REVIEW OF LOCALLY-GENERATED REVENUE AND CAPITAL EXPENDITURE IN IMPROVING DISTRICTS AND MUNICIPALITIES’ ECONOMY GROWTH IN NORTH MALUKU PROVINCE

Rudin M.*, Lecturer
STIE Panca Bhakti, Palu, Indonesia

Amir A.M., Lecturer
Tadulako University, Palu, Indonesia

Bakarbessy M.L.F., Doctoral Student
Tadulako University, Palu, Indonesia

*E-mail: rudin.ternate@gmail.com

ABSTRACT
The aims of the present research are to comprehend and to analyze the Effects of Locally-generated Revenue and Capital Expenditure in Improving Districts and Municipalities’s Economy Growth in North Maluku. This research is categorized as verificative research. The data source was taken from Central Bureau of Statistics of Districts/Municipalities in North Maluku, Central Bureau of Statistics of the Republic of Indonesia and Ministry of Finance of the Republic of Indonesia. The population of this research was Finance Report in 8 regencies and 2 municipalities in period of 2006-2015. In terms of data type, the present research uses panel data. Besides, the data collection uses EViews 6 Program. On the other hand, the research result shows that: Locally-generated Revenue and Capital Expenditure give positive and significant effects on Economic Growth; Locally-generated Revenue has positive and significant effects toward Economic Growth; Capital Expenditure gives positive and significant effects on Economic Growth in North Maluku.

KEY WORDS
Capital expenditure, economic growth, locally-generated revenue, economy.

The realization of local autonomy in the Unitary State of the Republic of Indonesia nowadays is referred to Law No. 9 of 2015 regarding Local Government, in which in Article 1 Verse 6 it is mentioned that the implementation of local autonomy is the right, authority, and obligation of autonomous region to manage and organize its own governance in the system of the Unitary State of the Republic of Indonesia.

The Unitary State of the Republic of Indonesia in conducting decentralization gives authorities to local government to freely manage its own resources independently. Every region is granted an authority and demanded to improve its region independence, so that it is free to organize its region’s resource independence for the sake of realizing a fair and balance region development. The main funding source of local government is from regional revenue used for development realization in every region. The main target of region development is to make economic growth and equitable development, including equity of community income in region and local government revenue, (Widjaja 2002).

Local government is freely to manage its region's resources like taxes and charges. Regional revenue can be enhanced if the region’s economy growth is improved as well. The challenges faced by local government are the improvement of regional revenue, the independence of development with constraints on the availability of resources in restricted area. The enhancement of region development is marked by the economy activities that increase the community’s income so that it fixes and increases the level of welfare. The development in region is always in line with the roles of local government in using the available resources as the efforts to increase regional revenue. The increase of regional
revenue must be supported by integrated region development in order to make people and local government welfare, (Arsyad 1997). The local government is asked to be independent in managing regional revenue addressed for restructurization process of region development. The investment increase in region will influence the region’s economic growth. An economy is considered experiencing growth if the level of economic activities achieved in the present is is higher than what is achieved previously. If the physical quantities and goods produced in the economy increase in number from previous years, then it can be stated that there has been economic growth, (Halim and Iqbal 2012).

The region’s economic growth becomes the most important factor in the success of region’s economy, both for short-term and for long-term effect. The region’s economic growth is influenced by regional revenue and capital expenditure. The economic growth of a region can be seen from the value of GRDP (Gross Regional Domestic Product) (Halim 2004). GRDP is one of economy indicators that can give a clue of how far the economic growth and economic structure of a region. Gross National Product (GNP) or Gross Domestic Product (GDP) can be considered as the indicator of community welfare increase in general (Sirojuzilam 2005). Then, Halim (2001) expresses that Locally-generated Revenue gives effects on economic growth. The growth of economic development in districts/municipalities in North Maluku Province is shown on the following table.

<table>
<thead>
<tr>
<th>No</th>
<th>Regency/City</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Halmahera</td>
<td>4.17</td>
<td>4.26</td>
<td>5.42</td>
<td>5.46</td>
<td>6.89</td>
<td>5.26</td>
<td>5.02</td>
<td>5.3</td>
<td>-1.29</td>
</tr>
<tr>
<td>2</td>
<td>Ternate</td>
<td>6.92</td>
<td>7.85</td>
<td>8.02</td>
<td>7.97</td>
<td>8.13</td>
<td>9.65</td>
<td>9.04</td>
<td>7.65</td>
<td>8.87</td>
</tr>
<tr>
<td>3</td>
<td>West Halmahera</td>
<td>3.65</td>
<td>4.21</td>
<td>4.17</td>
<td>4.46</td>
<td>5.74</td>
<td>6.03</td>
<td>5.80</td>
<td>5.75</td>
<td>5.40</td>
</tr>
<tr>
<td>4</td>
<td>East Halmahera</td>
<td>6.27</td>
<td>10.20</td>
<td>6.93</td>
<td>7.17</td>
<td>7.34</td>
<td>6.95</td>
<td>5.79</td>
<td>5.83</td>
<td>-10.26</td>
</tr>
<tr>
<td>5</td>
<td>South Halmahera</td>
<td>-</td>
<td>5.09</td>
<td>5.99</td>
<td>5.60</td>
<td>5.50</td>
<td>6.25</td>
<td>6.78</td>
<td>6.51</td>
<td>6.72</td>
</tr>
<tr>
<td>6</td>
<td>North Halmahera</td>
<td>-</td>
<td>5.51</td>
<td>5.55</td>
<td>6.93</td>
<td>7.31</td>
<td>5.94</td>
<td>6.00</td>
<td>5.03</td>
<td>6.57</td>
</tr>
<tr>
<td>7</td>
<td>Sula Islands</td>
<td>-</td>
<td>5.62</td>
<td>5.23</td>
<td>5.32</td>
<td>6.27</td>
<td>6.10</td>
<td>6.22</td>
<td>6.26</td>
<td>5.97</td>
</tr>
<tr>
<td>8</td>
<td>Tidore</td>
<td>5.91</td>
<td>5.94</td>
<td>5.84</td>
<td>5.92</td>
<td>6.73</td>
<td>6.43</td>
<td>6.35</td>
<td>6.11</td>
<td>6.89</td>
</tr>
<tr>
<td>9</td>
<td>Merotai Island</td>
<td>-</td>
<td>-</td>
<td>5.04</td>
<td>5.92</td>
<td>0.00</td>
<td>4.48</td>
<td>6.47</td>
<td>6.02</td>
<td>6.23</td>
</tr>
<tr>
<td>10</td>
<td>Talolo Island</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6.00</td>
</tr>
</tbody>
</table>


Based on Table 1, it shows that in the previous 2006-2015, the highest economic growth in all regencies and municipalities in North Maluku is Ternate. The factor that causes the economic growth of Ternate higher than other regencies or municipalities in North Maluku is the infrastructure of Ternate that has been good, which is really helpful in economic growth, if compared to other regencies and municipalities in North Maluku. Infrastructure is one of important elements in region’s economy. A good and equitable infrastructure can accelerate the turnover of goods among regions in North Maluku. This infrastructure gap is the cause of uneven development. To support the economic growth in North Maluku, then economic infrastructures like road, irrigation, bridge, harbour, electricity, and airport are highly essential. The lack of infrastructure both in quantity and quality in Maluku is suspected to cause economic growth to decline from 2006 to 2015.

Generally, districts and municipalities in North Maluku, in research period of 2015-2016, shows that its economic growth is still below national economic growth. The cause is
the investment low from relatively-poor region to relatively-rich region. This phenomenon is caused by the market mechanism in which there has been a combination of two factors: (1) Savings in poor areas, although it is small in number, but it cannot be used effectively due to the lack of investment demand of the areas; (2) Savings will be invested to relatively-rich areas because it will be more guaranteed and it will give bigger profit, so that in development process, the newly-expanded districts and municipalities are becoming difficult to be developed areas.

THEORETICAL REVIEW

Locally-generated Revenue. Laws No. 33 of 2004 explicates that Locally-generated Revenue is the source of regional income obtained in the region to be used by local government to fund development and region businesses to minimize the funding dependence from central government. Locally-generated Revenue comprises of taxes, charges, separated regional wealth, and other legitimate local revenue. The areas that have adequate facilities and infrastructure can attract investors to invest in the area, so that it will increase the locally-generated revenue. If local revenues are linked to regional autonomy, then local revenues are the important sources of income to finance governance and regional development.

Capital Expenditure. Capital Expenditure is used for expenditure made for the sake of the purchase/procurement or construction of tangible fixed assets that have a benefit value of more than 12 months for use in government activities, such as in form of land, equipment and machinery, buildings, roads, irrigation and network, and other fixed assets. Capital Expenditure represents expenditure made in the context of capital formation in form of adding fixed assets/inventories that provide benefits over an accounting period, including expenditure for maintenance costs that are in the nature of maintaining or adding to the useful life, increasing the capacity and quality of assets. A fixed asset has tangible characteristics, will increase government assets, has a useful life more than a year, and its value is relatively material. On the other hand, other asset characteristics are intangible, will increase government assets, has a useful life of more than a year, and its value is relatively material.

METHODS OF RESEARCH

Model of Panel Data. Nachrowi and Usman, (2006) stated that panel data is the combination of cross section data and time series data with model as follows:

1. Linier regression model uses cross section data and time series data.

\[ Y_i = \alpha + \beta_i + \varepsilon_i \quad i = 1,2,............N \quad (1) \]

\[ N = \text{the number of cross section data} \]

\[ Y_t = \alpha + \beta_t + \varepsilon_t \quad t = 1,2,............T \quad (2) \]

\[ T = \text{the number of time series data} \]

Panel data is the combination of cross section data and time series data represented by model as follows:

\[ Y_{it} = \alpha + \beta_{it} + \varepsilon_{it} \quad i = 1,2,............N \quad t = 1,2,............T \]

Where: N = the number of observation; T = the number of time; N x T = the number of panel data.

Based on the above panel data model, then the model of panel data used in this research is portrayed as follows:

\[ Y_{it} = \alpha + \beta_1 \log \text{PAD} + \beta_2 \log BM + \varepsilon_{it} \]
Where: Y = Economic Growth; Log PAD = Locally-generated Revenue; Log BM = Capital Expenditure; I = cross section unit of every districts and municipalities in North Maluku; t = The number of researched years from 2006 to 2015; β = Parameter of related variables; ε = Fault Parameter; α = Constants.

RESULTS AND DISCUSSION

The Analysis Result of Panel Data Regression. According to Gujarati and Porter (2009), method of panel data regression has some superiority if compared to time series or cross section data, so that it does not need any classical assumption test anymore. The use of panel data hyphothesis aims to know the effect of independent variable towards dependent variable as well as model competency in explicating the value of economic growth. Thus, the testings are categorized into whole testing and partial testing. The summary of data analysis result is presented on Table 2 below.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Prob</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locally-generated Revenue</td>
<td>0.0000</td>
<td>Significant</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>0.0000</td>
<td>Significant</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.7175</td>
<td>Model competency</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.6458</td>
<td>Model competency</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>2.0738</td>
<td>Panel regression error standard.</td>
</tr>
<tr>
<td>F-statistic</td>
<td>115.03</td>
<td>Whole Testing</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.0000</td>
<td>Probability of F Statistics test value</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>1.7512</td>
<td>Autocorrelation</td>
</tr>
</tbody>
</table>

Source: Output of EViews 6.0.

DISCUSSION OF RESULTS

Locally-generated Revenue is one of local income sources that is also the basic capital of local government in obtaining balance funds and fulfilling capital expenditure. The essential success indicator of region finance performance is reflected on the ability of a region in digging its Local Revenue to fund direct and indirect expenditures which influence the region’s economic growth. The economic growth will be achieved if capital expenditure done by region is used for the sake of funding the development realization in the region. A good funding management from local government in districts and municipalities in North Maluku as well as effective expenditure allocation can lead its service goal for community achieved and the welfare level of community arises as well. The increase of community’s welfare level will lead to the increase of the region’s economic growth.

The Effects of Locally-generated Revenue towards Economic Growth

The result of this research reveals that Locally-generated Revenue in districts and municipalities in North Maluku gives significant and positive effects on economic growth. It can be explained that Locally-generated Revenue in districts and municipalities in North Maluku increases so that its economic growth increases as well. In contrast, if Locally-generated Revenue in districts and municipalities in North Maluku decreases, then its economic growth decreases too.

The significant and the positive effects of Locally-generated Revenue in districts and municipalities in North Maluku towards economic growth are there because Locally-generated Revenue is one of region’s expenditure sources, so that if Locally-generated Revenue increases, then funds owned by the region in expenditure, especially for infrastructure development, will increase as well. Through good infrastructure, it can improve economic activities which eventually can increase the economic growth of districts and municipalities in North Maluku.

The increase of Locally-generated Revenue in districts and municipalities in North Maluku is caused by (1) The increase of vehicles object in districts and municipalities in
North Maluku (2) The development of infrastructure like road and bridge construction that can facilitate the motor vehicle traffic so that it encourages community to buy new vehicles; (3) The betterment of national and global economy condition so that the selling price of some agricultural commodities improves and strengthens the purchasing ability of community to buy vehicles and to pay local taxes; (4) The enhancement of local government’s performance; (5) The improvement of supervision and control realization on Locally-generated Revenue management; (6) The socialization regarding to local taxes is more intense; (7) The effectivity of taxes collection techniques guidance and BBN-KB in Technical Implementation Unit on Revenue in Districts and Municipalities in North Maluku; (8) The increase of monitoring and delinquent revenue realization in Department of Local Revenue; (9) The increase of community’s awareness in paying local taxes in districts and municipalities in North Maluku, (Tresnasari, 2013). Locally-generated Revenue of Districts and Municipalities in North Maluku influences economic growth because it is one of region finance resources that can be used for region needs like construction of road, bridge, market, and other facilities so that the activity of goods and services increases that causes region’s economic growth is achieved from year to year. Locally-generated revenue of districts and municipalities in North Maluku which its management is done by making taxes or charges effective and making its way of collecting on existing objects and subjects efficient through making a calculation of tax potency, illumination, improvement of supervision and service. These have improved Locally-generated Revenue that gives positive and significant towards economic growth in the region.

The management of Locally-generated Revenue of Districts and Municipalities in North Maluku conducted covers aspect of management, administration and organization, policy and qualified personnel supporting power that have been giving biggest contribution towards North Maluku dominated by receipt of local taxes, other legal locally-generated revenue and region charges. While, the receipt of Local Budget profit/the management result of separated region wealth has lowest contribution towards Locally-generated Revenue. In other words, those three sectors mentioned above are the very potential sectors that cause turnover of goods and services improved and those automatically give effects on region’s economic growth.

Locally-generated Revenue of districts and municipalities in North Maluku is improved through active contribution of community in succeeding economic growth. The activity of local government in empowering existing community has improved the community’s welfare so that the ability of community in paying local taxes or local charges that become the main source of Locally-generated Revenue will also increase. The increase of Locally-generated Revenue of districts and municipalities in North Maluku expanded in accordance with the plans has improved economic growth.

Locally-generated Revenue of districts and municipalities in North Maluku as the source of local expenditure has made a number of new economic activities in community. The increase of economic activities in community will lead to the increase of goods and services outputs which consequently will increase the cashflow in terms of expenditure done by both local government and community. Thus, it can increase economic growth in districts and municipalities in North Maluku.

The present research result is in line with the theory of Neo Classic economic growth expressed by Keynes stating that economy cannot be granted completely to market mechanism. It is because market is not a perfect site. Market also some weaknesses, such as: market cannot provide public goods and services, market cannot solve negative externality caused by man’s productive economy activities, and market cannot solve injustices. Therefore, the government is obliged to interfere economy system like through monetary policy or fiscal policy. For Jhon Maynard Keynes, the keyword to achieve economic growth is a real investment that can bear multiplier effect. The example of real investment is infrastructure project, (Alamsyah, 2010).

Furthermore, the result of the present research is in line with the research result done by Gunantara and Dwirandra (2014), Guntur (2014), William and Andrew (2014), Masuduzzaman (2014), Orley (2014). Asmaul (2013), Arini (2015), Dwi Puspaningsih and
Aryani (2016) expressing that Locally-generated Revenue gives positive and significant effects towards economic growth. Moreover, the results of research finding that locally-generated revenue gives negative effects on economic growth are the research results conducted by Febrian (2014), Setiyawati and Hamzah (2007). In addition, the researches conducted by Hidayah (2011) and Santoso (2013) also agree that locally-generated revenue has negative effects towards economic growth.

The Effects of Capital Expenditure towards Economic Growth

The result of this research shows that capital expenditure gives positive and significant effects on economic growth in districts and municipalities in North Maluku. Capital expenditure in the present research is defined as expenditure used by government of districts and municipalities in North Maluku for purchasing/procurement or fixed assets development in which its benefit value is more than a year, and or the use of services in running local government’s program and activity. The asset formation covers the procurement of land, heavy equipment, transportation equipment, workshop tools, agricultural equipment, office equipment, computer, furniture, water, kitchen utensils, room decoration, studio tools, communication tools, measuring equipment, medical devices, laboratory equipment, road construction, bridge, water networks, street lighting, parks and urban forests, electrical and telephone installations, buildings, books or libraries, art, livestock and crops, as well as weapons or security.

Capital expenditure of districts and municipalities in North Maluku needs to get special attention because not all capital expenditure gives effects on public services. Therefore, capital expenditure needs to be reviewed in detail to find the capital expenditure that gives effects on public services, for instance capital expenditure of infrastructure. By seeing the structure of capital expenditure, then it needs redefinition towards expenditure for the sake of obtaining region finance analysis that supports the stakeholder of local government.

For improving community’s welfare in region, the central government keeps advising local government to always improve the percentage of capital expenditure to be 30 percents. The percentage is even two per cents higher than the target in 2015 which is 28 percents. Unfortunately, local government of districts and municipalities in North Maluku still faces difficulties to achieve the target. The percentage addition of capital expenditure is not difficult because it is conducted gradually: starting from 24 percents and then 26-27 percents, so that it just needs to add three percents in 2015. Nowadays, there have been some regions that have achieved 30 percents.

Regarding to tendency from year to year, capital expenditure of districts and municipalities in North Maluku has demonstrated an increase. However, the increase should be accelerated. This effort is considered giving more support on economy sector which is more beneficial for region than it is expended for local officers’ salary payment. The way of adding capital expenditure allocation is by skimping the officers’ expenditure and goods expenditure. Officers’ expenditure is pushed by not recruiting new officers except teachers, doctors, and nurses. Besides, goods expenditure is skimped by minimizing unnecessary business trip, so that local revenue can be expended effectively.

Locally-generated revenue of districts and municipalities in North Maluku is not only from fund transfer of central government, but it is also from Locally-generated Revenue comprising of local taxes and local charges as well as the outcome of separated regional wealth management. On the other hand, local government generally relies on fund transfer of region. However, it is unfortunate if the fund is mostly expended for officers’ expenditure. Ideally, the proportion of capital expenditure is improved to be 35 percents, so that development in region can be improved as well.

The result of the present research is in line with the research result conducted by Purnama and Adigorim (2012), Prio (2013) and Recky et al 2014 concluding that capital expenditure gives positive and significant effects towards economic growth. These research results are different from the results obtained by Hendarmin (2012), Febrian (2014) concluding that capital expenditure does not give significant effects on economic growth.
CONCLUSION AND SUGGESTIONS

Based on the research result and analysis conducted by the researcher, so it can be concluded that:

Locally-generated Revenue and Capital Expenditure gives positive and significant effects towards economic growth in districts and municipalities in North Maluku;
Locally-generated Revenue gives positive and significant effects towards economic growth in districts and municipalities in North Maluku;
Capital Expenditure gives positive and significant effects towards economic growth in districts and municipalities in North Maluku.

Based on the above conclusion, the suggestions in the present research are as follows:

It is expected for local government of districts and municipalities in North Maluku to increase Locally-generated Revenue through activities like: (1) Improving Officers' Resources quality through training and education, (2) Maximizing data system and information in terms of region finance management, (3) Enhancing socialization regarding to local taxes and local charges, (4) Developing adequate tourism facilities and infrastructure.

Local government of districts and municipalities in North Maluku needs to make Coordination Team which is in charge of analyzing realization of monthly Local Revenue, so that it makes coordination between SKPD easier in managing region finance both in phase of planning, implementing, or responsibility of Local Budget use and it makes region easier to solve problems especially regarding to implementation of direct expenditure in funding governance activities in the region.

REFERENCES

25. Undang-Undang Negara Republik Indonesia, Nomor 33 Tahun 2004 Tentang Perimbangan Keuangan Pemerintah Pusat dan Daerah.
26. Undang-Undang Negara Republik Indonesia, Nomor 9 Tahun 2015 Tentang Pemerintah Daerah.