SUMMARY

M.YUSUF, The Participation of Local Government Capital in Regional Development Banks in Indonesia. Supervised by SRI HARTOYO, ADLER H. MANURUNG and YUSWANDI A.TEMENGGUNG.

The participation of local government capital in Regional Development Banks (BPD) is a program of local government in order to promote the welfare of the people in Indonesia, this is in view of Law number 23 of 2014 on Local Government, Law Number 1 of 2004 on State Treasury, Regulation of the Minister of Home Affairs Number 52 Year 2012 on Guidelines for the Management of Local Government Investment. The purpose of this study are (1). Analyze the impact of changes in capital participation policies, personnel expenditures (burden) of BPD Banks and increase retribution on other provincial fiscal performance for the welfare of communities in Indonesia; (2). Identify factors that affecting the provincial capital participation policy simultaneously to the profit of the Regional Development Bank and the provincial fiscal policy for the welfare of communities in Indonesia; and (3) Formulating appropriate fiscal policies in order to improve the performance of Bank BPD and optimalizating the fiscal performance in other provinces for the welfare of the people in Indonesia.

This study begins with a study of literature related to investment and rules that give authority to the local government to make direct investments in the form of equity participation. The Grand theory used in this research is the theory of investment along with the results of previous research related to local government investment. The method used is regression of simultaneous equation system 2SLS (two stage least square) with eight structural equations and one identity equation as a tool to analyze endogenous and exogenous variables.

The results of the study describe eight structural regression equations in general either, the exogenous variables in the equation are compatible with the economic and statistical criteria. Based on that, the result of the analysis shows the criteria of statistical model R^2 value between 39.96% to 93.24%, with R^2 details above 70% are in six equations, it means that the variation of independent variable in each equation can explain each percentage of variation variables described (dependent).

Based on the estimation result, the built model has been eligible to estimate the actual condition marked by all U-Theil's test close to 0 and R^2 close to 1. The simulation result of the policy is formulated in two groups: single policy and combination policy. In actual practice the provincial government or the Governor in making the policy of provincial government capital participation is made on the agreement between the executive and legislative as set forth in the Regional Regulation. The simulation of the policy is formulated to find out how big the influence of the change of policy concerning fiscal area especially the change in the level of social welfare as the main goal in determining the regional policy through the role of Regional Development Bank as measured instrument of fiscal policy area.

The implementation of simultaneous equation method is one of the tools of analysis of fiscal policy in both single and quantitative policies can predictable quantities of desired change of a policy. The single policy on each exogenous

variable directly affects the endogenous variable both positive and negative. Single policy if the coefficient in the simultaneous equation is positive then the change of the endogenous variable is entirely positive, otherwise if negative coefficient then all endogenous variables will turn negative

The implementation of a combination policy on the variables under the Governor's authority will result in both negative and positive changes. Negative and /or positive changes depend on the number of simulated numbers performed on each of the exogenous variables. Combination policy simultaneously raise three policy variables with the same percentage increase that increases regional equity participation, raises the expenditure of bank employees and raises the local retribution directly impact on the decrease of profit of BPD Banks, the increase of original regional income. Indirectly increase the dividend, the realization of regional revenue, with increasing regional revenue will increase equity participation. Increased local revenue also encourages SILPA increase, capital expenditure thus increasing per capita income.

Keywords: equity participation, policy simulation, simultaneous equation