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# The Role of Tourism in Achieving Regional Fiscal Independence and Community Welfare

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***Abstract:***

*A shift in governance system from centralization to decentralization occurs during the era of regional autonomy that drives regional government to explore and develop the regional potentials in order to make regions be able to independently administer their government. This study is aimed to analyzed the role of the tourism sector in achieving regional fiscal independence and its impact towards community welfare. This study used panel data from 9 regencies/city in Bali Province that covered the period from 2013 to 2020 and were estimated through Partial Least Square-Structural Equation Modelling (PLS-SEM) analysis method. The result shows that the tourism sector has a vital role in achieving regional fiscal independence. The increase in number of tourist visits results in tax revenues and tourism sector retribution that contribute to the local own source revenue. This revenue is subsequently able to be utilized as regional government to finance infrastructure development that will enhance public services and eventually improve the community welfare.*

**Keywords:** *Tourism, Regional Tax, Fiscal Decentralization, Community Welfare*

## 1. Introduction

Tourism is one of the potentials owned by arid regions (regions with limited natural resources) to increase their regional revenue (Suwena & Widyatmaja, 2017). Tourism has become a primary target for tax in several economies, particularly developing countries that encounter budget constraints and pressure to reduce reliance on other taxes, while seeking additional sources of revenue (Gooroochurn & Milner, 2005).

The province of Bali is one of the regions in Indonesia that relies on the tourism sector as its primary economic pillar. The effort of Government of Bali in developing its potential sector is outlined in the Regional Government Work Plan for the year of 2019, which is to maintain and improve the tourism sector in Bali by the allocation of tourism development budget for specific tourism interests, such as international scale Meetings, Incentives, Conferences, and Exhibitions (MICE), Medical Tourism, Sport Tourism, and Retired Tourism. Furthermore, regional fiscal funding is also conducted

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to develop tourism destinations that align with the distinctive characteristics of each region with the concept of one island management.

In the era of regional autonomy, Law Number 23 of 2014 concerning regional government was made with the consideration that the implementation of regional government was directed to accelerate the realization of community welfare through service improvement, empowerment, community participation, and regional competitiveness increment. This law emphasizes how the regions can regulate their regions independently, in which there is a change in government system from centralization to decentralization.

In most countries, fiscal decentralization has been utilized as a tool to enhance government efficiency in delivering services and achieving higher economic growth (Canavire-Bacarreza et al., 2020). Over the past few decades, decentralization has posed significant challenges for developing countries due to ongoing changes in public finance. The effects of intensified globalization have influenced resource flows and triggered migration processes. The potential and fiscal capacity of administrative units, the competitive business environment, demographic sustainability, and economic development have become key indicators of the efficiency of implemented fiscal policies (Pasichnyi et al., 2019).

One essential aspect of the relationship between the central and regional governments is reflected in intergovernmental fiscal relations. Delegating tasks to regional governments in the context of autonomy must be accompanied by financial delegation (money follow functions). The delegation of expenditure as a consequence of granting authority and responsibility for public services must be followed by delegation in terms of revenue assignment; without this transfer, autonomy would lose its meaning (Syafi'ie, 2010).

Regional governments are expected to utilize available resources and allocate their revenue to support regional economic growth and contribute to national economic growth. In a study that compared economic growth between centralized and decentralized governance, the results indicated that faster and higher economic growth occurred in decentralized governance (Bohte & Meier, 2000).

The aim of fiscal decentralization in Indonesia is to provide more space for regions to manage their economies by optimizing local revenue sources beyond central government funding, thereby opening up significant opportunities for regional economic development. Fiscal decentralization should be considered to foster local innovation within the framework of regional development. Fiscal decentralization requires changes and a high tax burden, as well as a reduction in non-prosperous expenditures (Purbadharmaja et al., 2019; Rahim & Shirazi, 2018; Mourmouras & Rangazas, 2009).

The Law No. 28 of 2009 concerning Taxes and Charges was established to strengthen regional finances and support the implementation of regional government autonomy. This law grants greater authority to regional governments to collect local own-source

revenue through increasing local tax objects, retribution, and discretion in determining taxes.

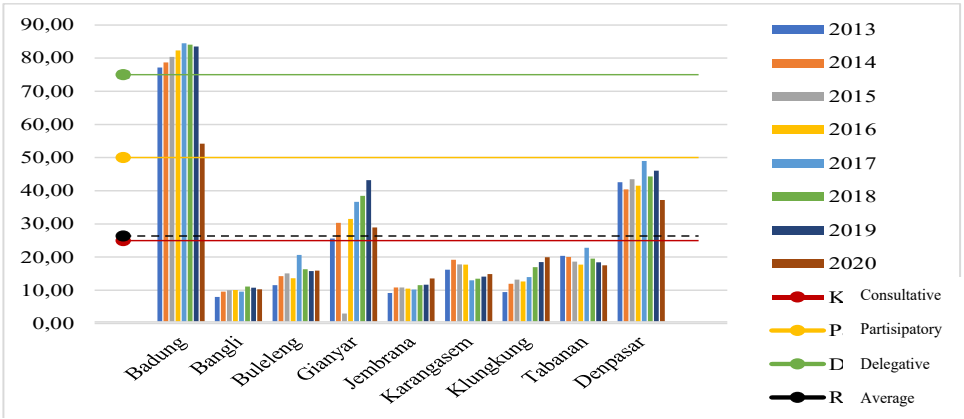


**Figure 1. Regional Fiscal Independence of Regencies/City in Bali Province from 2013-2020 (Percentage)**
Source: Statistics Indonesia of Bali Province (2021)

Fiscal decentralization is closely related to regional fiscal autonomy, which describes how a region can finance its own local government affairs without interference from external parties, including the central government. Based on Figure 1 above, fiscal autonomy is measured using the degree of fiscal decentralization approach by Musgrave & Musgrave (1984). Generally, the fiscal autonomy of regencies/city in Bali is considered very low. This is reflected in the fiscal autonomy values of these regions, which are still below 25 percent, such as Bangli, Buleleng, Jembrana, Karangasem, Klungkung, and Tabanan. Slightly above them are Gianyar and Denpasar, with Badung being the only region with a high level of fiscal autonomy. This indicates that Badung can be considered as a region that is financially independent in financing its local government affairs. The revenue of Badung has been accelerated by the strong development of the tourism sector, through tourism taxes and retributions. However, in 2020, the COVID-19 pandemic resulted in a decline in tax and retribution revenues, particularly in the tourism sector in Badung.

## 2. Theoretical Background

The tourism sector is a potential industry that can be developed as a significant source of regional revenue. In the effort to increase local own-source revenue, the development and utilization of local tourism resources and potentials are expected to contribute to economic development. Tourism is viewed as a multidimensional activity that involves social, cultural, economic, and political aspects of the development process (Spillane, 1994).

Fiscal decentralization needs to be accompanied by granting taxing power to local governments, where this ability to charge taxes is expected to provide sufficient financial resources for infrastructure development and financing various public expenditures (Bird & Vaillancourt, 1998). Furthermore, according to Oates (2011),

fiscal decentralization is able to enhance economic growth and community welfare as local governments tend to be more efficient in producing and providing public goods. Fiscal decentralization is also expected to improve economic efficiency related to the dynamics of economic growth, in which local governments have a better understanding of their own regions that leads to more efficient budget allocations to meet the needs of the community.

Capability is a key factor in ensuring broader community welfare. Governments not only need to consider economic factors in creating social welfare but also social and psychological factors. The concept of capability refers to an individual's ability to achieve life goals; it is closely related to happiness and well-being. The government should be responsible to ensure that individuals have adequate capabilities to achieve their life goals, either it's through access to quality healthcare and education, proper job opportunities, or sufficient social support (Bruni et al., 2008).

## 3. Methodology

This study applied the Partial Least Square-Structural Equation Modeling (PLS-SEM) analysis technique. According to Hair et al. (1992) in Purbadharmaja et al. (2019), PLS-SEM is a powerful analytical method that does not rely on numerous assumptions, in which data do not have to be normally-multivariate distributed (indicator with scales of category, ordinal, interval, and ratio can be used in the same model). PLS-SEM can confirm theories and elucidate relationships between latent variables. It is suitable for hypothesis testing and can also be employed to establish relationships without a theoretical basis or for exploratory testing. PLS-SEM has been developed as an alternative in situations where theories are weak and available indicators do not meet the requirements of reflective measurement models. The steps in this research involved testing the outer model and inner model (Hair et al., 2017).
In general, according to Chin & Marcoulides (1998), outer model can be formulated as follows.

$$x_{(p\times 1)} = \Lambda_{x(p\times n)}\xi_{(n\times 1)} + \delta_{(p\times 1)}$$

Based on the formulation, $x$ is the latent variable indicator vector of size (p×1) and p is the number of latent variables, $\Lambda_{x(p\times n)}$ is matrix of loading factor, whereas $\delta_{(p\times 1)}$ is vector of error measurement.

The structural model (inner model) illustrates the relationships between independent (exogenous) latent variables and dependent (endogenous) latent variables. The structural equation model according to Chin & Marcoulides (1998) is formulated as follows.

$$\eta_l = \sum_i \beta_{li} + \sum_i \gamma_{li}\xi_i + \zeta_l$$

Based on the formulation, $\gamma_{li}$ (*gamma*) is the path coefficient connecting an endogenous latent variable (η) with an exogenous latent variable ($\xi$), whereas $\beta_{li}$ (*beta*) is the path coefficient connecting one endogenous latent variable (η) with

another endogenous latent variable across the range of i index. ζ parameter is inner residual variable.
Latent variable in this study applied several indicators as follows.

1) Tourism (X) with 2 indicators, namely:
   $X_1$ : number of tourist visits
   $X_2$ : average length of tourist stay
2) Tourism sector revenue ($Z_1$) with 4 indicators, namely:
   $Z_{1.1}$ : hotel tax
   $Z_{1.2}$ : restaurant tax
   $Z_{1.3}$ : entertainment tax
   $Z_{1.4}$ : tourism site retribution
3) Regional fiscal independence ($Z_2$) with 2 indicators, namely:
   $Z_{2.1}$ : fiscal decentralization degree
   $Z_{2.2}$ : fiscal independence index
4) Community welfare (Y) with 2 indicators, namely:
   $Y_1$ : human development index
   $Y_2$ : poverty rate

Therefore, a model of this study was developed and can be seen below.

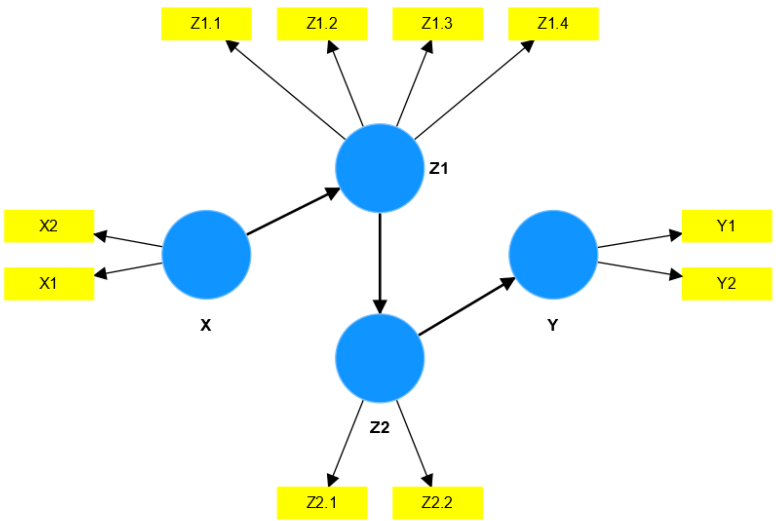


**Figure 2. Path Model for PLS-SEM Hypothesis**
Source: Author (2023)

Based on the foregoing description, an outer model of this study could be formulated as follows.

1) Outer Model of Tourism Latent Variable (X)
   $X_1 = \lambda_{X_1} X + \delta_1$
   $X_2 = \lambda_{X_2} X + \delta_2$
2) Outer Model of Tourism Sector Revenue Latent Variable ($Z_1$)
   $Z_{1.1} = \lambda_{Z_{1.1}} Z_1 + \delta_3$
   $Z_{1.2} = \lambda_{Z_{1.2}} Z_1 + \delta_4$

$Z_{1.3} = \lambda_{Z_{1.3}} Z_1 + \delta_5$
$Z_{1.4} = \lambda_{Z_{1.4}} Z_1 + \delta_6$

3) Outer Model of Regional Fiscal Independence Latent Variable ($Z_2$)
$Z_{2.1} = \lambda_{Z_{2.1}} Z_2 + \delta_7$
$Z_{2.2} = \lambda_{Z_{2.2}} Z_2 + \delta_8$
4) Outer Model of Community Welfare Latent Variable (Y)
$Y_1 = \lambda_{Y_1} Y + \delta_9$
$Y_2 = \lambda_{Y_2} Y + \delta_{10}$

Structural model (inner model) in this study was adopted from the research of Sholiha & Salamah (2015), which could be formulated as follows.

$Z_{1_{it}} = \gamma_1 X_{it} + \zeta_{1_{it}}$
$Z_{2_{it}} = \gamma_2 Z_{1_{it}} + \zeta_{2_{it}}$
$Y_{it} = \gamma_3 Z_{2_{it}} + \zeta_{3_{it}}$

**Table 1. Descriptive Statistics**

| Variable | Number of Obs. | Mean | Standard Deviation | Min. | Max. |
|---|---|---|---|---|---|
| Number of Tourist Visits (**$X_1$**) (in million people) | 72 | 1,532 | 1,688 | 0,075 | 5,534 |
| Average length of tourist stay (**$X_2$**) (in day) | 72 | 2,772 | 1,044 | 1,027 | 4,969 |
| Hotel tax (**$Z_{1.1}$**) (in billion IDR) | 72 | 221,690 | 550,428 | 0,011 | 2.469,153 |
| Restaurant tax (**$Z_{1.2}$**) (in billion IDR) | 72 | 67,877 | 142,751 | 0,027 | 739,355 |
| Entertainment tax (**$Z_{1.3}$**) (in billion IDR) | 72 | 11,690 | 22,612 | 0,002 | 108,090 |
| Tourism site fees (**$Z_{1.4}$**) (in billion IDR) | 72 | 12,891 | 22,318 | 0,005 | 108,789 |
| Degree of fiscal decentralization (**$Z_{2.1}$**) (percentage) | 72 | 26,336 | 21,462 | 2,993 | 84,473 |
| Fiscal independence index (**$Z_{2.2}$**) | 72 | 0,265 | 0,213 | 0,081 | 0,841 |
| Human development index (**$Y_1$**) | 72 | 73,008 | 5,507 | 63,700 | 83,930 |
| Poverty rate (**$Y_2$**) (percentage) | 72 | 4,753 | 1,600 | 1,780 | 7,440 |

Source: Tourism Office of Bali Province (2021); Statistics Indonesia of Bali Province (2021); Directorate General of Fiscal Balance of the Ministry of Finance (2021); The Audit Board of the Republic of Indonesia (processed result of SmartPLS 4.0)

## 4. Empirical Findings/Result

According to Hair et al. (2017), in assessing outer model, several assessment steps are conducted, namely assessing indicator reliability, internal consistency reliability, convergent validity, dan discriminant validity.

**Assessment of indicator reliability**

**Table 2. Value of Outer Loading**

| Variable | Indicator | Outer Loading | Remark |
|---|---|---|---|
| **Tourism (X)** | **$X_1$** | 0,839 | Valid |
| | **$X_2$** | 0,053 | Not Valid |
| **Tourism Sector Revenue ($Z_1$)** | **$Z_{1.1}$** | 0,947 | Valid |
| | **$Z_{1.2}$** | 0.983 | Valid |
| | **$Z_{1.3}$** | 0,906 | Valid |
| | **$Z_{1.4}$** | 0,966 | Valid |
| **Regional Fiscal Independence ($Z_2$)** | **$Z_{2.1}$** | 0,997 | Valid |
| | **$Z_{2.2}$** | 0,997 | Valid |
| **Community Welfare (Y)** | **$Y_1$** | -0,979 | Not Valid |
| | **$Y_2$** | 0,981 | Valid |

Source: SmartPLS 4.0 Software (2023)

According to Hair et al. (2017), it is recommended that the value of outer loading is greater than 0,708, whereas the value of outer loading between 0,40 and 0,708 must be considered to be eliminated, and for the value of outer loading below 0,40 must always be eliminated from the outer model. Furthermore, still according to Hair et al. (2014) in Tedjo & Santoso (2017), ), in certain cases, if one indicator can adequately represent the latent variable as a representative for other indicators, the latent variable can stand with only one indicator (single indicator).

Based on the statements above, the steps taken were as follows.

1) Eliminating indicator of $X_2$ (average length of tourist stay); thus, latent variable of tourism (X) only has sole indicator (single indicator) that is number of tourist visits ($X_1$), and
2) Eliminated indicator of $Y_2$ (poverty rate), this is done because indicator of $Y_1$ (human development index) is considered to be more representative for latent variable of community welfare (Y). When latent variable only has one indicator, automatically the value of outer loading becomes 1 and is considered valid.

Based on the foregoing description, a path diagram showing the study can be developed as follows.

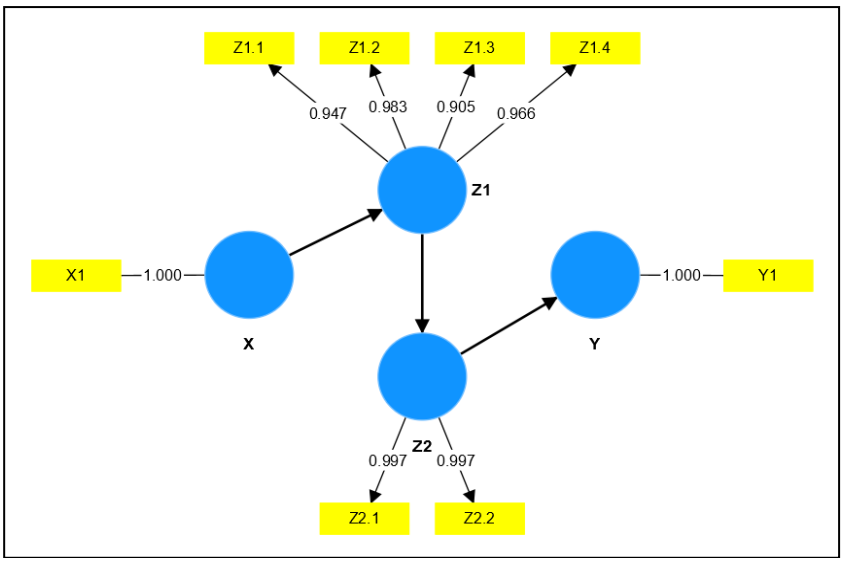


**Figure 3. Value of Outer Loading Reflective Research Model on SmartPLS 4.0**
Source: SmartPLS 4.0 Software (2023)

**Assessment of Internal Consistency Reliability**

**Table 3. Value of Cronbach's Alpha and Composite Reliability**

| Variable | Cronbach's Alpha | Composite Reliability | Remark |
|---|---|---|---|
| **Tourism Sector Revenue ($Z_1$)** | 0,964 | 0,966 | Reliable |
| **Regional Fiscal Independence ($Z_2$)** | 0,994 | 0,994 | Reliable |

Source: SmartPLS 4.0 Software (2023)

According to Hair et al. (2017), construct can be said to have high reliability when having minimum value of 0,70 in cronbach's alpha and composite reliability minimum 0,70; the higher the value, the higher the reliability will be.

**Assessment of Convergent Validity**

**Table 4. Value of Average Variance Extracted (AVE)**

| Variabel | Average Variance Extracted (AVE) | Remark |
|---|---|---|
| **Tourism Sector Revenue ($Z_1$)** | 0,904 | Valid |
| **Regional Fiscal Independence ($Z_2$)** | 0,994 | Valid |

Source: SmartPLS 4.0 Software (2023)

According to Hair et al. (2017), Construct is considered to be valid if the value of AVE is 0,50 or higher.

**Assessment of Discriminant Validity**

**Table 5. Value of Heterotrait-Monotrait Ratio (HTMT)**

| | X | Y | $Z_1$ | $Z_2$ |
|---|---|---|---|---|
| **X** | | | | |
| **Y** | 0,399 | | | |
| **$Z_1$** | 0,502 | 0,578 | | |
| **$Z_2$** | 0,429 | 0,756 | 0,895 | |

Source: SmartPLS 4.0 Software (2023)

HTMT allows assessing discriminant validity construct reflectively by comparing with other constructs in the same model. The criterion for discriminant validity is construct to be considered valid if the HTMT value is below 0.90 (Hair et al., 2017). Next is the evaluation of inner model, the following is the assessment steps.

**Assessment of Colinearity Issue on Structural Model**

**Table 6. Value of Inner VIF on Structural Model**

| Variable Relation | VIF |
|---|---|
| **X → $Z_1$** | 1,000 |
| **$Z_1$ → $Z_2$** | 1,000 |
| **$Z_2$ → Y** | 1,000 |

Source: SmartPLS 4.0 Software (2023)

The assessment criterion is when VIF ≥ 5 (a possibility of critical multicollinearity issue is present between predictor construct); when VIF is between 3 and 5 (a possibility of non-critical collinearity issue); and when VIF < 3 (collinearity is absent) (Hair et al., 2017).

**Assessment of Coefficient of Determination ($R^2$)**

**Table 7. Value of R-Square and R-Square Adjusted**

| Variable | R-Square | R-Square Adjusted | Remark |
|---|---|---|---|
| **Y** | 0,569 | 0,562 | Fair |
| **$Z_1$** | 0,241 | 0,230 | Weak |
| **$Z_2$** | 0,771 | 0,767 | Strong |

Source: SmartPLS 4.0 Software (2023)

The value of $R^2$ ranges from 0 to 1, where higher value indicates high prediction accuracy that is explained by all exogenous variables towards endogenous variables. According to Hair et al. (2017), the guidelines to assess $R^2$ are 0,25 (weak); 0,50 (fair); and 0,75 (strong).

**Assessment of $f^2$ Effect Size**

**Table 8. Value of f-Square Effect Size**

| Variable Relation | f-square | Remark |
|---|---|---|
| **X → $Z_1$** | 0,317 | Fair |
| **$Z_1$ → $Z_2$** | 3,358 | Big |
| **$Z_2$ → Y** | 1,318 | Big |

Source: SmartPLS 4.0 Software (2023)

According to Hair et al. (2017), $f^2$ effect size can be used to evaluate whether exogenous construct, if eliminated, has substantive impact towards endogenous construct. The guidelines to assess $f^2$ are 0,02 (small), 0,15 (fair), dan 0,35 (big) from exogenous latent variable.

**Assessment of Predictive Relevance ($Q^2$)**

**Table 9. Value of Predictive Relevance ($Q^2$)**

| Variable | $Q^2$predict |
|---|---|
| **Y** | 0,139 |
| **$Z_1$** | 0,193 |
| **$Z_2$** | 0,145 |

Source: SmartPLS 4.0 Software (2023)

The value of $Q^2$ is predictive relevance or out-of-sample model predictive strength indicator. According to Hair et al. (2017), $Q^2$ value > 0 on reflective endogenous variable indicates that exogenous construct has predictive relevance for the considered endogenous construct.

**Assessment of Direct Effect**

**Table 10. Result of Direct Effect Test**

| Variable Relation | Path Coefficient | T-statistics | Standard Error | P values | Remark |
|---|---|---|---|---|---|
| **X → $Z_1$** | 0,491 | 4,368 | 0,112 | 0,000 | Sig. |
| **$Z_1$ → $Z_2$** | 0,878 | 33,922 | 0,026 | 0,000 | Sig. |
| **$Z_2$ → Y** | 0,754 | 29,388 | 0,026 | 0,000 | Sig. |

Source: SmartPLS 4.0 Software (2023)

Based on Tabel 10. Above, it is known that the value of path coefficients of the relationship between tourism variable (X) and tourism sector revenue ($Z_1$) is 0,491. The positive coefficient indicates that if there is an increase in tourism (X), the tourism sector revenue ($Z_1$) also experiences an increase. Based on the value of t-statistics 4,368 (>1,96) and p-values 0,000 (<0,05), it shows significant influence.

Furthermore, the value of path coefficients from the relationship of tourism sector revenue ($Z_1$) and regional fiscal independence ($Z_2$) is 0,878. The positive coefficient indicates that if there is an increase in tourism sector revenue ($Z_1$), the higher the regional fiscal indepence ($Z_2$). According to the value of t-statistics of 33,922 (>1,96), and p-values of 0,000 (<0,05), it shows significant influence.

Subsequently, the value of path coefficients from the relationship of regional fiscal independence variable ($Z_2$) and community welfare (Y) is 0,754. The positive coefficient indicates that if there is an increase in regional fiscal independence ($Z_2$), an increase also occurs in community welfare (Y). Based on the value of t-statistics of 29,388 (>1,96), and p-values of 0,000 (<0,05), it shows significant influence.

**Assessment of Indirect Effect**

**Table 11. Result of Indirect Effect Test**

| Variable Relation | Path Coefficient | T-statistics | Standard Error | P values | Remark |
|---|---|---|---|---|---|
| **X → $Z_1$ → $Z_2$** | 0,431 | 4,162 | 0,104 | 0,000 | Sig. |
| **X → $Z_1$ → $Z_2$ → Y** | 0,325 | 3,907 | 0,083 | 0,000 | Sig. |

Source: SmartPLS 4.0 Software (2023)

Based on Tabel 11. above, it is known that the value of path coefficient for indirect effect from tourism relationship (X) towards regional fiscal independence ($Z_2$) through tourism sector revenue ($Z_1$) is 0,431. The positive coefficient indicates that if there is an increase in tourism (X), the tourism sector revenue ($Z_1$) also experiences an increase, which eventually will increase the regional fiscal independence ($Z_2$). Furthermore, based on the value of t-statistics 4,162 (>1,96) and p-values 0,000 (<0,05), it shows significant influence; therefore, it can be concluded that tourism sector revenue ($Z_1$) mediates the influence of tourism (X) towards regional fiscal independence ($Z_2$).

Next, the value of path coefficient for indirect effect from tourism relationship (X) towards community welfare (Y) through tourism sector revenue ($Z_1$) and regional fiscal independence ($Z_2$) is 0,325. The positive coefficient indicates that if there is an increase in tourism (X), the tourism sector revenue ($Z_1$) also experiences an increase, which will increase the regional fiscal independence ($Z_2$) and eventually increase the community welfare (Y). Furthermore, based on the value of t-statistics 3,907 (>1,96) and p-values 0,000 (<0,05), it shows significant influence; therefore, it can be concluded that tourism sector revenue ($Z_1$) and regional fiscal independence ($Z_2$) mediate the influence of tourism (X) towards community welfare (Y).

## 5. Discussion

The tourism sector has a positive and significant influence on tourism sector revenue. According to theoretical perspectives, international tourism can impact public income in several methods, such as higher international tourism acceptance reflects a higher number of foreign tourist visits, and increased spending related to tourism by tourists in the destination area leads to higher tax revenues (Gnangnon, 2020). In accordance with the research of Rikayana & Nurhasanah (2020) that stated the tourism sector, in this case, tourist arrivals, has a positive and significant influence on regional revenue. Tourism sector revenue also has a positive and significant influence on regional fiscal independence. In the era of regional autonomy, the tourism sector becomes one of the potentials for "arid region" (region that lack natural resources such as oil, gas, coal, etc.). This potential is utilized as a source of revenue for the region through tourism taxes and retributions, which allows the region to achieve the goal of regional fiscal independence (Suwena & Widyatmaja, 2017).

Regional fiscal independence has a positive and significant influence on community welfare. Fiscal decentralization, which is closely related to regional fiscal

independence, needs to be accompanied by empowering the regional government to collect taxes (taxing power), which will allow them to have sufficient funds for infrastructure development to improve the welfare of the local community (Oates, 2011; Halim, 2002; Bird & Vaillancourt, 1998). The result of this study is in accordance with the research of Widiastuti (2013) ) that shows the tourism sector has a positive and significant influence on community welfare through the financial performance of the region, where regional fiscal independence plays a crucial role

## 6. Conclusions

The study findings reveal several significant insights into the relationships among the tourism sector, regional fiscal independence, and community welfare. Firstly, the direct effects demonstrate that the tourism sector has a positive and substantial impact on tourism sector revenue. The development of the tourism sector, characterized by an increase in tourist visits, contributes to enhanced revenue in regions through various channels, including taxes and retributions such as hotel tax, restaurant tax, entertainment tax, and tourism site retributions. Subsequently, the generated revenue plays a pivotal role in boosting regional fiscal independence. The increased revenue, forming a part of the local own source revenue, empowers regions to autonomously finance their local governance affairs.

Furthermore, the study identifies a positive correlation between regional fiscal independence and community welfare. As regional fiscal autonomy strengthens, it signifies greater independence in financing governance affairs, particularly in infrastructure development, thereby contributing to the overall improvement of societal welfare. Considering the indirect effects, the study concludes that tourism sector revenue mediates the influence of the tourism sector on regional fiscal independence. Additionally, both tourism sector revenue and regional fiscal independence act as mediators in influencing community welfare. These indirect pathways emphasize the intricate interplay between these variables in shaping the overall impact on community well-being. While the study provides valuable insights, it is essential to acknowledge its limitations. The focus on regencies/city in Bali Province restricts the generalizability of findings to other regions dependent on tourism. Future research should broaden its scope to include diverse regions relying on tourism potential as a source of regional revenue. Moreover, incorporating additional indicators to establish latent variables would enhance the comprehensiveness and depth of future studies in this field.

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