

Study on Capital Participation of Kutai Kartanegara Government into Bankaltim

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Abstract: *Return on Investment (ROI) is a tool to measure the level of effectiveness of capital participation of Kutai Kartanegara Regency Government investment into Bankaltim. The analysis focused on the ratio between the earnings obtained in the form of dividends per year and the total investment in the period of 2006 to 2014. The purpose of this study was to measure the effectiveness of capital participation of Kutai Kartanegara Government decisions into Bankaltim. The benefit of capital participation is to increase the regional revenue. Data used was secondary data which consists of the capital invested information, the dividend earned by the government from bank Kaltim and the bank rate average in 2006 to 2014 period. The result of the study showed ROI 2006 to 2014 period respectively as follows : 17.34%, 39.63%, 47.81%, 50.09%, 33.59%, 30.62%, 26.28%, 28.19%, and 40.01%. The average rate of ROI percentage was 34.85% more than average bank rates that was 7.67 %. It was concluded that the decision of capital participation of the government into Bankaltim seen from the financial aspect was effective.*

Keywords: Local Government Investment, ROI , Effective

1. Introduction

Bankaltim is the Regional Bank Enterprise of East Kalimantan Province and its capital derived from the Local Government. The biggest capital participation proportion is East Kalimantan Provincial Government, followed by the second largest is Kutai Kartanegara Regency Government and the rest is owned by nine other regencies/municipalities. Sources of the capital participation comes from the regional revenue and expenditure budgets' regencies/municipalities with the largest budgets in East Kalimantan is Kutai Kartanegara Regency. The fund was transferred by the central government in the form of profit sharing funds for oil and gas. Since fiscal year 2014 the price of oil and gas lifting in the world tend to decline and are expected to continue to decline until the next few years, and on the other hand production of oil and gas reserves also decreased. These conditions have a direct impact on decreasing the revenue of funds for oil and gas on the budget Kutai Kartanegara, resulting in a budget deficit.

This study aim is to measure the level of effectiveness of capital participation of Kutai Kartanegara Regency Government to Bankaltim. The result of this study is expected to assist Kutai Kartanegara Regional Parliament in making decisions from the financial aspect on the approval of giving an extension budget for the capital participation in the bank in 2015 or in the incoming year . Until know, it is still being debated in the approval decision making capital participation, due to the local budget deficit. Based on the previous experience in capital participating by this government to the other three regional state enterprises, only Bank Kaltim earns dividend in contributing to the regional revenue.

The evidence is not sufficient as the foundation for the regional parliament to give the agreement because based on Act no. 23 of 2014 declared that the investment can be done when the budget is surplus. Capital participation into Bankaltim in the previous years carried out under budget

surplus and was based on political considerations rather than profit considerations. Another condition need to be considered that the regional government has not been able to maximize other resources to increase regional revenue hereinafter called PAD.

Each local government investment decisions are ruled by Indonesian act and the highest is act number 23 of 2014 about Regional Government and its implementation guide with Government Regulation number 1 of 2008 about Government Investment and Home affair minister's regulation number 52 of 2012 about the Guidance of Regional Government Investment and its implementation in the local government ruled by regional regulation. The profit gained in the form of dividend as a result of the investment from Bank Kaltim is received every year and the dividend is as sources of regional revenue . This is the urgency of evaluating the effectiveness of Kutai Kartanegara Government capital participation decisions into Bankaltim. Measuring the level of effectiveness of the investment can be done by calculating the return on investment (ROI). The ROI measurement results as an input to the local parliament of Kutai Kartanegara in approving the capital participation into Bankaltim in the current year and future.

2. Literature Survey

In general, capital participation is an attempt to have a new or existing company run by a capital injection to the company. Capital participation is a form of permanent investments as provided for in article 71 clause (5) of Act number 23 of 2014 on Regional Government, which aims to be held on an ongoing basis without any intention to trade or not withdrawn and owned by the government to generate revenue or increase service to the community. According to article 1 clause (4) of Government Regulation number 1 of 2008, capital participation is a form of government investment in business entities to obtain ownership rights, including the establishment of a limited liability company

and or acquisition of a limited liability company. The type of local government capital participation into the company is a form of local government activity or effort to increase local revenue in order to improve the welfare of society. The last Local government participation into bank Kaltim was stipulated by the Local Regulation number 17 of 2011.

Jack Clark Francis (1991) defines investment is expected to generate additional funds in the future. Investment is also expressed as a dollar commitment within a specific period will be able to meet the needs of investors in the future: (1) the time the funds will be used, (2) the rate of inflation that occurred, (3) the uncertainty of economic conditions in the future will come (Frank Reilly; 2003). Each investment activities inherent risks, on the one hand investors want a return, and on the other hand there is a risk that must be borne. Risk is uncertainty as to the occurrence of something or not the realization of expectations at a certain time (Batuparan, 2000). Therefore Return of an asset is a return as a result of an investing activities.

The aims of capital participation is to get the economic benefit, social and other benefits such as profit or a certain amount within a certain period in the form of dividends, interest and growth in the value of the regional company and obtaining local government investment; increase the regional revenue for a certain period as a direct result of the investment, while the goal is to promote the growth and development of the regional economy and increase local revenue (Home affair minister's regulation number 52, 2012).

3. Research Method

3.1 Type and Method of Data Collecting

The data used in this study are secondary data consisting of :

1. Data equity of Kutai Kartanegara Government into Bankaltim from 2006 to 2014 ;
2. The annual dividend data on investment in point 1) of the above for the period 2006 to 2014 ;
3. Legislation issued by the Central and Local Government as a guideline for the implementation of local government capital participation ;
4. The data of bank rate published by Bank Indonesia from 2006 to 2014

Data collected from information which has been issued by the local government in the form of local regulations, Bankaltim, and Internet downloads.

3.2 Data

The Secondary data on the value of capital participation of Kutai Kartanegara Regency government into Bankaltim since 2006 to 2014 as set forth in Table 1 below.

Table 1: Value of Local Government Capital Participation Period 2006 to 2014

	Year	Capital participation	Accumulated Capital Participation
1	2006	31,885,000,000.00	31,885,000,000.00
2	2007	7,600,000,000.00	39,455,000,000.00
3	2008	15,000,000,000.00	54,455,000,000.00
4	2009	20,000,000,000.00	74,455,000,000.00
5	2010	70,000,000,000.00	144,455,000,000.00
6	2011	90,000,000,000.00	234,455,000,000.00
7	2012	118,725,000,000.00	353,180,000,000.00
8	2013	100,000,000,000.00	453,180,000,000.00
9	2014	0	453,180,000,000.00

Source of data: Capital Participation Kutai Kartanegara

Regency into Bankaltim

The Secondary data on dividends over capital of the Government Kutai Kartanegara into Bankaltim period 2006 to 2014 as shown in Table 2.

Table 2: Net Dividend Period 2006 to 2014

No	Year	dividends Net	Accumulated Dividends
1	2006	5,529,638,944.44	5,529,638,944.44
2	2007	10,118,347,644.50	15,647,986,588.94
3	2008	10,402,805,356.00	26,050,791,944.94
4	2009	11,259,911,533.32	37,310,703,478.26
5	2010	11,215,997,729.35	48,526,701,207.61
6	2011	23,274,192,218.43	71,800,893,426.04
7	2012	21,033,289,987.81	92,834,183,413.85
8	2013	34,941,394,661.05	127,775,578,074.90
9	2014	53,553,694,504.01	181,329,272,578.91

*Source of data: Branch Bankaltim Tenggarong

Other secondary data to support the analysis of the effectiveness of capital investment decisions by local governments is the average data rate issued by Bank Indonesia as follows:

Table 3: Average Bank Rate Period 2006-2014

No	Year	Bank Indonesia Rate
1	2006	11.83%
2	2007	8.60%
3	2008	8.67%
4	2009	7.15%
5	2010	6.5%
6	2011	6.58%
7	2012	5.77%
8	2013	6.48%
9	2014	7.54%
Average rate		7.67%

*Source of Data : Bank Indonesia

3.3 Methods of Analysis

Return on Investment (ROI) is part of profitability ratio. ROI is a measure used to evaluate the effectiveness of an investment. This tool is most often used to evaluate the consequences of decisions and actions in a business investment. ROI also show a return on investment which is the ratio of money gained or lost on an investment expressed as a percentage. According to Brigham and Houston (2001) ROI is formulated as follows.

$$ROI = \frac{\text{Earnings} \times 100}{\text{Total Investment}} \quad (1)$$

The higher values indicates more effective ROI percentage of capital investments. to ensure that the Kutai Kartanegara government's capital participation decision is right, when the percentage of ROI is higher than the average bank interest rates.

4. Result and Discussion

4.1. Result

Based on the data obtained and analyzed with the ROI formula obtained the following results:

Table 4: Results of ROI Calculation Period 2006 to 2014

Year	ROI Calculation	ROI
2006	= 5,529,638,944.44/31,855,000,000.00 x 100%	17.36%
2007	= 15,647,986,588.94/39,455,000,000.00 x 100%	39.66%
2008	= 26,050,791,944.94/54,455,000,000.00 x 100%	47.84%
2009	= 37,310,703,478.26/74,455,000,000.00 x 100%	50.11%
2010	= 48,526,701,207.61/144,455,000,000.00 x 100%	33.59%
2011	= 71,800,893,426.04/234,455,000,000.00 x 100%	30.62%
2012	= 92,834,183,413.85/353,180,000,000.00 x 100%	26.29%
2013	= 127,775,578,074.90/453,180,000,000.00 x 100%	28.20%
2014	= 181,329,272,578.91/453,180,000,000.00 x 100%	40.01%

*Source of data : data processed results

ROI on capital participation activities for nine years on the table 4 showed that the percentage was quite good, although slightly fluctuated but has a tendency to increase . The percentage of high ROI and above-average interest rates showed local government capital participation decision into Bankaltim was effective . Fluctuations in the level of ROI on equity into Bankaltim can be shown by Figure 1 below

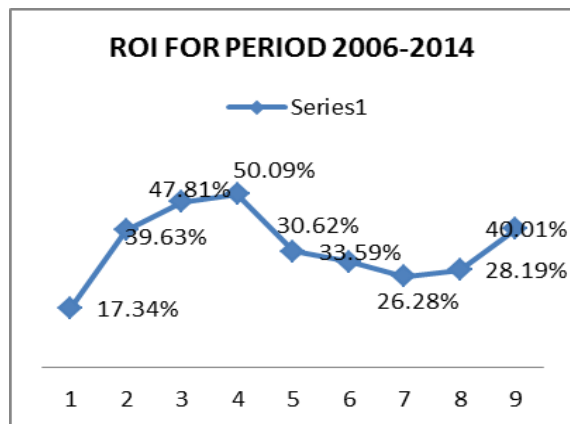


Figure 1: The level of ROI Year 2006 to 2014

4.2. Discussion

The movement level of ROI growth in the period of 2006-2014 showed a fluctuating growth. ROI with positive growth occurred in 2006 to 2009, it increased respectively 22.30%, 8.18%, 2.27%. Furthermore ROI with negative growth occurred from 2009 to 2012, it decreased respectively -16.52%, -2.97%, -4.33%, then the ROI returned to positive growth from 2012 to 2014, the growth was as follows 1.91%, 11.81%. All the ROI observed showed above the average of

bank rate in the same period. The percentage value of excess return respectively shown as follows: 5.53%, 31.6%, 39.17%, 42.97%, 27.09%, 24.04%, 20.52%, 21.72%, 32.48%. This means that capital investment decisions from 2006 to 2014 seen from the movement of the ROI percentage indicated effective decisions, because capital investment made capable of generating a profit with the rising trend from year to year. Apart from this, the ROI percentage is above the average bank rate, it showed the equity was able to generate profit and could contribute to the regional income. Thus, the results of the analysis from financial aspects using ROI tool proved that the decision of Kutai Kartanegara government in investing into Bankaltim during the period 2006 to 2014 was not wrong, although at the time the decision was politically consideration.

5. Conclusion

The study of Kutai Kartanegara Regency Government capital participation into Bankaltim in the period 2006 to 2014 can be concluded that:

1. Based on the financial analysis for capital investment decisions in the period 2006 to 2014 have an average percentage ROI of 34.85% was above the average bank rates of 7.67% and was an effective decision.
2. Capital Participation of Kutai Kartanegara government for the last nine has been able to generate profits in the form of dividends and contribute to regional income.
3. Political considerations are important for the government in capital participation as a form of actualization of the government with the largest budget value in the province of East Kalimantan, but the feasibility of investment of the financial aspects must be absolutely executed.
4. Regardless of the considerations of the regulation application on local government investment, the capital participation into Bankaltim in the running current year of 2015 and the future is feasible.

6. The Future Scope

The study was limited to the ROI that only took into account the ratio between the earnings of the total investment, and not consider the level of risk inherent in investment activity into Bankaltim. It also has not made a comparison with the approach of the time value of money between investments into Bankaltim compared with investments in real assets. It is therefore suggested to the next researchers consider the aspects and risks or compare with other alternative investments

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Author Profile



Indah Martati received the Bachelor degree in Management from Institute of Economic Science Muhammadiyah Samarinda, Indonesia in 1991 and Master degree in Financial Management from Gadjah Mada University, Yogyakarta, Indonesia in 2001 and Doctorate Program (Dr) in Finance from University of Hasanuddin, Makassar, Indonesia in 2010. Starting from 1987 to the present she has worked in Politeknik Negeri Samarinda as a lecturer in Business Administration Department. She teaches Financial Management, Budgeting, Taxation, Consumer Behavior, Marketing Simulation, and Business feasibility Study. Since 2001 she has been active in research in the area of Business, Economic and Social funded by both Directorate of Higher Education Indonesia and regional Government of East Borneo. In addition, from 2007 to now she has also assisted Regional Parliament of Kutai Kartanegara Regency as experts in economics and finance.