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ICon-LBG 2016

The Third International Conference on Law, Business and Governance

PROCEEDINGS

Hosted by

**Faculty of Law, Faculty of Economics and Faculty of Social Science
Bandar Lampung University (UBL)**

Icon-LBG 2016

The Third International Conference On Law, Business and Governance 2016

20, 21 May 2016
Bandar Lampung University (UBL)
Lampung, Indonesia

PROCEEDINGS

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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the Third International Conference on Law, Business and Governance (3th Icon-LBG 2016) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participans. It is noteworthy to point out that about 46 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Unika ATMA JAYA, Shinawatra University, Universitas Sebelas Maret, Universitas Timbul Nusantara, Universitas Pelita Harapan, Universitas Bandar Lampung, Universitas Lampung.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also gratefull to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

Bandar Lampung, 21 May 2016

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THE IMPACT OF ECONOMIC STRUCTURE CHANGE ON THE LOCAL OWN SOURCE REVENUE AND ITS EFFECT TOWARDS THE REGIONAL INCOME IMPROVEMENT

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Abstract

Regional autonomy as the form of regional financial reform was planned to increase the regional finance, however the contribution of the central government to finance the Regional Revenue and Expenditure Budget through sharing of revenue, General Allocation Fund and Special Allocation Fund is still more dominant than the local own source revenue itself. In fact, the contribution of the local own source revenue to the regional revenue is still relatively low. This reflects that the sources of the local own source revenue are not yet optimally managed, especially from the economic structure change, potential tax and retribution which may affect the low revenue ratio. The research sample is Lampung Province, one of the poor provinces in Indonesia. The research applies the explanatory research method which is aimed at elaborating the causal relationship among variables and testing the hypothesis. The research findings show that the local finance improvement relies on local own source revenue of the present and previous years. On the other hand, the increase of local own source revenue relies on the contribution of economic structure change of regional financial improvement.

Keywords: Economic structure change, Local own source revenue, Regional financial improvement

1. INTRODUCTION

Development of economic and financial resources is a very important factor in the era of regional autonomy in Indonesia. The economic empowerment and regional financial become particular concern since the era of autonomy. Regional governments are given the authority to manage the source for Local Own-source Revenue (PAD) and Fiscal balance transfers in the form of tax sharing and non-tax as well as the general allocation fund. Osbome and Gaebler (2008, 27) found in local autonomy, the government is required to be more creative and innovative. Ongoing development and continuous overall has increased the economic's community. Achievement of development outcomes that are felt by community is an aggregate development of all existing region and the achievement is a strenuous efforts jointly between government and society. Even though the national economy's has grown in good condition, but in Lampung province which is one of the poorer province in Indonesia, the growth of the economy had always under the national level of growth as shown in the table below.

Table 1
Comparison of GDP Between Lampung Province with Indonesia's 2004-2012

Year	Lampung's GDP (%)	Indonesia's GDP (%)
2004	5,07	5,83
2005	4,02	5,69
2006	4,98	5,50
2007	5,94	6,28
2008	5,26	6,01
2009	5,07	6,20
2010	5,75	6,10
2011	6,38	6,50
2012	5,89	6,17
Average	**5,33**	**6,02**

Source: BPS Lampung Province, 2012

Table 2

Comparison between Lampung's (PDRB) Local Gross Domestic Product of a local   Government area at constant prices and Indonesia by Industrial Sector

Period 2006-2008 (%)

Sectors Industry	LAMPUNG PROVINCE				COUNTRY OF INDONESIA			
	2006	2007	2008	Avg	2006	2007	2008	Avg
Agriculture	42,72	42,6	41,63	**42,30**	14,21	13,83	13,66	**13,90**
Mining	0,76	2,52	2,36	**2,55**	9,10	8,73	8,28	**8,70**
Processing Industry	13,19	13,2	13,29	**13,24**	27,83	27,41	26,79	**27,34**
Electricity, Gas, Water	0,35	0,36	0,35	**0,35**	0,66	0,69	0,72	**0,69**
Construction	4,95	4,92	4,9	**4,92**	6,08	6,21	6,28	**6,19**
Trade, Hotel, Restaurant	15,72	15,5	15,76	**15,66**	16,92	17,26	17,45	**17,21**
Transport / communication	6,01	6,12	6,33	**6,15**	6,76	7,25	7,98	**7,33**
Bank / Financial	6,66	7,23	7,82	**7,24**	9,21	9,36	9,55	**9,37**
Other Services	7,64	7,54	7,55	**7,58**	9,24	9,27	9,30	**9,27**

Source: BPS Lampung Province 2010

Table 3

Lampung's (PDRB) Local Gross Domestic Product and the Contribution

per Sector in Year 2009 - 2011

Sectors	2011		2010		2009	
	Million	%	Million	%	Million	%
Agriculture	15.628	38,28	14.759	38,53	14.693	40,57
Mining	742,033	1,82	712,80	1,86	737.977	3,58
Processing Industry	5.430	13,30	5.177	13,52	4.879.	13.47
Electricity, Gas, Water	156,52	0,38	1,442	0,38	129.396	0,63
Construction	1.975	4,84	1.833	4,79	1,767,	4,88
Trade, Hotel, Restaurant	6.465	15,84	60,757	15,86	58.000	0,28
Transport / communication	3.171	7,77	28,032	7,32	24.240	0,12
Bank / Monetary / Housing	4.122	10,10	39,006	10,18	30.393	0,15
Services	3.137	7,68	28,784	7,57	27.448	0,13
Total	40.829	100	38.305	100	36.211.	100
Growth Rate		6,38		5,76		5,07

Source: BPS Lampung Province, 2012

Changing in the economic structure in general, called structural transformation, is defined as a series of interlinked to change of each other. There are several factors to determine the occurrence of structural changes in the economy, among others: 1) Overall labor productivity per sector; 2) Modernization in the process of increasing the added value of raw materials, semi-finished goods and finished goods; 3) Creativity and application of technology with the ability to expand the market of products/services produced; 4) Government policies that encourage the growth and development of the seed sector and commodities; 5) Supporting the infrastructure that will determines the distribution of goods and services smoothly and also support the production process; 6) Public enthusiasm for entrepreneurship and making investments on an ongoing basis; 7) The presence of new growth area that appear in the region; and 8) The opening of trade for the region and abroad through export-import.

Table 4
Local Own-source Revenue (PAD) and Total Regions Revenue of
Lampung Province Period 2000-2012

Year	Local Revenue (IDR)	Growth	Total Revenue (IDR)	Percentage	Growth
2000	96.934.635	-	180.293.565	42,7%	
2001	178.063.921	51,12%	453.333.296	32,7%	-23,46%
2002	237.011.653	33,11%	661.740.145	35,6%	9,66%
2003	306.859.131	29,47%	818.767.098	37,5%	4,64%
2004	410.682.088	33,83%	997.633.396	41,2%	9,84%
2005	549.673.306	33,84%	1.045.734.783	52,6%	27,69%
2006	631.981.956	14,97%	1.294.948.833	48,8%	-7,15%
2007	674.693.662	6,76%	1.374.096.049	49,1%	0,61%
2008	891.781.561	32,18%	1.723.036.643	51,8%	5,41%
2009	860.357.826	-3,52%	1.742.386.841	49,4%	-4,60%
2010	1.118.340.908	29,99%	2.091.684.131	53,5%	8,28%
2011	1.085.424.022	-2,94%	2.162.168.622	50,20%	-6,20%
2012	1.600.273.135	47,43%	2.809.749.945	56,95%	13,45%
Avg	743.535.783	31,12%	1.508.242.072	46,31%	3,20%

Source: Revenue Lampung Province, BPS and Indonesiam Bank (2013)

Based on the information that has been describe above, the research problem can be summarized as follows:

a) The low contribution of economic sectors to Local Own-source Revenue (PAD).
b) The low contribution for Local Own-source Revenue (PAD) which come from (PKB) Motor Vehicle Tax, BBNB Motor Vehicles Ownership Handover, PBBB Surface Water Tax and PAP
c) The high dependency of local governments on financial assitance from the central government.
d) The ability of local governments in realizing taxes revenue/levies is not optimal.
e) The low compliance rate from Taxpayer

This research focus of the effect of shifting in the economic structure either simultaneously or partially to Local Own-source Revenue (PAD). The economic sector in this research is focused on the 9 sectors of the economy according to the business field. PAD as one of the region's financial revenue is revenue that is excavated from the region itself. (Handra, 2001). In Act number 32 of year 2004 on regional governments that the sources of local revenue comes from PAD, Fiscal balance transfers from the central government to regions and from the loan. From those 3 source of revenue, PAD is the main revenue as locomotive to fund household areas. The other revenue that comes from local tax in Lampung Province as follows: Tax motor vehicles (PKB), Transfer of Motor Vehicle Title Fee (BBNB), Fuel tax vehicle (PBBB) and Surface Water tax (PAP).

2. LITERATURE THEORY AND HYPOTHESES DEVELOPMENT
A. THEORETICAL FRAMEWORK
Theory of Economic Development

Todaro (2000) defines economic development as a multi-dimensional process that includes changes in the structure, attitudes and institutions, including an increase in economic growth, the reduction of inequity in distribution and poverty eradication. Lewis in Chenery and Srinivasan (1993), also identifies that economic growth as a result of the transition that can be achieved through the establishment of surplus agricultural, strengthening exchange rate and an increase in savings.

To measure the success of economic development, Wiraswasmita (2009) suggests several models of assessment as follows: 1. Economic Growth; 2. Growth of GDP per capita; 3. The Physical Quality of Life Index (PQLI); 4. The Human development Index (HDI); 5. Principal fulfillment; 6. Clean economy indicator.

Economic's Growth Theory

Economic's growth according to Jhingan (2000) is a long-term increase in a country's ability to provide more types of economic goods to its population. This ability to grow in accordance with the advancement of technology, institutional and ideological adjustments that are needed.

Theory of Economic Structure Change

Changes in Economic Structure Theory or Theory of Structural Change from Chenery and Lewis (1993) is one of the Neo Classical Theory. This theory is the basic theory used in this research. Lewis in his theory of the Dual Economy (Bhaduri in Chang, 2003), indicating that a change of traditional behavior to the modern economy is based on differences in production methods. Dual Economy Model is to analyze the development process through interaction between the traditional sector (represented by agriculture) and the modern sector (represented by the industry), each of which has a different behavior in principle. The behavior of the modern sector can in principle be based on neoclassical economics, while the behavior of the traditional sectors of the economy is based on classical (Hayami, 2001). In neoclassical economics, industrial wage rate sector is hypothesized to be limited by the function of marginal productivity of labor (MPL). Whereas in classical economics, agricultural wage rate sector is institutionally expressed as levels of livelihood. The interaction of the two sectors based on labor surplus generated from agriculture.

Model Structural Change and Economic Growth of Chenery and Syrquin (Chenery, 1979) describes the change in the economic structure (share of production sectors) as a function of per capita income in the demand-side perspective. Chenery and Syrquin (1979) research results indicate that the contribution or share of agriculture or the agricultural sector tends to decline with increasing per capita income, while the share of the industrial sector and the service sector is likely to increase. The rate of increase in share of services sector in line with the increase in per capita income is higher than the rate of increase in the share of the industrial sector. The linkage between income per capita with changes in the economic structure as described by Chenery and Syrquin (1979) research that can be illustrated in the following figure.
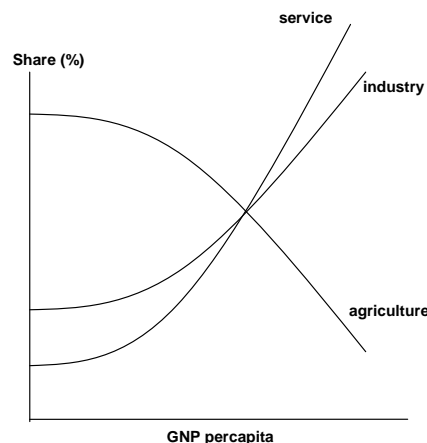
Figure 1. Model Structural Change and Economic Growth
Chenery and Syrquin (1979)

Based on the Provincial Regulation No. 3 of 2011 on regional levies, that the levies are one of sources of local revenue and become an important source of funding for the region in support of the running government, while the economic sectors that can contribute to the provincial revenue, both directly and indirectly are from the 9 sectors of the economy.

Theory of Fiscal Management

According to Jaya (1999) regional finance is the entire financial order, the institutional and budgetary policy areas that include revenue and expenditure. According Mardiasmo (2000), empowerment of local governments in the perspective of the desired changes in the areas of financial management and budget areas are:

a) Regional financial management should be based on the public interest (public oriented);
b) Clarity about the mission of local financial management in general and local budget in particular;
c) Decentralization of financial management and clarity of roles of participants involved in the management of the budget, such as Parliament, KDH, the Secretary and the other unit in the regions;
d) Legal and administrative framework to finance, investment and financial management areas based on the rules of the market mechanism, value for money, transparency and accountability;

e)   Clarity on the financial position of Parliament, KDH and regional civil servants, either for the ratio or the considerations;

f)   The provisions on the shape and structure of the budget, the budget performance and multi-annual budget;

g)   The principle of the procurement and management that should be more professional;

h)   Local government accounting principles, the financial statements, the role of Parliament, the role of public accountants in controlling, giving opinions and rating the performance of the budget and transparency of budgetary information to the public;

i)   Aspects of coaching and supervision include limitation in coaching, the role of associations, and the role of community members to the professional development of local government officials. The development of regional financial information system to provide accurate budget information and the development of the local government's commitment to the dissemination of information.

B. FRAMEWORK THINKING

The flow of thought in this study departs from the Neo Classical theory approach, in particular Lewis Theory of Structural Change and Chenery, focusing on the mechanisms that allow an area which is still dominated by traditional or agricultural sectors, such as Lampung Province, to transform from the economic structure of the pattern of economic agriculture (traditional) to a more modern economy. Chenery (1979) defines that the transition from a traditional economy to a developed economy is a set of changes in economic structures necessary to maintain the sustainability of increased revenue and social welfare.

Model Structural Change and Economic Growth of Chenery and Syrquin (1975) describes the change in the economic structure (share of production sectors) as a function of per capita income in the perspective of the demand side (demand side). Departing from the thinking Chenery (1979), this study models the relationship between changes in economic structure and Local Own-source Revenue (PAD) in the perspective of the supply side, where Local Own-source Revenue (PAD) is modeled as a function of changes in the economic structure. Continuity of increased revenue and social welfare will be maintained if the economic structure changes that occur can lead to greater income per capita (the supply side). The higher contribution of economic sectors as a measure of changes in the economic structure, the higher the revenue obtained. In the principle of decentralization, as mandated by Law No. 32 of 2004, it is expected that the increase in revenue was also accompanied by the increasing improvement of local finance.

C. HYPOTHESIS

a)   Changes in the economic structure has an effect Local Own-source Revenue (PAD) simultaneously. Each economic sector partially has positive effect toward Local Own- source Revenue (PAD).

b)   Local governments have the ability to objectify revenue from all economic sectors and each sector of the economy. Increased revenue of Local Own-source Revenue (PAD) has positive effect on increasing regional finances.

3. RESEARCH METHODOLOGY
A. RESEARCH METHODS

This research using the method of explanatory research which is to explain causal relationships between variables or hypotheses and test (Singarimbun and Effendi, 1995). Causal relationships between variables that influence changes in economic structure simultaneously and partially to the Local Own-source Revenue (PAD), and the effect of Local Own-source Revenue (PAD) to increase regional finance. The eksplonatory study aims to measure the efficiency of the management of the economic potential of the region in the formation of revenue (as elasticity PAD) and the ability of local governments in the objectify of PAD (as adjustment coefficient for PAD), both from all economic sectors and each sector of the economy.

B. RESEARCH METHODS AND DATA ANALYSIS

Research Model

Based on the research variable linkages consisting of independent variables and the dependent variable, the method can be seen in the following research model:

Figure 2
Research Model
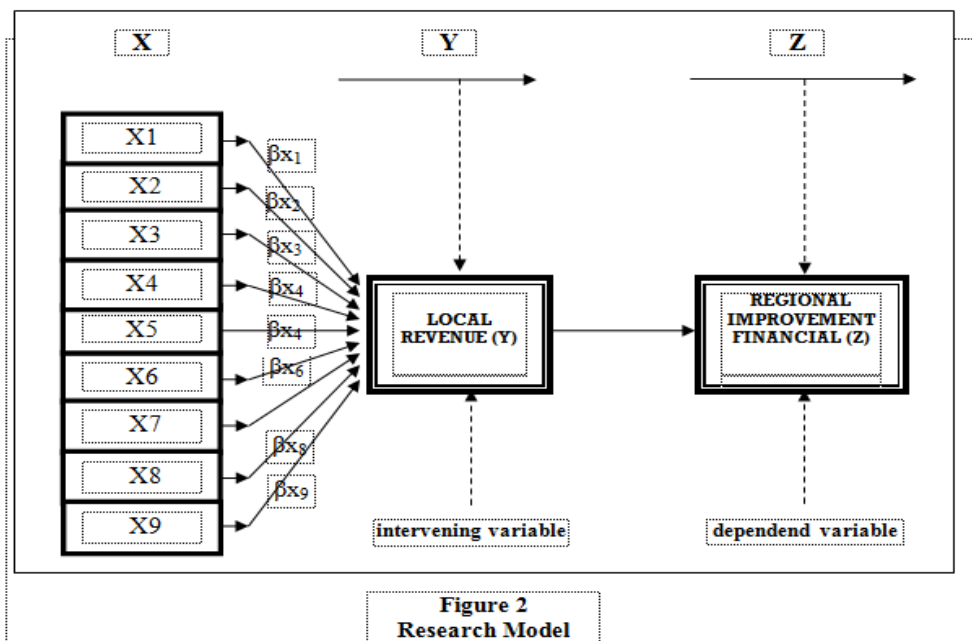
Note:

X1 = the agricultural sector, X2 = mining and quarrying sectors, X3 = manufacturing sector, X4 = the building sector, X5 = electric sector gas and water supply sector , X6 = trade, hotels and restaurants sector, X7 = transport an ... unications sectors, X8 = finance, leasing and services company sector . X9 = services sector. βi βx₅ :lationship of Independent Variables (Xi) with the variable (y). βZ = variable relationship with the variable Y Z

The Effects of Changes in Economic Structure on Local Own-source Revenue (PAD)

The first hypothesis about the effects of changes in the economic structure simultaneously and partially on the PAD was tested with analytical models and statistical hypothesis as follows.

Simultaneous $Y = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9)$

$$Ln\ Y_t = a_1 + b_{11}Ln\ X_{1t} + b_{12}Ln\ X_{1t} + b_{13}Ln\ X_{3t} + b_{14}Ln\ X_{4t} + b_{15}Ln\ X_{5t} + b_{16}Ln\ X_{6t} + b_{17}Ln\ X_{7t} + b_{18}Ln\ X_{8t} + b_{19}Ln\ X_{9t} + e_{1t}$$

Where:

$Y = PAD$. $X1I$ = Contributions from the i-th sector. (9 economy sectors) e_1 = error / residual

a_1 = intercept / constant

b_{1i} = regression coefficient or elasticity PAD on each sector

$b_{1i} > 0$ (the contribution of the i-th positive effect on PAD)

Statistical hypotheses simultaneously:

H0: $\beta 11 = \beta 12 = \beta 13 = \beta 14 = \beta 15 = \beta 16 = \beta 17 = \beta 18 = \beta 19 = 0$; changes do not affect the economic structure simultaneously to PAD

H1: at least one $\beta 1i \neq 0$; changes in the economic structure of the simultaneous effect toward PAD

Statistical hypotheses were tested using the F test, H_0 is rejected if the F count> F table (at significance level $\alpha = 0.05$ and degrees of freedom and db1=k, $db_1 = n-k-1$ (n = sample size; k = number of variables cause) or if p-value $< (\alpha = 0.05)$.

In the opposite condition, H_0 is accepted.

Partial statistical hypotheses:

H_0: $\beta 1_i \leq 0$; changes in the economic structure of the i-[th] partial has no positive effect toward PAD

H1: $\beta 1_i > 0$; changes in the economic structure of the i-[th] partial has positive effect toward PAD

Statistical hypotheses were tested using the t test. H_0 is rejected if t count > t table (at significance level $\alpha = 0.05$ for a one-sided test types and degrees of freedom db = n-k-1 (n = sample size; k = number of variables cause) or if p-value $< (\alpha = 0.05)$.

In the opposite condition, H_0 is accepted.

Measurements the ability to objectify PAD from the entire Economic Sector and each economic sector.
The second hypothesis about the ability to objectify PAD from all sectors of the economy are tested based on the results of the measurement of the coefficient of adjustment (adjustment coefficient) of the regression coefficients for PAD previous year. The model is analyzed as follows:

(i) simultaneous : $Y = f(X, Yt-1)$

where:

    Y = PAD, X = sectors of the economy, t = a given year, t-1 = previous year

    e_2 = error / residual, a_2 = intercept / constant, b_2 = regression coefficient of PAD on economic sectors,
      k = coefficient of adjustment (adjustment coefficient)

The third hypothesis is accepted if the ability to objectify PAD from all sectors of the economy is high, ie. $k > 0.5$. In the opposite condition, the hypothesis is rejected.

(ii) Partial

The second hypothesis about the ability to objectify PAD from each economic sector is tested based on the results of measurements of the coefficient of adjustment (adjustment coefficient) of the regression coefficients for PAD previous year. The model is analyzed as follows:

$Ln\ Y_t = A_{21} + B_{21}.Ln\ X_{1t} + (1-k).Ln\ Y_{t-1} + e_{21t}$,

$Ln\ Y_t = A_{22} + B_{22}.Ln\ X_{2t} + (1-k).Ln\ Y_{t-1} + e_{22t}$

$Ln\ Y_t = A_{23} + B_{23}.Ln\ X_{3t} + (1-k).Ln\ Y_{t-1} + e_{23t}$

$Ln\ Y_t = A_{24} + B_{24}.Ln\ X_{4t} + (1-k).Ln\ Y_{t-1} + e_{24t}$

$Ln\ Y_t = A_{25} + B_{25}.Ln\ X_{5t} + (1-k).Ln\ Y_{t-1} + e_{25t}$

$Ln\ Y_t = A_{26} + B_{26}.Ln\ X_{6t} + (1-k).Ln\ Y_{t-1} + e_{26t}$

$Ln\ Y_t = A_{27} + B_{27}.Ln\ X_{7t} + (1-k).Ln\ Y_{t-1} + e_{27t}$

$Ln\ Y_t = A_{28} + B_{28}.Ln\ X_{8t} + (1-k).Ln\ Y_{t-1} + e_{28t}$

$Ln\ Y_t = A_{29} + B_{29}.Ln\ X_{9t} + (1-k).Ln\ Y_{t-1} + e_{29t}$

where:

    Y = PAD, $X_1 - X_9$ (Contributions 9 sectors of the economy), t = a given year

    t-1 = the previous year, e_{2i} = error / residual, a_{2i} = intercept / constant

    b_{2i} = regression coefficient PAD for the contribution of each sector of the economy

    k = coefficient of adjustment (adjustment coefficient)

Hypothesis is accepted if the ability to realize revenue from each sector of the economy is high, ie. $k > 0.5$.

Effect of PAD to the Regional Financial Improvement

The fourth hypothesis about the positive influence of PAD to Increased Regional Finance tested with the model analysis and statistical hypothesis as follows:

$Ln\ Z_t = a_3 + b_3.Ln\ Y_t + e_{3t}$

where:

Z = Increased Regional Finance, Y = PAD, e_3 = error / residual, a_3 = intercept / constant, b_3 = regression coefficient or elasticity of the Regional Finance Improvement on Regional Income, $b_3 > 0$ (PAD has positive influence on the improvement of regional finance)

4. RESULT AND DISSCUSSION
A. DESCRIPTIVE ANALYSIS
Agricultural Sector

    Based on the data it shows that agricultural sector during the period 1982-2012 was always increased, this sector is the main sector with an average growth of 17.74 percent and the average donation was IDR.9,8 billion with a standard deviation of IDR 1.12933 million. The agricultural sector is the largest sector of the economy of developing countries. This sector provides food for nearly all existing labor force, produce raw materials or auxiliary for the industry and become the largest source of foreign exchange income (Silitonga et al., 1994).

Mining and Quarrying Sector

Based on data for the period 1982-2012, these sectors indicate the direction of positive growth, this sector contributed with an average growth of 44.76 percent and the average contribution of IDR 742 million with a standard deviation of IDR 9.48864 million, this sector had a positive impact in improving acceptance of the PAD. Central government has given authorities for local governments to manage their own potential for the wider region in accordance with the laws and regulations that apply (Adirinekso, 2001, p37).

Manufacture and Processing Sector

From the data for the period 1982-2012 had always fluctuated, but overall there was an increase, this sector contributes to the growth of the average height of 90.02 percent and the average contribution of IDR 3.6 billion and standard deviation of IDR 4.33 million. All sector which takes place in various regions have a positive impact in improving acceptance of the PAD. This sector is the most dynamic sector in generating income for the area because this sector is made up of particular sub-sectors that are able to produce goods and services with a certain added value (Sukirno, 2001).

Building Sector

Based on data for the period 1982-2012 had always fluctuated, but overall there was an increase, this sector contributed with an average growth of 21.30 percent and the average contribution of IDR 143,873 million and a standard deviation of IDR 1.68 million. This sector taking place in various regions and have a positive impact in increasing revenue, especially revenue to sustain the economic growth of 6% in the middle of the global crisis (Central Bank of Lampung, 2012)

Electricity gas and water supply sectors

Based on data for the period 1982-2012 had always fluctuated, but overall there was an increase, this sector contributed to growth in average 18.27 percent and the average contribution of IDR 1.2 billion and a standard deviation of IDR 1.68 billion, the sector had a positive impact in increasing the acceptance of the PAD, activity in this sector is monopolized by the government, so that this sector can be free from any business competition (Basuki and Gayatri, 2009).

Trade Hotel and Restaurants Sectors

Based on data from the period 1982-2012 is always increase, this sector contributed with an average growth of 29.88 percent and an average donation of IDR 1.9 billion and a standard deviation of IDR 2.86888 million, the sector that took place in various regions have a positive impact in improving acceptance of the PAD. This sector is a sector supporting economic activity, and as a supporter of all economic sectors (Sukirno, 2001: p.41).

Transport and Communication Sectors

Based on data for the period 1982-2012 had always fluctuating but generally increasing, the sector contributed with an average growth of 41.60 percent and an average donation of IDR 3.3 billion and a standard deviation of IDR 4.23 billion, the sector took place in various regions have a positive impact in improving acceptance of the PAD. This sector is a supporting sector for economic activity, and as a supporter of all economic sectors (Adirinekso, 2001). Transportation system and good communication can facilitate the community in terms of mobility and interaction. Accelerated development with the role of transport and communication sector is adequate, can make this sector as an indicator of the progress of a region (Halim, 2008: p.233).

Financial, Leasing and Services Company Sectors

Based on data from the period 1982-2012 has always increased and contributed to an average growth of 41.63 percent and an average donation of IDR 1.5 billion wtih a standard deviation of IDR 1.95106 billion. The sector which took place in various regions have a positive impact in improving acceptance PAD. This is the entire supporting sectors of economic activity (Mardiasmo, 2002).

Services Sector

Based on data from the period 1982-2012 had always increased. This sector contributed with an average growth of 73.73 percent and an average donation of IDR 2.4 billion and the standard deviation of IDR 3.31491 million. Although the services sector, its role is still small, but this sub-sector will be important in its development, particularly its role in supporting economic activity and domestic demand continues to increase along with the increase of people's income in the future (BPS, Lampung, 2012).

Local Own-source Revenue (PAD)

Based on data from the period 1982-2012, it shows that PAD had always increased and contributed to the average growth of 28.32 percent and an average donation of IDR 199 billion with a standard deviation

of IDR 2.97797 billion. According to Law 33/2003, revenue is earned income that is levied by the local regulation in accordance with laws and regulations. The main element of the PAD are local taxes and levies. Local tax is obligatory contribution to the area. Referring to the law that is enforceable under the Act with no reward directly and used for the purposes for greater prosperity for the people (Law no. 28/2009). While the levy is a main income to cover the cost of public services provided by the Government (Davey, 1988). PAD is a major source of the region to carry out tasks of local government. Along with fiscal decentralization, then the creativity required to optimize revenue. If it is not accompanied by an increase in revenue-growing economy means that decentralization is still not successful (Lindaman and Thurmaier, 2002)

B. ANALYSIS OF INDUCTIVE

Result measured by Equation Model 1

The Effect from Simultaneous Test Results showed that variable economic sectors to PAD indicated by the multiple correlation coefficient R^2 = 91.40 percent, and the correlation of R = 0.95 which is positive and very high. Testing the hypothesis of partial economic sectors of the Local Own-source Revenue (PAD) (Y):

Table 5
The Effect of each sector in economy to PAD

Partial Effect of PAD	B	to	t-table	p-value
Agricultural sector	0,855	2,642	2,048	0.0285
Mining and quarrying sectors	0,752	2,055	2,048	0.0242
Manufacturing sector	0,733	2,933	2,048	0.0421
Building sector	0,702	2,959	2,048	0.049
Electricity, gas and water supply sector	0,679	2,391	2,048	0.0495
Trading, hotels and restaurants sector	0,821	2,787	2,048	0.0391
Transport and communications sector	0,144	2,064	2,048	0.0466
Financial sector, leasing & business services sector	0,134	2,373	2,048	0.0125
Services sector	0,317	2,927	2,048	0.0345

Data Source: Hand-collected.

Based on the table above, the value of the regression coefficient of 9 sectors of the economy (X_1-X_9) is a positive. The value with t-test showed X_1 for 2.642 with a significance level (α) = 5% degrees of freedom (degree of freedom) = n-k-1 or 30 -1-1 = 28 and testing is done with two sides (2-tailed), the agricultural sector t-table is 2.048, so that t-value > t table (2.642<2.048). Similarly, the mining and quarrying sector X_2 has P-value 0.0242 <0.05, t-test showed the value 2.055 > 2.048 t table. The manufacturing sector X_3 has P-value 0.0421 < 0.05, it indicates the t-value 2.933 > t table 2.048. X_4 as building sector, show the t-value 2,959> t table 0.049 and P-value 2.048 <0.05. Electricity, gas and water supply (X5), shows the t-value 2,391 > t table 2.048 and P-value 0.0495 <0.05. Trade, hotels and restaurants (X6) shows the t-value 2.787 > t table 0.0391 and P value 2.048 < 0.05.

Transport and communications sector (X7) shows t-value 2.064 > t-table 2.048 and P-value 0.0466 <0.05. The financial sector, leasing and business services (X8) shows the value of t-value 2.373 > t-table 2.048 and P-value 0.0125 < 0.05. X9 service sector showed the t-value 2.927 > t-table 2.048 and P-value 0.0345 < 0.05. Of the 9 sectors of the economy in the table above, H_0 is rejected and accept H_1, which means there is a significant effect of the economic sectors of the local revenue (PAD).

Result measured by Equation Model 2

The ability to objectify PAD from all sectors of the economy. The test results simultaneously show that the economic sector and the PAD to PAD previous year is indicated by the simultaneous correlation coefficient R = 0.9356, it shows the relationship of the 'very close' which is between (0.80 to 1.00) (Sudjana, 2003), the magnitude of the effect of simultaneously shown by the simultaneous determination coefficient R^2 = 0.8754 or 87.54 percent, meaning that the effect of the economic sector and the PAD simultaneously to the previous year by 87.54 percent PAD or PAD able to be explained by variations in revenue the previous year by 87, 54 percent. Equation in model 2 for the ability to objectify PAD from all economic sectors is calculated by Nerlove adjustment coefficient.

$$LNY = 1.16636 + 0.2210*LNX +0,3342*LNYt-1$$

Nerlove adjustment coefficient is calculated by (1-k) = 0.3342, so k = 1-0.3342 = 0.67 or 1- 67%, it means the local government's ability to objectify PAD is quite high because of k > 0.
While the test results of the effect of partially from 9 economic sectors (X1-X9) to revenue (Y).

Table 6
The Effect of each sector in economy to PAD

The Partial Effect	Const.	(β) (x 1-9)	K/ adjust.	PAD t-1	F stat.	p. value 5%	Sig
Agricultural sector Share (X1)	-0,262	0,38	0,046	0,954	0,939	0	Sig
Mining & quarrying Share (X2)	0,78	0,066	0,078	0,922	1146,7	0	Sig
Manufacturing sector Share (X3)	-0,248	0,028	0,107	0,893	902,01	0	Sig
Building sector Share (X4)	0,405	0,1	0,076	0,924	1003,2	0	Sig
Electricity sector, gas, water Share (X5)	-0,004	0,082	0,051	0,949	1017,1	0	Sig
Trade, hotel, restaurant Share (X6)	-0,06	0,045	0,023	0,977	906,39	0	Sig
Transport & communications sector Share (X7)	0,025	0,065	0,044	0,956	955,35	0	Sig
Financial sector, rents, services companies Share (X8)	-0,132	0,545	0,025	0,975	921.76	0	Sig
Services sector Share (X9)	0,292	0,463	0,042	0,958	967.03	0	Sig

Data Source: Hand-collected.

Result measured by Equation model 3
The influence of PAD's model to increase regional finance is based on the Cobb Douglas production function (Koutsoyiannis, 1975) which means the statistical hypothesis indicate positive influence of PAD to the increase regional financial with the results of the following equation:

$$LNZ = -4.481 + 0.3762*LNY$$

From these equations the constant = -4.481 means that if PAD is not growing then declined of 4.481 units of regional finance. While the regression coefficient b1 = 0.3762 means that if revenue increased by 1 percent, it will increase the financial gain of 0.3762 per cent at constant -4.481.

C. DISCUSSION
Interpretation
The results of the regression coefficient analysis model 1
The influence of the economic structure of the PAD to PAD previous year by 91.37 percent, it means that the economic structure of the PAD have a positive correlation and a very tightly. Multiple regression equation is:
LN_Y = 8.8859 + 0.8549*LNX1 + 0.7519*LNX2 + 0.7328*LNX3 + 0.7017*LNX4 + 0.6788*LNX5 + 0.8206*LNX6 + 0.1237*LNX7 + 0.1335*LNX8 +0.3167*LNX9+ $\mathcal{C}_1$.

Based on a multiple regression equation above, then all variables research have contributed to the increase the PAD's. PAD is one indicator to assess the level of local capabilities in the regional of finance, the greater the role of PAD to the budget of a region, the more successful in the local government finance and governance regional development.
Based on the results of data processing partially the from 9 sectors of the economy, the PAD to PAD the previous year through regression model as follows.
a) The value of agricultural sector regression coefficient (β1) = 0.8549.
b) It means that if the agricultural sector rose by 1% and assuming other variables constant in the model, it will increase the revenue of IDR 0.8549 billion, with the results of the regression coefficient is very large then the t test results (partial test) that was obtained t-value 2,641> t table (nk-1 = 30 - 9-1) = 20, then Ho is rejected and accept Ha (t_o> t_t) or 2.641> 2.048, which means that there is a significant relationship between the agricultural sector and the PAD. In other words, change in the structure of the economy will affect the PAD (Miles and Scott, 2005).

c) Regression coefficient value of mining and quarrying ($\beta2$) = 0.7519.

d) It means that if ($\beta2$) fell 1%, assuming other variables constant then the PAD will decrease by IDR 0.7519 billion, and vice versa. If the inflation rate rises 1%, assuming other variables constant then the PAD will increase IDR 0.7519 billion, the PAD is indicated by the regression coefficient b2 = 0.7519 which indicates a constant elasticity is positive at 0.7519. Based on this value, it can be derived the value of the elasticity of revenue that is equal to E = 0.7519 with E values < 1 indicate that the growth in revenue is elastic. The elasticity of 0.7519 indicates that a 1 percent increase followed by a smaller increase in revenue that is equal to 0.7519 percent, and conversely a decrease of 1 percent followed by a smaller decrease in revenue that is equal to 0.7519 percent, the elasticity (E) < 1 indicates a condition in elastic or dicreasing returns to scale (the results of a smaller increase).

e) Value of regression coefficient and processing industry sectors ($\beta3$) = 0.7328.

f) The effect of processing industry sectors on PAD indicated by the regression coefficient b3 = 0.7328, which indicates a constant elasticity is positive at = -0.1833. This value can be derived based on the elasticity of the PAD as E = 0.7328 with E value < 1 which showed that the development of PAD is in elastic. The elasticity of 0.7328 indicates that a 1 percent increase followed by a smaller increase in revenue in the amount of 0.7328 percent, and conversely a decrease of 1 percent followed by a smaller decrease in revenue that is equal to 0.7328 percent. Growth in this sector grew 6.48 percent in 2008, then slowed to 5.88 percent in 2009, in 2010 increased to 6.11 percent, slowed to 4.88 percent in 2011 and again in 2012 slowed to 4.39 percent (BPS, 2012).

g) Regression coefficient value of the building sector ($\beta4$) = 0.7017

h) The influence of the building sector on PAD indicated by the regression coefficient b4 = 0.7017, which indicates a constant elasticity is positive at 0.7017. This value can be derived based on the elasticity of revenue from the building sector which equal to E = 0.7017, with value E < 1 indicates that the development of PAD is elastic in the building sector. The value of elasticity of 0.7017 indicates that a 1 percent increase in the building sector, followed by a smaller increase in revenue that is equal to 0.7017 percent, and vice versa, 1 percent reduction in the building sector, followed by PAD is a smaller decrease in the amount of 0.7017 percent, the growth rate of this sector during 2008-2012 on average 5.37 per cent, the sector grew by 4.68 percent, then increased in 2009 to 4.87 percent, in 2011 increased rapidly to 7.77 percent, a decline to 5.82 percent in 2012.

i) Regression coefficient value sector of electricity, gas and water supply ($\beta5$) = 0.6788

j) The influence of this sector to the PAD indicated by the regression coefficient b5 = 0.6788, which indicates a constant elasticity is positive at 0.6788. This value can be derived based on the elasticity of the PAD as E = 0.6788, where E values < 1 indicate that the development of PAD are in elastic. The elasticity of 0.6788 indicates that 1 percent increase followed by a smaller increase in revenue which is equal to 0.6788 percent, and 1 percent decline followed by a smaller decrease in revenue that is equal to 0.6788 percent. This sector is support all sectors of economic activity, and as the infrastructure that encourages the production process as well as the need primary societies. The production of electricity is mostly generated by PLN (State Electricity Company) and the rest by non-PLN, clean water being produced by PDAM. The added value of electricity in year of 2012 was IDR 725.62 billion with a growth of about 11.88 percent.

k) Regression coefficient of hotel & restaurant trade sector ($\beta6$) = 0.8205

l) The influence of these sector on PAD indicated by the regression coefficient b6 = 0.8205, which indicates a constant elasticity is positive at 0.8205. This value can be derived based on the elasticity of the PAD as E = 0.8205, where E values < 1 indicate that the growth in revenue is elastic. The value elasticity of 0.8205 indicates that a 1 percent increase followed by a smaller increase in revenue is equal to 0.8205 percent and 1 percent decline followed by a smaller decrease in revenue is equal to 0.8205 percent. This sector has a role as a consumer liaison activities and manufacturers that produce goods and services. The rate of growth of this sector in year of 2012 amounted to 5.59 percent, slightly higher than the growth in year of 2011 was 5.50 percent. This is consistent with the stated Yotopoulos and Nugent sectoral pattern changes as the elasticity of the contribution (share) the economic sectors on income.

m) The regression coefficient of transport and communications sector ($\beta7$)= 0.144

n) The impact of these sector on PAD indicated by the regression coefficient b7 = 0.144, it shows a constant positive elasticity at 0.144. This value can be derived based on the value of the revenue

elasticity of E = 0.144, where the value of E < 1 showed that the development of PAD is in elastic. The elasticity of 0.144 indicates that a 1 percent increase followed by a smaller decrease in revenue in the amount of 0.144 percent and a 1 percent decline instead followed by a smaller increase in revenue in the amount of 0.144 percent. Transportation system and good communication can facilitate the community in terms of mobility and interaction, along with the role of accelerating the development of the transport sector and adequate communication. This sector can make as an indicator of the progress of a region. This sector grew by 13.63 percent in year 2012

o) Regression coefficient of financial, leasing and business services sectors (β8) = 0.1335

p) The influence of these sectors on PAD indicated by the regression coefficient b8 = 0.1335, which indicates a constant positive elasticity at 0.1335. This value can be derived based on the elasticity of the PAD as E = 0.1335, where E values < 1 indicate that the growth in revenue is elastic. The elasticity of 0.1335 indicates that the increase 1 percent followed by a smaller decrease in revenue that is equal to 0.1335 percent, and conversely an increase of 1 percent, followed by a smaller increase in revenue that is equal to 0.1335 percent.

i. Regression coefficient of service sector (β9) = 0.3167

q) The influence of the service sector to the PAD indicated by the regression coefficient b9 = 0.3167, which indicates a constant positive elasticity at 0.3167. This value can be derived based on the elasticity of revenue from the services sector which is equal to E = 0.3167, where E values < 1 indicate that the development of PAD is elastic in the services sector. The value of elasticity of 0.3167 indicates that a 1 percent increase in the services sector, followed by a smaller decrease in revenue that is equal to 0.3167 percent and the reverse 1 percent decline in the services sector, followed by a smaller increase in revenue that is equal to 0.3167 percent.

r) The results of the regression coefficient analysis model 3

s) Regression coefficient value of β = 0.3762. If the PAD have developed one percent increase, it will increase the financial gain 0.3762 percent at constant -4.4814. The Testing Hypothesis of effect PAD to increase regional finance using t-test and significancy test. Based on the results of the calculations in the table above with the results of the t-test showed that t = 2.0711> table 2.048 (t-table value at level error of 5%, 2-sided test types and degrees of freedom n - 2 = 30-2 = 28), as well as a significant test obtained p-value = 0.0000 which is less than the significance level α = 0.05, thus, Ho rejected and accepted hypotheses Ha. It means of research on the influence of PAD to increase the regional financial is acceptable.

Eligibility Test Results Model

Feasibility of the model test results show that our model has met the goodness of an econometric model or characteristics that can be expected as referring to the opinion of Koutsoyiannis (1977) and Wirasasmita (2007) which is shown by the following test results.

a). Theoretical plausibility

The model of this research showed that the test results are in accordance with expectations from economic theory where became the basis of his thinking.

Table 7
Results of Suitability Test Theory

The relationship between variables	Pre-estimation	Post-estimation	Suitability
There are significant changes in the economic structure simultaneously and partially against PAD	The positive influence (+)	The positive influence (+)	Fit
There is the influence of the local government in realizing revenue from all sectors and each sector of the economy.	The positive influence (+)	The positive influence (+)	Fit
There PAD to increase the influence of local finance	The positive influence (+)	The positive influence (+)	Fit

Source: Data processed

b). Accuracy of the estimates of the parameters.

This research models produce accurate estimators of regression coefficients and significancy. The assumptions are met and the analysis of statistical error probability of the model is very low or p-value $<\alpha$.

(i)   Model 1 (The effect of changes in the economic structure on the PAD).The research produces an accurate estimator of regression coefficients and significancy. The analysis assumptions are met and the error probability is very low. The agriculture model produce p-value = 0.0285 $<\alpha$ = 0, mining and quarrying p-value = 0.0242 $<\alpha$ = 0.05, the manufacturing model p-value = 0.0421 $<\alpha$ = 0.05, the building sector model p value = 0.0485 $<\alpha$ = 0.05. Electricity gas and clean water sector model p-value = 0.0495$>\alpha$ = 0.05, the hotel and restaurant trade sector model p-value = 0.0391 $<\alpha$ = 0.05, the transport and communications sector model p-value = 0.0466 $<\alpha$ = 0.05, financial, leasing and business sector model p-value = 0.0125 $<\alpha$ = 0.05 service sector model p-value = 0.0345 $<\alpha$ = 0.05.

(ii)   Model 2 (The influence of the ability to objectify PAD from all sectors of the economy). The research produces an accurate estimator of regression coefficients and produce significant p-value = 0.000 $<\alpha$ = 0.05. Furthermore, the influence of the ability to objectify PAD from each economic sector produce accurate estimators of regression coefficients and significancy. The analysis assumptions are met and the error probability is very low. The agriculture model produce p-value = 0.0211 $<\alpha$ = 0.05, mining and quarrying sector model p-value = 0.0092 $<\alpha$ = 0.05, the manufacturing sector model p-value = 0.0477 $<\alpha$ = 0.05, the building sector model p value = 0.0699 $<\alpha$ = 0.05. Electricity, gas and water supply sector models p-value = 0.0562$>\alpha$ = 0.05, the hotel and restaurant trade sector model p-value = 0.0427 $<\alpha$ = 0.05, the transport and communications sector model p-value = 0.0156 $<\alpha$ = 0.05, finance, leasing and business services model p-value = 0.0300 $<\alpha$ = 0.05 service sector model p-value = 0.0127 $<\alpha$ = 0.05.

(iii) Model 3 (The influence of PAD to increase regional finance). From all sources of PAD, this research produces an accurate estimator of regression coefficients and also resulted in significant p-value = 0.0477 $<\alpha$ = 0.05

c). Explanatory ability

The research model has a high capability in explaining the relationship between economic phenomena and the standard error of estimates (SE), where the variance error of estimates = SE^2 <mean square of regression. The ability of the model in explaining the link between economic phenomena is demonstrated by the high coefficient of terminated models (R^2> 50%), thus the research model has high ability in explaining the relationship between economic phenomena being studied.

d). Forecasting ability.

The model has a high level of predictive capability for the behavior of the dependent variable as indicated by the high coefficient of determination (R^2) models that approach or exceed 50%. Thus the model has a high level of predictive capability for the behavior of the dependent variable as indicated by the high ability for accuracy estimate and explanation.

5. CONCLUSIONS AND IMPLICATION

A. CONCLUSIONS

a) There is a significant effect simultaneously from 9 sectors of the economy PAD to PAD. It means that the influence or contribution of economic sectors to PAD variable is quite large. While the total of actual local taxes, objectified PAD from transfer duties Motor Vehicles (BBN-KB) provide the largest share, followed by motor vehicle tax (PKB) to PAD.

b) The ability to objectified PAD of Local Government simultaneously from all economic sectors is quite high. It is measured by the coefficient of adjustment (adjustment Nerlove's coeficient = k) for each year with a level of acceptance of the PAD, in accordance with the existing economic potential, where the value of k = 0.67 or 67%. It means the ability of Local Government to objectified PAD is quite high due to the results of the calculations where k > 0.5. Partially, the influence of the factors that affect the PAD is from agricultural sector, the mining and quarrying sector, trade, hotels and restaurants sectors, processing industry sector , the financial and leasing sector, corporate services sector, electricity, gas and water sectors, processing industry sectors, construction sector and transport and communications sectors.

c) Local Own-source Revenue (PAD) can improved Regional Finance. It shows that the elasticity of productivity resulting from PAD. Improved response gain as a result of the Local Finance increased revenue and Total Factor Productivity describe productivity resulting from PAD to Increased Local Finance.

B. IMPLICATION

Based on the research results, discussion and conclusions, the implication that are relevant are:

a) The growth of the primary sector, through various policy results showed that the variables that most affect the improvement of regional finance is the agricultural sector. It is suggested to the government enhance further growth rate of the agricultural sector through a variety of policies. Since the agricultural sector is the basis of economy sector with the biggest contributor to revenue, it is necessary to manage agricultural management more seriously and care of land management aspects into aspects of agribusiness production and processing of raw materials into finished goods, even goods industry, potential exists in the sector of food crops, livestock, fisheries and plantation. The effort to increase the production sector should also be balanced with efforts to support the development of the industrial sector of agricultural products in the broadest sense. The promotion and development of micro small and medium enterprises (SMEs), small industries and agriculture-based households into priority order of business sectors in society can grow and develop. Programme development downstream to upstream industries should be carried out simultaneously to speed up the process of economic transformation towards industrial economy.

b) Encourage increasing tax revenues. This policy is in line with increasing revenue through the establishment of appropriate management systems and to be more efficient with close supervision. So that revenue can be increased according to the potential of the region.

c) Encourage increased tax revenue management capabilities and levies from year to year, which is expected to have a significant increase in the regional financial, as well as in the implementation should be evaluated continuously and sustaininably.

d) Increase the intensity of the charges on a subject and object of a potential tax that has not been explored or netted tax collection and improve performance in order to reduce existing leaks, as well as efforts to expand the subject and the object of the tax and tariff adjustments. Otherwise it can be reached by way of: Expansion of taxpayer, Completion rates and expansion of the tax object.

e) Fo r further researchers, it is advisable to review the model of this research. Review of this research is expected to provide validation of the measurement model and the acceptance ratio and the elasticity of the model improvement solution. It is also suggested to develop a research model by involving other factors, especially in explaining the dominant factor affecting PAD. Eventually the results of this study can be used other areas.

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