

# CHAPTER I

## INTRODUCTION

### A. Research Background

In 2013 economic growth was 7.21%, steadily decreasing to 5.21% in 2019. One of the causes of the economic decreased of Riau Islands province in 2013-2019 is Local Own-Source Revenue. Local Own-Source Revenue is an important indicator of economic growth. On the other hand, tourism in the Riau Islands has very good potential. However, it is still rarely discussed. This requires more attention, not only in the media, but attention in research.

At present, regional autonomy has increasingly expanded its duties with the enactment of Law No. 32 of 2004, so that regions have wider authority in regulating and managing their own households. The ultimate goal of regional autonomy is to increase the efficiency and effectiveness of government administration, especially in terms of public services and the implementation of development in the regions. Regulations made by local governments to ensure the smooth implementation of national economic policies. From the authority granted by the central government, regional governments can be used as opportunities to develop the economy in their regions (Mentayani et al, 2014).

Problems related to economic development experienced by the Riau Islands province in 2013-2019 were decreasing. In the 2013-2019

period economic growth in the Riau Islands Province showed a decline from year to year.

According to Kuncoro (1995) as quoted by Liaran (2021: 444), it is feared that the implementation of regional autonomy will cause many districts/cities to be unable to finance their regional needs. This can be seen from the existing regional financial conditions where the portion between Local Own-Source Revenue (PAD) and central assistance is very small, that more than half of the districts/cities in Indonesia have very minimal Local Own-Source Revenue in financing their regional budget needs, namely below 15% of the total budget as a whole.

The demand for an increase in Local Own-Source Revenue (PAD) is getting bigger as more and more government authority is devolved to the regions accompanied by the transfer of personnel, equipment, financing and documents to the regions in large quantities. Meanwhile, so far the equalization fund which is a financial transfer by the government to the regions in order to support the implementation of regional autonomy although the amount is relatively adequate, the regions must be more creative in increasing their Local Own-Source Revenue. Therefore, regions must be able to explore potential sources of Local Own-Source Revenue to the maximum but of course must be within the corridors of applicable laws and regulations.

According to Mardiasmo (2002:132), Local Own-Source Revenue is revenue obtained from the local tax sector, regional levies, the proceeds of

regionally owned enterprises, the results of the management of segregated regional wealth and other legitimate local original income. Taxes for local governments act as the main income and as a measuring tool for local finances. Taxes as a source of local revenue are used to finance government administration, build and improve infrastructure, provide educational, health facilities and finance local government expenditures in meeting the needs of public goods that cannot be provided by the private sector.

**TABLE 1. 1**  
**Development of Local Own-Source Revenue of Regency/City in Riau Island Province in 2013-2019 (In Billions)**

Regency/City	Year						
	2013	2014	2015	2016	2017	2018	2019
Tanjungpinang	83.81	125.17	12.51	122.89	114.00	116.44	119.81
Batam	511.13	779.94	836.71	891.91	1.160.20	1.413.17	1.911.13
Bintan	133.95	190.84	186.63	178.38	225.01	240.75	247.95
Karimun	204.43	310.38	360.64	310.60	348.75	350.39	352.75
Natuna	30.92	32.41	34.40	35.21	43.65	74.00	87.03
Lingga	17.42	17.52	21.01	20.30	21.00	22.07	27.61
Kepulauan Anambas	40.77	21.48	17.21	24.29	34.10	38.40	43.77

Source: Riau Islands Tourism Office, (Data processed 2020)

In table 1.1 that the Development of Local Own-Source Revenue from 2013-2019 has increased. The highest original regional income was obtained by the Batam City area in 2019 amounting to Rp. 1,911,135,469,396, Karimun Regency in 2019 amounting to Rp. 352,757,543,449, Bintan Regency in 2019 amounting to Rp. 247,959,953,600, Tanjungpinang City in 2019 amounting to Rp. 119,818,759,250. And the other 3 lowest regencies were obtained by Natuna Regency in 2019 amounting to Rp. 87,033,510,000, Lingga Regency in

2019 amounting to Rp. 27,616,576,366, Anambas Islands Regency in 2019 amounting to Rp. 43,777,120,000.

The large level of Local Own-Source Revenue in Regency/City in Riau Islands Province causes adjustments to allocations related to Local Own-Source Revenue components consisting of regional taxes, regional levies, segregated regional wealth management results and other legitimate Local Own-Source Revenue.

Thus taxes are one of the sources in Local Own-Source Revenue. If local taxes increase, the local government's Local Own-Source Revenue will automatically increase. As one of the components of Local Own-Source Revenue, local governments must strive to increase local taxes. In order to increase local taxes, local governments need to increase factors related to increasing local taxes.

Tax is an obligation to hand over part of the wealth to the state treasury caused by circumstances, events and deeds that give a certain position. Taxes are not as punishments given by the government to its people, tax collection can be carried out according to regulations that have been set by the government and can be imposed but there is no reciprocal service from the state directly. Taxes aim to maintain welfare in general (Rasmi, 2014: 1).

As with taxes in general, the next factor that can be related to the increase in Local Own-Source Revenue is from the tourism sector. Tourism in Indonesia is growing and able to compete with other countries. According to Law No.10

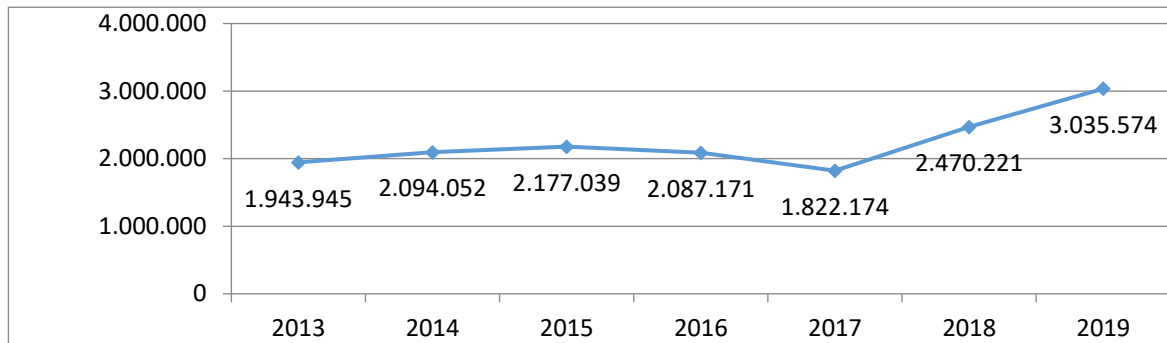
of 2009, tourism is a variety of tourist activities and is supported by various facilities and services provided by the community, entrepreneurs, government and local governments. Tourism itself is a travel activity carried out by a person or group for recreation, learning the uniqueness of the area or personal development in a temporary period of time.

Riau Islands Province which is relatively safe and comfortable with the hospitality of its people, makes this area much in demand by people or tourists to visit, it is not surprising that if every year the number of tourist visits, both foreign tourists and domestic tourists who come continues to increase, this shows the increasing trust of the community or tourists from outside the region in the situation and conditions of the region, therefore, regional communities are increasingly required to be aware of tourism and apply *sapta pesona*, maintain and increase environmental sustainability awareness in order to increase the number of domestic and foreign tourist visits to the Riau Islands in the future.

This shows that the number of tourists contributes positively to the Local Own-Source Revenue of an area. This is in accordance with the statement from Nawawi (2013) that the number of tourist visits has a direct effect on Local Own-Source Revenue. This means that the more and longer tourists stay in each tourist visit, the direct economic influence of the existence of these tourists is also increasing.

According to Clement, (in Yoeti, 2008) tourists who come to a country or destination, they will definitely spend money to meet their needs and desires while staying in that country or destination. Surely tourists will use their money to make transactions. After going through several transactions in a one-year period, it will only stop circulation if the money no longer has an influence on the economy of the country or destination visited.

Domanski and Gwosdz (2010), state that tourism visits can be a *multiplier effect*. *The multiplier effect* of tourism visits can be seen through business growth indicators that can increase local tax revenues which can ultimately be used to improve regional infrastructure or services to the community. Therefore, if it is associated with tourism in the Riau Islands with the opinions expressed by Domanski and Gwosdz regarding the *Multiple Effect* concept, it will be related to taxes and levies taken from tourism places in the Riau Islands. The tourism industry in the Riau Islands will indirectly have a significant impact on the welfare of the community through local tax revenues and will be continued for the development of infrastructure and public facilities. That means, the better the development of the tourism industry in the Riau Islands, the more taxes that can be collected by local governments and the more funds that the government can use to build infrastructure and advance the region.



Source: Riau Islands Tourism Office, (Data processed 2020)

**FIGURE 1. 1**  
**Growth Rate of Number of Tourist to Riau Islands in 2013-2019 (In Million People)**

From figure 1.1 we can conclude that the most number of visitors was found in 2019. From 2013-2015 there was a continuous increase in the number of visitors. And in 2016-2017 there was a decrease of Rp. 1,822,174 people in 2017, while in 2018-2019 there was again a significant increase of Rp. 3,035,574 people in 2019. In order for the Riau Islands government's business to run well according to the programs and visions that have been made, it is currently necessary to establish cooperation with other regions and several tourist travel owners in order to promote tourism.

The number of tourists visiting an area is closely related to the income of the area itself. The longer tourists stay in a tourist destination, the more money is spent in the tourist destination area, while staying in the area so that it has an impact on Local Own-Source Revenue which is getting bigger or increasing, this shows that the number of tourists has a positive effect on Local Own-Source Revenue. This statement is in line with the opinion of Austriana (2005)

which states that the more and longer tourists stay in a tourist destination, the more money is spent in the tourist destination area. With consumptive activities from both foreign tourists and domestic tourists, it will increase income from the tourism sector of an area. Therefore, the higher the flow of tourist visits, the more local income (Local Own-Source Revenue) derived from the large number of tourist visits increases. This statement is in line with the results of previous research from Nusa and Khoirudin (2020), Swantara and Darsana (2017), Suastika and Yasa (2017) which found that the number of tourists had a significant positive effect on Local Own-Source Revenue. This means that the more tourists who visit a certain area, the higher the Local Own-Source Revenue of that area.

Tourism in the growing Riau Islands Province will attract tourists to visit tourist objects in the Riau Islands. When tourists visit a tourist attraction, the tourist is charged a levy fee. Tourism object levy revenue is a source of tourism object revenue derived from the entrance ticket levy as well as other legitimate income derived from the tourism object (Pertiwi, 2014).

According to Mursid (2003), tourism objects are potentials that encourage the presence of tourists to a tourist destination. In its decisive position, tourist attractions must be designed and built or managed professionally so that they can attract tourists to come.



Tourist attractions are also tourist targets that have dominant physical elements that are attractive for tourists to visit with various tourist attractions as tourist targets that have dominant abstract elements (Law No.9 of 2009 concerning tourism). Riau Islands Province has a lot of natural beauty and cultural diversity that has the opportunity to sell its natural and cultural beauty to foreign and domestic tourists who will enjoy the natural and cultural beauty. The arrival of tourists will increase income for the area visited while for foreign tourists their arrival will increase foreign exchange for the country (Yoeti, 2008). Therefore, it is hoped that the government's support and policies to develop facilities and infrastructure to attract more tourists who want to visit so that they can stimulate the increase in Local Own-Source Revenue. The following is a table of the number of tourist attractions in the Riau Islands.

**TABLE 1. 2**

**Number of Tourism Objects in Regency/City of Riau Island Province. 2013-2019  
(In Units)**

Year	Number Tourism Objects						
	Bintan	karimun	Lingga	Natuna	Kep. Anambas	Batam	Tanjungpinang
2013	15	9	9	6	15	22	7
2014	18	9	10	8	17	25	9
2015	19	10	10	8	17	27	10
2016	19	10	10	11	20	27	13
2017	20	11	11	14	20	36	13
2018	20	13	12	14	21	36	15
2019	20	13	12	15	21	40	19

*Source: Central Bureau of Statistics Riau Islands, 2020*

From table 1.2, it is known that the number of tourism objects in Riau Islands Province always increases every year from 2013-2019. Bintan Regency has an ever-increasing number of tourist objects in 2013-2019, namely 15 tourist objects in 2013, 18 tourist objects in 2014, 19 tourist objects in 2015-2016 and 20 tourist objects in 2017-2019. In Karimun Regency, the number of tourist objects owned was 9 tourist objects in 2013-2014, 10 tourist objects in 2015-2016, 11 tourist objects in 2017 and an increase of 13 tourist objects in 2018-2019. In Lingga district, the number of tourist objects owned in 2013 was 9 tourist objects, an increase of 10 tourist objects in 2014-2016, 11 tourist objects in 2017 and to 12 tourist objects in 2018-2019. Natuna Regency has 6 number of tourist objects in 2013, in 2014-2015 it rose to 8 tourist objects, in 2016 it rose to 11 tourist objects, in 2017-2018 it experienced another addition of 14 tourist objects and in 2019 to 15 tourist objects. Meanwhile, in the Anambas Islands Regency, the number of tourist objects owned was 15 tourist objects in 2013, 17 tourist objects in 2014-2015, 20 tourist objects in 2016-2017 and an increase of 21 tourist objects in 2018-2019. Batam City has a total of 22 tourist objects in 2013, 25 tourist objects in 2014, 27 tourist objects in 2015-2016, in 2017-2018 the increase in the number of tourist objects is quite significant to 36 tourist objects and in 2019 to 40 tourist objects. And finally, Tanjungpinang City has 7 tourist objects in 2013, rose to 9 tourist objects in 2014, 10 tourist objects in 2015, in 2016-2017 rose to 13 tourist objects, in 2018 the number of tourist objects owned rose to 15 tourist objects and in 2019 rose to 19 tourist

objects. With the increasing number of tourist attractions offered, it should attract more tourists to visit and the regional income of the tourism sector in the Riau Islands will also increase.

This shows that the number of tourism objects also affects Local Own-Source Revenue in the Riau Islands. This statement is supported by the results of research from Sabrina and Mudzhalifah (2018) which found that the number of tourist attractions had a positive and significant effect on Local Own-Source Revenue. This means that the greater the number of tourist attractions in an area, the higher the Local Own-Source Revenue of the area.

The next factor is the Regional Income. According to Bambang and Aristanti (2007) Regional Income (GRDP) is the value of goods and services produced by all people living in an area. Meanwhile, Regional Income (GRDP) according to Purnastuti and Mustikawati (2008) is the market value of all goods and services produced over a period of one year in a regional area. The results of research conducted by Digdaya (2015), Arianto (2014) and Marliyanti and Arkadimana (2014) that gross regional domestic product (GRDP) on regional tax revenues. Regional Income (GRDP) has a positive effect in increasing regional tax revenue because if the Regional Income (GRDP) of a region increases, the ability of the region to pay taxes also increases so that it can increase its tax power so that tax revenues increase (Nurcholis, 2005).

The value of Regional Income (GRDP) or per capita income is obtained from various gross national income or gross domestic income in a given year

with the number of products in that year. Per capita income indicates people's ability to pay for their expenses including consuming goods and services. The greater the level of per capita income of the community has a positive influence in increasing tax revenue. Per capita income is one of the important indicators to know the economic condition of a region in a certain period usually one year.

Per capita income is one of the measures for the prosperity of a region, high per capita income tends to drive up the level of per capita consumption which further gives rise to intensive changes to the structure of production at a time when income increases, the demand for manufactured goods and services will inevitably increase faster than the demand for agricultural products (Todaro, 2000).

**TABLE 1. 3**  
**Regional Income (GRDP) Growth in Regency/City of Riau Islands Province, 2013-2019 (In Percent)**

Regency/City	Year						
	2013	2014	2015	2016	2017	2018	2019
Tanjungpinang	11.29	11.89	12.56	13.19	13.54	13.98	14.43
Batam	78.99	84.64	90.45	95.36	97.86	102.71	108.80
Bintan	10.74	11.42	12.01	12.62	13.24	13.88	14.54
Karimun	6.74	7.20	7.67	8.15	8.58	9.01	9.45
Natuna	13.00	13.58	14.11	14.53	14.66	15.03	15.22
Lingga	2.25	2.37	2.42	2.52	2.68	2.79	2.93
Kepulauan Anambas	1.51	1.62	1.71	1.82	1.91	1.97	2.07

Source: Central Statistic Agency of Riau Islands Province

Based on table 1.3, it can be seen that all areas in Riau Islands Province which includes Batam City, Tanjungpinang City, Bintan Regency, Karimun regency, Natuna Regency, Lingga Regency and Anambas Islands regency as a

whole experience an increase in Regional Income (GRDP) every year. Batam City is an area in Riau Islands Province that obtained the highest Regional Income (GRDP) during the 2013-2019 period. In 2019 Batam City obtained a Regional Income (GRDP) of Rp. 108,804,353.44, an increase from the previous year. Meanwhile, the lowest Regional Income (GRDP) in 2019 was the Anambas Islands Regency with a total of Rp. 2,076,233.05.

The increasing Regional Income (GRDP) can trigger the increasing size of Local Own-Source Revenue. Thus, it can be said that Regional Income (GRDP) has a positive effect on Local Own-Source Revenue. Regional Income (GRDP) has a direct impact on regional revenue generation as well as Regional Income (GRDP) is a function of Local Own-Source Revenue. With the increase in Regional Income (GRDP), it will increase or increase the Local Own-Source Revenue of local governments. This statement is in line with the opinion of Saragih (2003) in Handayani (2008) which reveals that if a person's income increases, it increases the ability of people to pay various levies set by the government, meaning that the higher the ability of the people to pay government levies, the higher the Regional Income (GRDP) shows that the higher the Regional Income (GRDP), which in the end results in the greater or higher the Local Own-Source Revenue. This description is in accordance with the results of previous research from Susanto (2014), Perwira (2018), Juliansyah and Sulkadria (2018), which stated that Regional Income had a

significant positive effect on Local Own-Source Revenue. This means that the greater the Regional Income, the higher the Local Own-Source Revenue.

The last factor that can relate to the original Income of the Region is the Inflation Rate. Inflation can be called a process of increasing prevailing prices in an economy. Inflation has several adverse effects on the economy, one of which is reducing real income (Sukirno, 2004). But with inflation, wages or salaries also rise, because real wages depend on the marginal productivity of labor. Economic well-being depends on relative prices, not on the entire price level.

The money supply determines the rate of inflation, the more money in circulation, the higher inflation. Inflation is considered a problem in the economy due to the decline in people's purchasing power. Thus, it can be stated that inflation also participates in influencing local income.

Inflation will increase Local Revenue whose determination is based on sales turnover, for example hotel tax and restaurant tax (Simanjutak in Halim, 2001). The statement shows that inflation has a positive and significant effect on Local Revenue. This means that if inflation is higher, then the Local Revenue of an area is also higher. This statement is in accordance with the results of previous research from Kadafi (2020) which found that inflation has a positive and significant effect on Local Revenue, which means that the higher inflation, the higher the Local Revenue.

Based on the background above, the problem in this case is how far the regional programs and efforts to optimize regional indigenous income in Riau Islands Province from various sources of regional income. The foregoing underlies the author to conduct a study entitled "**Determinants of Local Own-Source Revenue in Riau Islands Province 2013-2019**".

#### A. **Issue Limitations**

So that this study does not deviate from other subjects and is more detailed, the researcher's problems are limited to the influence of the Number of Tourists, Number of Tourism Objects, Regional Income and Inflation Rate on the increase in Local Own-Source Revenue in Riau Islands Province.

#### B. **Problem Formulation**

Based on the limitations of the problem that has been described above, the formulation of the problem in this study is as follows:

1. How does the number of tourists affect the Local Own-Source Revenue in Riau Islands Province?
2. How does the number of tourism objects affect the Local Own-Source Revenue of the Riau Islands Province?
3. How does Regional Income affect Local Own-Source Revenue in Riau Islands Province?
4. How does the Inflation Rate affect the Local Own-Source Revenue in Riau Islands Province?

### **C. Research Objectives**

1. To analyze the effect of the Number of Tourists on Local Own-Source Revenue in Riau Islands Province
2. To analyze the effect of the Number of Tourism Objects on Local Own-Source Revenue in Riau Islands Province
3. To analyze the effect of Regional Income (GRDP) on Local Own-Source Revenue in Riau Islands Province
4. To analyze the effect of inflation rate on Local Own-Source Revenue in Riau Islands Province

### **D. Research Benefits**

This research is expected to provide benefits for various parties including:

1. For Academics

The results of this study are expected to be a reference for further research, especially those related to the number of tourists in the number of tourist attractions, Regional Income and inflation rate for increasing Local Own-Source Revenue in the Riau Islands Province.

2. For Government

For the Riau Islands Provincial government, this research is expected to be useful as additional information and input for relevant institutions in policy making related to Local Own-Source Revenue in the Riau Islands province.