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THE EFFECT OF LOCALLY-GENERATED REVENUE, CAPITAL EXPENDITURE, AND INVESTMENT ON ECONOMIC GROWTH IN LAMONGAN (INDONESIA), 2010–2019

Since economic growth is a macro indicator of successful development, all countries strive to get maximum economic growth to create public welfare, especially for developing countries. Therefore, using the example of a city in one such country, namely Lamongan in Indonesia, let's examine the effects of local income, capital expenditure and partial investment simultaneously on economic growth. Thus, the object of the research is the influence of locally-generated revenue, capital expenditure, partial investment, and simultaneously economic growth in the Lamongan in 2010–2019.

This research was established with a quantitative approach. The data used are secondary data published by the Central Bureau of Statistics of Lamongan, the Regional Financial and Asset Management Agency of Lamongan, the Office of investment, and One-Stop Services, Lamongan in 2010–2019. The results of the study conclude that partially the locally-generated revenue variable has a significant negative effect on economic growth in Lamongan in 2010–2019, capital expenditure has a significant positive impact on economic growth in Lamongan in 2010–2019, and investment did not hurt economic growth in Lamongan in 2010–2019. Simultaneously, the locally-generated revenue variables, capital expenditure, and acquisition significantly affected Economic Growth in Lamongan in 2010–2019. This study's results are expected to become information, reference materials, and references to develop and expand future research. For the Lamongan government, this research can be used as a necessary consideration and input to improve policies related to increasing economic growth of country.

Keywords: *quantitative approach, secondary data, economic recommendations, improve policies, increasing economic growth.*

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1. Introduction

According to the author of [1], economic growth is a macro indicator of successful development. All countries strive to get maximum economic growth to create public welfare, especially for developing countries.

The authors of [2] explain that the indicator of economic growth is the Gross Domestic Regional Product (GDRP).

Locally-Generated Revenue is income derived from the area and taken by the local government [3]. The financing used by the government for activities and development in a region depends on the income received by a part. If an area's payment is continuously increasing, the regional development will improve the facilities and infrastructure to support community activities.

According to the author of [4], the indicators of Locally-Generated Revenue:

1. The results of local taxes.
2. The results of local retribution.
3. The results of separated regional wealth management.
4. The other legitimate local revenue.

According to the author of [5], capital expenditure is a cost incurred to acquire assets and can be used for more than one year, including maintenance costs that can increase capacity and quality.

The authors of [6] explain that capital expenditure indicators are as follows:

1. Capital expenditures for land.
2. Capital expenditures for equipment and machinery.
3. Capital expenditures for building.
4. Capital expenditures for roads, irrigation, and networks.
5. Capital expenditures for other fixed assets.

According to the author of [7], an investment can be defined as a delay in current consumption for inefficient production over a certain period. The author of [8] states that foreign direct investment is not only limited to simple transfers of money, but has been expanded to be defined as a measure of foreign ownership of productive domestic assets such as factories, land, and organizations and other intangible assets such as technology, marketing skills, and managerial capabilities.

The author of [7] explains that investment indicators are as follows:

1. Foreign Investment.
2. Domestic Investment.
3. Non-facility Domestic Investment.

A country always makes an effort to realize the maximum economic growth level to encourage its nationals to be better. Indonesia is a developing country with diversity, including education, culture, ethnic groups, natural resources, social, and economy. The authors of [9] stated that Locally-Generated Revenue is an indicator of local government productivity influenced by local government innovation in developing productive assets. The increase in Locally-Generated Revenue can increase the government budget for providing public facilities. Government spending is allocated through regional funds and can be measured through routine spending and development spending. Increasing local government spending will improve the economy of a region that is more focused on capital spending. Lamongan has abundant natural resources expected to optimize the potential contained so that regional income can increase.

The author of [10] states that Locally-Generated Revenue has a positive effect on economic growth, and Capital Expenditure positively impacts economic growth in Districts/Cities on the island of Sumatra. The authors of [11] state that partial investment does not affect economic growth. Locally-Generated Revenue does not affect economic growth in Kediri. The authors of [12] state that Locally-Generated Revenue does not affect economic growth, the General Allocation Fund has a significant effect on economic growth, and the Special Allocation Fund has a substantial impact on economic growth. The author of [13] states that Locally-Generated Revenue has a positive and significant effect on economic growth (Gross Domestic Regional Product (GDRP)). Meanwhile, capital expenditure has no impact on economic growth. The authors of [14] state that capital expenditure has a significant positive effect on economic growth. Meanwhile, investment has a significant positive impact on economic growth.

Besides, increased economic growth in Lamongan can be encouraged by investment. Investment is the main economic growth factor because it can lead to high output, causing demand for inputs and increased employment opportunities [15].

Therefore, research of the influence of Locally-Generated Revenue, Capital Expenditures, and Partially investment and simultaneously on Economic Growth in Lamongan is *relevant*.

Thus, *the object of research* is the influence of Locally-Generated Revenue, capital expenditure, partial investment, and simultaneously economic growth in the Lamongan in 2010–2019. And *the aim of research* is to determine the influence of Locally-Generated Revenue, capital expenditure, partial investment, and simultaneously economic growth in the Lamongan in 2010–2019.

2. Methods of research

This type of research is a descriptive study with a quantitative approach. The data used are secondary in the form of Locally-Generated Revenue data, Capital Expenditures, Investment, and Economic Growth.

The operational definition in this research, namely:

1) economic growth is an increase in output or an increase in aggregate national income in one period, for

example, one year in Lamongan. Data is taken from At a Constant Price Basis Gross Domestic Regional Product (GDRP) 2010–2019, which is sourced from the Central Statistics Agency of Lamongan;

2) Locally-Generated Revenue is revenue received and sourced from Lamongan and collected based on predetermined regulations. The data is taken from the report on the realization of the Lamongan Regional Revenue and Expenditure Budget for 2010–2019, which is sourced from the Regional Financial and Asset Management Agency of Lamongan;

3) capital expenditure is the cost incurred by Lamongan to acquire assets and can be used for more than one year, which includes maintenance costs that can increase capacity and quality. The data is taken from the report on the realization of the Lamongan Regional Revenue, and Expenditure Budget for 2010–2019, which is sourced from the Regional Financial and Asset Management Agency of Lamongan;

4) investment is defined as a measure of foreign ownership, productive domestic assets such as factories, land, organizations, and others. Intangible assets such as technology, marketing skills, and managerial capabilities are contained in Lamongan. The data is taken from the investment realization reports based on Foreign Investment, Domestic Investment, and Domestic Investment non-facilities in Lamongan in 2010–2019, which are sourced from the Investment Service and One Stop Services of Lamongan.

This study used multiple regression models using the *Statistical Package for the Social Sciences (SPSS) for Windows program*. Regression analysis is used to determine the dependent variable; in this case, economic growth is influenced by the independent variables consisting of (1) Locally-Generated Revenue, (2) Capital Expenditure, and (3) Investment. With the equation formula used as follows [16]:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e,$$

where Y – Economic Growth; X_1 – Locally-Generated Revenue; X_2 – Capital Expenditures; X_3 – Investment; α – Constant; β – Regression Coefficient; e – Error.

3. Research results and discussion

3.1. Research results. The values of Locally-Generated Revenue, Capital Expenditures, Investment, and Economic Growth in 2010–2019 are as follows (Table 1).

Statistical calculations in multiple linear regression analysis using Statistical Package for the Social Sciences (SPSS) 16, because this is not a research study panel data, and the data processing as follows (Table 2).

Based on Table 2, it shows that partially the Locally-Generated Revenue variable (X_1) has a significant negative effect on Economic Growth (Y), with a significance value of 0.001. Because the probability <0.05 , the hypothesis «it is suspected that Locally-Generated Revenue has a positive and significant effect on Economic Growth in Lamongan in 2010–2019» is rejected. Partially the Capital Expenditure variable (X_2) has a significant positive effect on Economic Growth (Y), with a significance value of 0.000. Because the probability <0.05 , the hypothesis «it is suspected that Capital Expenditure has a positive and significant effect on Economic Growth in Lamongan

in 2010–2019» is accepted. Partially the investment variable (X_3) has no significant adverse effect on Economic Growth (Y), with a significance value of 0.483. Because the probability >0.05 , the hypothesis «it is suspected that investment has a positive and significant influence on Economic Growth in Lamongan in 2010–2019» is rejected.

Table 1

Data on Locally-Generated Revenue, Capital Expenditure, Investment, and Economic Growth in Lamongan

No	Year	Quarter	Locally-Generated Revenue	Capital Expenditures	Investment	Economic Growth
1	2010	Quarter I	21,011	20,146	309,994	3,431,844
2	2010	Quarter II	23,315	21,911	346,587	4,222,213
3	2010	Quarter III	23,842	22,366	443,399	4,247,742
4	2010	Quarter IV	25,899	37,040	538,799	4,373,442
5	2011	Quarter I	24,877	36,506	832,370	3,104,304
6	2011	Quarter II	26,032	46,843	965,690	4,325,195
7	2011	Quarter III	26,059	50,264	968,741	4,691,490
8	2011	Quarter IV	26,368	51,444	1,098,483	5,239,499
9	2012	Quarter I	27,029	64,212	879,941	3,647,554
10	2012	Quarter II	27,150	65,687	907,255	4,419,634
11	2012	Quarter III	27,177	65,530	907,883	4,774,542
12	2012	Quarter IV	27,252	66,691	920,687	5,720,965
13	2013	Quarter I	30,728	46,433	243,350	3,463,979
14	2013	Quarter II	30,949	42,722	284,450	4,916,955
15	2013	Quarter III	31,376	56,583	172,200	5,560,933
16	2013	Quarter IV	31,552	68,594	273,400	5,906,972
17	2014	Quarter I	42,968	56,664	986,025	3,516,656
18	2014	Quarter II	43,720	57,441	914,100	4,219,987
19	2014	Quarter III	44,897	64,661	1,061,033	5,274,984
20	2014	Quarter IV	47,304	87,877	982,944	8,088,309
21	2015	Quarter I	64,339	57,131	628,460	3,719,480
22	2015	Quarter II	64,690	76,551	736,611	4,463,376
23	2015	Quarter III	64,917	78,327	856,921	5,579,220
24	2015	Quarter IV	72,821	109,298	913,350	8,554,803
25	2016	Quarter I	77,882	84,913	1,258,572	3,937,299
26	2016	Quarter II	78,281	91,188	1,576,263	4,724,758
27	2016	Quarter III	78,308	92,782	1,765,165	5,905,948
28	2016	Quarter IV	82,660	110,245	1,930,291	9,055,787
29	2017	Quarter I	101,244	88,708	511,313	4,153,825
30	2017	Quarter II	101,256	92,847	528,460	4,984,590
31	2017	Quarter III	101,483	103,771	582,227	6,261,238
32	2017	Quarter IV	109,048	121,757	623,254	9,553,753
33	2018	Quarter I	115,487	103,579	519,685	4,380,153
34	2018	Quarter II	115,890	105,964	558,944	5,256,184
35	2018	Quarter III	116,017	146,946	571,371	6,570,229
36	2018	Quarter IV	124,173	159,296	626,743	10,074,352
37	2019	Quarter I	122,018	104,868	418,079	4,618,243
38	2019	Quarter II	123,994	106,446	440,643	5,541,892
39	2019	Quarter III	124,221	117,170	456,258	6,927,365
40	2019	Quarter IV	133,751	160,194	517,316	10,621,959

Table 2

Multiple Regression Test Results

Model	Coefficients			t	Significance	Result
	Unstandardized coefficients		Standardized coefficients			
	B	Standard Error	Beta			
(Constant)	2.017	523803.741	–	3.850	0.000	–
1 Locally-Generated Revenue	–38.052	10.793	–0.776	–3.525	0.001	Significant Negative
Capital Expenditures	78.229	11.859	1.457	6.597	0.000	Significant Positive
Investment	–0.338	0.477	–0.071	–0.708	0.483	Not significant

Note: a – dependent variable: economic growth; B – coefficient of determination; t – partial regression

The F test is used to see the effect of the independent variable on the dependent variable simultaneously. Based on the data analysis, the calculated F_{value} is 26.069, with a significant level of 0.000, where the significance obtained is less than 0.05. This value indicates that the Locally-Generated Revenue, Capital Expenditure, and Investment together significantly impact the Economic Growth variable in Lamongan 2010–2019.

3.2. Discussion

3.2.1. Results of the Influence of Locally-Generated Revenue on Economic Growth in Lamongan 2010–2019. The high Locally-Generated Revenue in Lamongan is obtained from the Regional Tax, Regional Retribution, and Proceeds from the Management of Separated Regional Assets and other legitimate locally-generated income. From the data that has been explained, it can be seen that the Locally-Generated Revenue produced by Lamongan has been maximally extracted, but the Locally-Generated Revenue obtained by Lamongan is used for development capital expenditures in the form of buildings and offices. The construction work for eight building and office packages with a total budget of IDR 3,095 billion, on average, has been done between 65 percent and 70 percent [17]. The construction absorbs many funds from the Locally-Generated Revenue Lamongan. Still, the public's benefits can't be perceived to increase the Economic Growth contained in Lamongan.

This research is by research conducted by [18], Locally-Generated Revenue has a significant negative effect on economic growth. This is because the potential of East Java Province is not fully maximized so that Locally-Generated Revenue has not been able to encourage economic growth. However, this research is not in line with the study conducted by [13]. Locally-Generated Revenue has a positive and significant effect on economic growth (Gross Domestic Regional Product (GDRP)), which means that the higher the Locally-Generated Revenue generated by the City government will increase the level economic growth of an area.

3.2.2. Results Effect of Capital Expenditure on Economic Growth in Lamongan Year 2010–2019. The Capital Expenditure of Lamongan has increased every year; this can be seen in the Lamongan Regional Revenue and Ex-

penditure Budget realization data. The revenue of Lamongan is maximized so that infrastructure development will increase. The infrastructure built is in the form of district roads and village roads, so that it makes economic growth Lamongan continually growing.

This research follows research conducted by [10]. Capital Expenditure has a positive effect on economic growth in Districts/Cities on the Island of Sumatra. However, this study is not in line with [13]; capital expenditure does not affect economic growth.

3.2.3. Results Effect against Economic Growth Investing in Lamongan Year 2010–2019. Investment does not affect the economic growth in Lamongan. This is because the investment climate condition is not yet conducive, such as information on investment opportunities that have not been widely promoted. Investors do not have information; investment prospects are not promising; capital accumulation is still low due to extreme consumption.

This research is under the research conducted by [19]; investment does not affect economic growth. However, this study is not in line with [14]; investment has a significant positive effect on economic growth.

4. Conclusions

Based on the results of data analysis and hypothesis testing regarding the effect of Locally-Generated Revenue, Capital Expenditure, and Investment on economic growth in Lamongan in 2010–2019, it can be concluded as follows:

1. Locally-Generated Revenue has a significant negative effect on Economic Growth in Lamongan in 2010–2019.
2. Capital Expenditure had a significant positive impact on Economic Growth in Lamongan in 2010–2019.
3. The Investment did not have a substantial effect on Economic Growth in Lamongan in 2010–2019.
4. Locally-Generated Revenue, Capital Expenditures, and Investment significantly impact Economic Growth in Lamongan in 2010–2019.

Based on the results of the discussion and conclusions drawn in this study, some suggestions can be made as follows:

1. Locally-Generated Revenue in Lamongan should be directed at matters that directly impact the people of Lamongan and be used for the construction and repair of community service facilities, such as irrigation channels, village bridges, and roads.
2. The Lamongan Government must carry out development to remote villages so that infrastructure development can be evenly distributed, to increase economic activity in Lamongan.
3. The Lamongan Government must encourage investment in Lamongan by improving public services, increasing a healthy business climate, and ensuring legal certainty so that investment can run optimally and increase the economic growth of Lamongan.

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