 2023; Yulianti and Nur Annisa, 2024). Furthermore, the equitable distribution of civil servants to address regional needs, particularly in remote and disadvantaged areas, is essential for ensuring public service provision and the success of equitable policies (Blegur & Amalia, 2019). Enhancing civil servant competence also reinforces accountability and good governance, thereby fostering public trust in government institutions (Noormansyah & Sirkomba, 2022). Bureaucratic reform that prioritizes capacity development through education, training, equitable reward systems, integrity enhancement, and technological adaptation is vital for establishing an effective, responsive, and service-oriented government (Amelia et al., 2021; Cahyarini & Samsara, 2021; Indian 2020). The research model was developed based on a review of previous studies, established frameworks and relevant variables.

Hipotesis

The following hypotheses were derived from the analysis of the research model:

Direct Influence Hypothesis

H1: Financial conditions positively influence the local government's performance. conditions positively influence the government's performance.inancial conditions positively influence community welfare.

H4: ASN conditions positively influence community welfare.

H5: Government performance positively influences community welfare**.**

Mediation Hypotheses

H6: Government performance mediates the relationship between financial conditions and welfare.
H7: Government performance mediates the relationship between the ASN and community welfare.

Moderation Hypotheses
H8: Local government measures moderate the relationship between financial conditions and government performance.
H9: Government measures moderate the relationship between ASN conditions and government performance.

3. METHODS

Population, samples, and research data
The study population comprises all city and district governments in Jambi Province, specifically two city governments and nine district governments: Jambi City, Muaro Jambi Regency, East Tanjung Jabung Regency, West Tanjung Jabung Regency, Batang Hari Regency, Sarolangun Regency, Merangin Regency, Tebo Regency, Bungo Regency, Kerinci Regency, and Sungai Penuh City. The sample includes all 11 local governments. Panel data methodology was employed, integrating cross-sectional data from 11 local governments and time-series data spanning 2014 to 2024, yielding 121 total observations.

Table 1
Operationalization of Research Variables

No.	Endogenous/Exogenous/Intervening Variable	Definition	Indicator	Scala
1.	Community Welfare (Y)	Conditions for the fulfillment of the material, spiritual, and social needs of citizens so that they can live a decent life and be able to develop themselves so that they can carry out their social functions (Law Number 11 of 2009)	1. Per capita income (Y1) 2. Poverty Rate (Y2) 3. Unemployment Rate (Y3) 4. Gino Ratio (Y4) 5. IPM (5)	Ratio
2.	Financial Condition (X1)	Healthy financial conditions occur when local governments can efficiently and effectively exercise their financial rights and fulfill all financial obligations to achieve state goals (Ritongga et al., 2012).	1. Self-Reliance Ratio = PAD / Total Revenue (Ratio of Degree of Fiscal Decentralization = PAD / Total Revenue) (X1-1) 2. Fiscal Dependency Ratio = Transfer Funds / Total Income (X1-2) 3. Capital Expenditure Ratio (X1-3)	Ratio
3.	Government Size (X2)	The size of the local government determines the extent to which an area can manage resources and meet the needs of the community (Oates, 1972).	1. Area 2. Number of villages and sub-districts 3. Total Regional Assets	Ratio
4.	State Civil Apparatus Condition (X3)	The conditions and characteristics of the workforce in the government bureaucracy, which include the number, competence, performance, discipline, welfare, and distribution of employees in various government agencies	1. Ratio of ASN to Population (X3-1) 2. Percentage of ASN education level (X3-2) 3. Additional ASN Income (X3-3) 4. Ratio of ASN functional positions	Racing
5.	Government Performance (M)	Public sector performance reflects how the government can use resources economically, efficiently, and effectively to provide services to the community (Mardiasmo, 2004).	1. Economy Ratio (X4-1) 2. Efficiency Ratio (X4-2) 3. Effectiveness Ratio (X_4-3)	Racing

Analysis tools and research models

This study used secondary panel data, which combined cross-sectional and time-series information. To evaluate the hypotheses and assess the relationships among the variables, structural equation modeling (SEM) was conducted using the Warp Partial Least Squares (PLS) approach, version 8.0. According to Joseph F. Hair Jr. et al. (2022), PLS-SEM sample sizes are generally classified as follows: a) less than 100 is considered small; b) 100 to 200 is considered medium; and c) greater than 200 is considered large. The present study included 121 observations, which qualifies as a medium sample and satisfies the requirements for SEM WarpPLS analysis. Utilizing panel data increases data variety and enhances estimation efficiency compared to using cross-sectional or time-series data alone (Gujarati, Damodar N., & Porter, 2009). Furthermore, SEM WarpPLS is effective for handling non-normally distributed data, supports small sample sizes, and is appropriate for complex models with numerous variables and latent relationships (Mohajan, 2020). The diagram of the research model is presented in Figure 1.

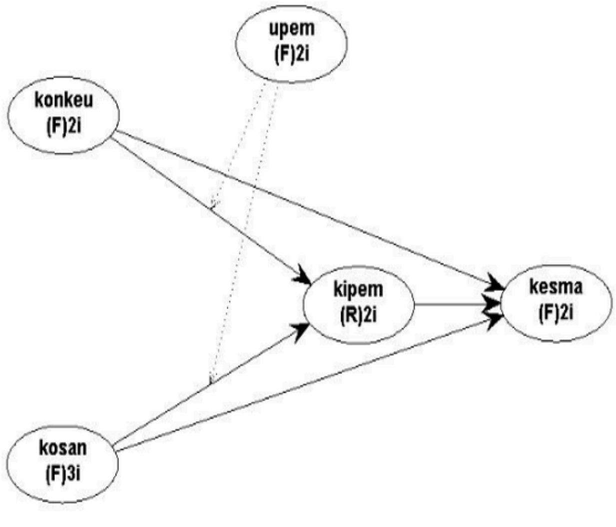


Figure 1: Research Model

Operational research variables

The research variables consist of exogenous (independent) variables, including financial and ASN conditions, with the government size serving as a moderating variable. Intervening variables and government performance were also considered, while the endogenous (dependent) variable was community welfare. The following section provides a concise overview of these variables to facilitate understanding.

a. Community welfare: According to Law Number 11 of 2009, social welfare is defined as "the condition for the fulfillment of the material, spiritual, and social needs of citizens so that they can live a decent life and be able to develop themselves so that they can carry out their social functions." Community welfare is typically assessed using economic indicators such as per capita income, poverty rate, open unemployment rate, inequality index (Gini ratio), and human development index (HDI).
b. Financial Condition: The financial condition of a local government refers to its capacity to manage financial rights and obligations effectively and efficiently, enabling the timely fulfillment of financial commitments and maintenance of essential public services. According to Irwan et al. (2012), a healthy financial condition is achieved when local governments exercise their financial rights efficiently and effectively and fulfill all financial obligations to support state objectives.
c. Government size: Government size refers to the capacity and resources available to a local government to execute its functions. This metric encompasses the number of employees, budgets, and infrastructure dedicated to providing community services. Government size significantly affects the performance and effectiveness of public services (Churchill et al., 2017). Jurisdictions with larger governments generally demonstrate greater capacity to manage resources and deliver services (Hayrapetyan and Mnatsakanyan, 2022). From the perspective of public organizations, the size of the local government reflects its organizational capacity, which can influence the success of programs and policy management aimed at improving community welfare (Kimberly, 1976; Andrews and Boyne, 2010).
d. The State Civil Apparatus (ASN) serves as the primary driver of government, development, and public service responsibilities (Saepudin and Pratiwi, 2022). The presence of professional, accountable, and high-integrity civil servants is essential for establishing an effective and responsive government that meets public needs (Sedarmayanti, 2018). In addition to implementing policies, the ASN acts as a change agent, influencing the direction and quality of public policy (Dwiyanto 2008). The ASN holds a central position in government administration, particularly in the implementation of public policies and delivery of services to the community (Apriliana et al. 2020).
e. Government performance: Local government performance serves as a primary indicator for evaluating the effectiveness and efficiency of public service delivery to the community (Sanderson 2001). The value-for-money framework, based on the 3E concept of

economy, efficiency, and effectiveness, is commonly applied in government performance assessments. The economic dimension is assessed using economic ratios that compare actual expenditure to predetermined budgets. This ratio indicates how efficiently local governments allocate and utilize their financial resources. Achieving a lower actual expenditure-to-budget ratio while maintaining program targets demonstrates efficient regional financial management. The economic ratio is calculated as follows:

f.

Economic Ratio = (Expenditure Realization ÷ Budget) × 100%.

A ratio below 100% indicates that local governments conduct activities at a cost below the allocated budget, thereby demonstrating economic efficiency. Conversely, a ratio above 100% signifies that budget utilization surpasses the planned allocation (Mahmudi, 2019). The efficiency dimension is assessed using the efficiency ratio, which represents the relationship between the expenditures incurred to generate revenue and the revenue obtained. This ratio evaluates a local government's capacity to produce output through efficient resource utilization. A lower efficiency ratio reflects more effective financial management by the local government. The efficiency ratio is calculated as follows:

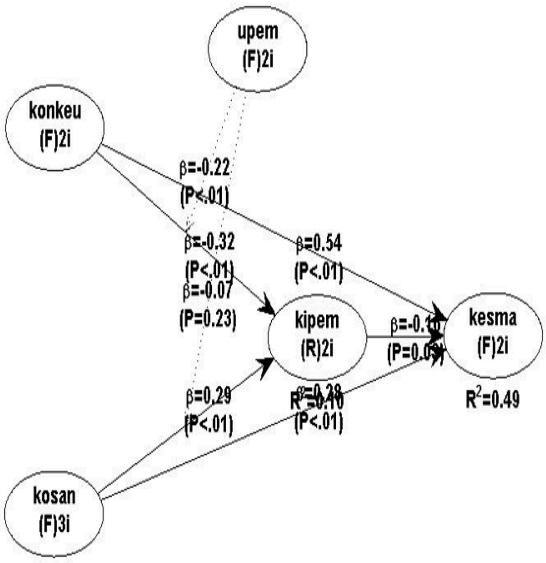
Efficiency Ratio = (Regional Expenditure Realization ÷ Regional Revenue Realization) × 100%.

A low efficiency ratio demonstrates that the local government generates more revenue than it expends, whereas a high efficiency ratio signifies less effective resource utilization in supporting governmental and development activities (Mahsun, 2019). The effectiveness dimension is evaluated using the effectiveness ratio, which quantifies the extent to which local governments achieve established targets. In the context of regional finance, effectiveness is measured by local governments' ability to meet the Regional Original Revenue (PAD) target specified in the APBD (Regional Budget). The formula is as follows:

Effectiveness Ratio = (PAD Realization ÷ PAD Target) × 100%

A high effectiveness ratio demonstrates the local government's capacity to achieve or surpass planned revenue targets. An effectiveness ratio of 100% or higher signifies that the target has been met or exceeded, reflecting the success of local governments in implementing the planned policies and programs (Mahsun, 2019). Collectively, these three indicators provide a comprehensive assessment of the performance of local governments. The economic ratio measures the government's ability to control expenditures, the efficiency ratio assesses optimal resource utilization, and the effectiveness ratio evaluates the achievement of the established goals and targets. Employing these three indicators is consistent with the value-for-money concept, which emphasizes accountability, transparency, and a results-oriented approach in local government implementation. A detailed presentation of the data is provided in Table 1.

Figure 2
Structural Model Path Diagram



4. RESULTS AND DISCUSSION

Path Coefficients

Path coefficients were obtained from the data processing using WarpPLS 8.0. The following is a picture of the path coefficients that display the value of the coefficient and the significance value to determine the influence between variables

Results and Discussion

The model's explanatory power for endogenous variables is demonstrated by R-squared values of 0.097 for government performance and 0.490 for community welfare. Regional financial conditions, ASN conditions, and moderation variables collectively accounted for 9.7% of the variation in the government's performance. In contrast, regional financial conditions, ASN conditions, and government performance together explain 49.0% of the variation in the community welfare. The Q-squared values of 0.158 for government performance and 0.506 for community welfare further suggest that the model is indeed predictive.

The Effect of Regional Financial Conditions on Government Performance

The test results indicate that regional financial conditions have a significant negative effect on government performance, as evidenced by a path coefficient of -0.317 and a p-value of < 0.001. Therefore, the hypothesis that regional financial conditions influence government performance is supported, although the relationship is negative and weak. These results suggest that improvements in regional financial conditions are not necessarily associated with enhanced government performance. A large fiscal capacity alone does not guarantee better performance without effective governance, budget efficiency, or sufficient bureaucratic capacity. From the perspective of agency theory, this outcome may reflect inefficiency or moral hazard in public resource management, indicating that increased financial capacity does not automatically translate into improved local-government performance.

The Influence of ASN Conditions on Government Performance

ASN condition demonstrated a positive and significant influence on government performance, as indicated by a coefficient of 0.286 and a p-value below 0.001. This result indicates that improvements in ASN conditions are directly proportional to the enhancement of local government performance. These findings align with public-sector human resource theory, which asserts that civil servants' quality, competence, and capacity are critical to improving government effectiveness. Competent civil servants can manage development programs, optimize resource use, and enhance the quality of public services, thereby strengthening the performance of local governments.

The Influence of Regional Financial Conditions on Community Welfare

The study found that regional financial conditions had a positive and significant effect on community welfare, with a coefficient of 0.543 and a p-value of < 0.001. An effect size of 0.350 indicated a strong effect. Regional financial conditions are the main factors that determine the level of community welfare. Regions with greater fiscal capacity tend to be better able to provide public services, build infrastructure, and finance social programs that improve the quality of life. These findings align with public finance theory, which emphasizes the important role of fiscal capacity in improving well-being of the people.

The Effect of ASN Conditions on Community Welfare

ASN condition demonstrated a positive and significant effect on community welfare, with a coefficient of 0.276 and a p-value below 0.001. These results indicate that higher-quality civil servants are associated with enhanced community welfare and improved performance. Civil servants (ASN) are the primary implementers of public policies, and their quality contributes to improved public services and more effective development programs. Consequently, favorable conditions for ASN increase the probability of achieving community welfare.

The Influence of Government Performance on Community Welfare

Government performance significantly and negatively affected community welfare, with a coefficient of -0.162 and a p-value of 0.033. These results indicate an inverse relationship between government performance and community welfare. This suggests that the government performance indicators employed in this study may not comprehensively capture the effectiveness of the government in enhancing public welfare. Furthermore, government administrative achievements do not always correspond to the development outcomes that the community experiences. Improvements in government performance, as measured by bureaucratic metrics, do not necessarily translate into direct benefits for community welfare.

Assessment of the Mediating Role of Government Performance

The mediation analysis indicated that the indirect effect of regional financial conditions on community welfare through government performance was 0.051 (p = 0.211). Similarly, the indirect effect of the ASN condition on public welfare via government performance was -0.046 (p = 0.234). As all p-values exceeded 0.05, government performance did not mediate the relationship between regional financial conditions or ASN conditions and community welfare. Therefore, the mediation hypothesis is not supported. These results suggest that regional financial conditions and ASN status exert a more substantial direct influence on community welfare than government performance. Enhancing fiscal capacity and improving the quality of civil servants can directly increase community welfare without necessarily improving government performance, as operationalized in this research model.

Moderating Influence of Local Government Characteristics on Organizational Performance

Moderation analysis revealed that the interaction between local government size and financial conditions exerted a significant negative effect on government performance (β = -0.223; p = 0.005). In contrast, the interaction between local government size and civil servant (ASN) conditions was not significant (β = -0.067; p = 0.226). These findings indicate that local government size moderates the relationship between financial conditions and government performance but does not influence the relationship between civil servant conditions and performance. The negative coefficient suggests that as local government size increases, the positive impact of financial conditions on performance diminishes. This outcome suggests that larger local governments face increased organizational, bureaucratic, and coordination complexity, which may constrain the benefits of favorable financial conditions. Conversely, the effect of civil servant conditions on government performance remains consistent across government sizes, indicating that size neither strengthens nor weakens this relationship.

6. CONCLUSION

The results indicate that community welfare is directly influenced by regional financial conditions and the quality of the state civil apparatus (ASN), rather than government performance. Regional financial conditions emerged as the most significant factor in enhancing community welfare, whereas the mediating role of government performance was not supported by empirical evidence. Additionally, the size of local governments moderates the relationship between regional financial conditions and government performance, generally weakening this association. These findings suggest that improving community welfare requires strengthening regional fiscal capacity and ASN quality and enhancing governance effectiveness to ensure optimal resource utilization for development.

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