

CHAPTER FIVE ANALYSIS AND DISCUSSION

In this chapter the author analyzes the effects of Total Population, Government Spending and Gross Regional Domestic Product (GRDP) towards Local Revenue (PAD) in the Districts /Cities in Riau Province in 2010-2014. Data panel is a tool that used to analyze the influence of variables independent (Total Population, Government Spending and Gross Regional Domestic Product (GRDP) to dependent variable Local Revenue (PAD) with Fixed Effect as a model analysis, and settlement using the program statistical computer from Eviews8. The results of processing data I present in this chapter are the best estimation results and were qualified in economic theory, statistics and econometrics. With the hope, the results of this estimation can provide answers from the hypothesis proposed in this study. There are two approach methods that used in the regression of panel data, both are *Fixed Effect Model and Random Effect Model*, which previously tested with Chow Test and Hausman Test to determine which model is better used in this study.

A. Classic Assumption Test

1. Multicollinearity Test

In this study will detect the presence or absence multicollinearity with zero-degree test or view the partial correlations between the independent variable. As a rough rule (Rule of Thumb), if the correlation coefficient is high enough above 0.85 then presumably multicollinearity is in the model.

Conversely, if the correlation coefficient is relatively low, we assume that the model does not contain multicollinearity (Widarjono, 2005 in Sucipto, 2012).

In this test, multicollinearity, made an approach to the value of R^2 and the significance of the variables used. The data used include the time series and cross-section, and multicollinearity usually occurs in time series data on the variables used. By combining the data time series and cross-section, actually, issues that cause multicollinearity can be reduced, which means one variant that has nothing to do as has been suggested is a combination of time series and cross section, or better known as Data Pooling. Thus, technically there is no problem of multicollinearity.

Table 5.1
Multicollinearity Test (Coef Covariance Matrix)

	C	LOG(Total Pop.)	LOG(Gov. Spending)	LOG(GRDP)
C	17.56625	-0.718486	-0.590862	0.106311
LOG(Total Pop.)	-0.718486	0.147999	-0.071874	0.001698
LOG(Gov. Spend)	-0.590862	-0.071874	0.099828	-0.010533
LOG(GRDP)	0.106311	0.001698	-0.010533	0.002894

Source: Processed with Eviews8.0

From the test above, it can be concluded that the partial correlation between independent variables are no multicollinearity issues. Because, the value of correlation matrix less than 0.85.

2. Heteroscedasticity Test

Heteroscedasticity explained that there is a difference in a model of residual variance on observation. In this case, the problem comes from variations that used in cross section. Heteroscedasticity means every variants

of *disturbance term* which limited by a specific value in independent variables are the form of a constant value equal to σ^2 or in the same variants. Heteroscedasticity test aims to test whether the regression model occurred inequality variants of residuals in the observations to other observations which fixed, then it is called homocedasticity and if it different it is called heteroscedasticity (Sucipto, 2012).

In this test, to detect heteroscedasticity in panel data by using Park Test, where the probability value of all independent variables are not significant at level 5%. These circumstances explain the presence of the same variant or an existence of homocedasticity between the values of independent variables with the residuals of each variable itself. The table below, we can see the result of homocedasticity test using Park Test:

Table 5.2
Heteroscedasticity Test with Park Test

Variables	Prob.
C	0.1596
Log(Total_Population?)	0.0690
Log(Government_Spending?)	0.6330
Log(GRDP?)	0.3974

Source: Processed with Eviews8.0

The result from the test above, we see that probability value of all independent variables are greater than 5% (0.05), therefore the regression data from this study has no heteroscedasticity issues, all the independent variables are free from heteroscedasticity.

B. Model Selection

In analyzing the panel data model, there are three approaches that can be used, such Ordinary / Pooled Least Square, Fixed Effect Model and Random Effect Model. First of all, the test statistic that used to determine the model is using Chow test. Chow test determines which method is most appropriately used in the regression of panel data, between *Pooled Method and Fixed Effect Method*. Data Panel Method was tested to all sample data (ten districts and two cities). In Chow Test, if the value of F statistic is significant, then Hausman Test is done to choose whether *Fixed Effect Model* or *Random Effect Model* is most appropriate to use. So the result of Hausman Test with a probability value which less than Alpha is significant, it means *Fixed Effect Method* is a chosen method to process Panel Data. The Method is testing with *Fixed Effect* and *Random Effect* then the mixing of *Cross-section, Period, and the combination of cross-section/period*.

1. Chow Test

Chow test is a test to determine whether the Fixed Effect Model or Random Effect Model that is most appropriately used in estimating panel data.

The hypothesis test in Chow is:

H_0 : Common Fixed Model or Pooled OLS

H_1 : Fixed Effect Model

Basic rejection of the hypothesis above is by comparing the calculation of the F-statistic and F-table. If the result of F-statistic larger ($>$) than the F-table, then H_0 is rejected, which means the most appropriate model used is the Fixed Effects Model. Vice versa, if the F-statistic is smaller ($<$) than F-table then H_0

is accepted and Common Effect Model is used (Widarjono, 2009) in (Basuki and Yuliadi, 2015).

Calculation of F statistics obtained in Test Chow formula (Baltagi, 2005) in (Basuki and Yuliadi, 2015):

$$F = \frac{\frac{(SSE_1 - SSE_2)}{(n - 1)}}{\frac{SSE_2}{(nt - n - k)}}$$

Furthermore, the calculation is obtained as follows:

$$F_{n-1,nt,n-k} (\text{ROE}) = \frac{(9.774333 - 0.440558) / (12 - 1)}{0.440558 / (60 - 12 - 3)}$$

$$= 0.848 / 0.110139$$

$$= 7.6994$$

$$F\text{-table} = \alpha: df (n-1, nt-n-k)$$

$$= 5\%: (12-1, 12.5 - 12-3)$$

$$= 5\%: (11, 45)$$

$$= 2,08$$

The results of the calculation of the F-statistic obtained at 7.6994 while the F-table of the numerator 11 and denominator 45 in $\alpha: 5\%$ was 2,08. From the hypothesis result above, it can be concluded that H_0 is rejected, because F-statistic is larger than F-table ($7.6994 > 2,08$). Therefore, Fixed Effect Model is a model that used in this study.

Another way that can be used to perform Chow test is comparing the probability value of cross-section F and cross-section chi-squared from the regression results of the Chow test, the results can be seen in the following table:

Table 5.3
Chow Test Result

Effect Test	Statistic	d.f	Prob.
Cross-section F	25.149436	(11,45)	0.0000
Cross-section Chi-Square	118.006933	11	0.0000

Source: Panel Data, Processed with Eviews8.0

Based on the results of data processing above, the probability value of Cross-section F and Cross-section Chi-Square is at 0.0000 smaller than Alpha 0:05, so it rejects the null hypothesis. From this Chow test results, the best model is the method from Fixed Effect Model. Then further testing is Hausman Test.

2. Hausman Test

In Hausman Test, the test is done to determine which method which used between Random Effect Model and Fixed Effect Model. If the results of this test Hausman accept the null hypothesis, then the best model used is Random Effect Model. However, if the results reject the null hypothesis, then the best model used is the Fixed Effects Model.

Table 5.4
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq.d.f	Prob.
Cross-section random	85.581203	3	0.0000

Source: Panel Data, Processed with Eviews8.0

Based on the table above, the probability value of random cross-section is 0.0000, smaller than Alpha 0.05 then the null hypothesis is rejected. So, based

on the results of the Hausman test, the best model is the method Fixed Effect Model.

3. Analysis of Panel Data Model

The chosen model is using the best analysis test, further it will describe in Variables Estimation Results from the Models in the table below:

Table 5.5
Estimation Results of Independent Variables towards Local Revenue in Districts/Cities in Riau Province

Dependent Variable: Local Revenue	Models		
	Fixed Effect	Random Effect	Common Effect
Constant	-9.341005	9.169051	10.52990
Std. Error	4.191211	1.120828	0.970080
T-Statistic	-2.228713	8.180605	10.85467
Probability	0.0309	0.0000	0.0000
Total Population	-0.601143	-0.310091	-0.237861
Std. Error	0.384706	0.108310	0.094218
T-Statistic	-1.562605	-2.863010	-2.524568
Probability	0.1252	0.0059	0.0144
Gov. Spending	1.824001	0.509185	0.717566
Std. Error	0.315956	0.101537	0.100600
T-Statistic	5.772952	5.014762	7.131849
Probability	0.0000	0.0000	0.0000
GRDP	0.387503	0.405490	0.083274
Std. Error	0.053798	0.039985	0.059433
T-Statistic	7.202888	10.14108	1.401141
Probability	0.0000	0.0000	0.1667
R²	0.965932	0.707995	0.756498
F-Statistic	91.13615	45.25916	57.99240
Prob (F-Stat)	0.000000	0.000000	0.000000
Durbin-Watson Stat	1.582948	0.669860	0.554047

Source: All Results Processed with Eviews8.0

From the results of tests performed on both the analysis, with Chow Test or Likelihood Test and Hausman Test, the best model used is Fixed Effect Model. The selection of using Fixed Effect Model is based on the significance

of the variables instead of using two other models (Random Effect Model and Common Effect Model).

C. Estimation Results of Regression Panel Model

After selecting model that used in the test statistic and the election of Fixed Effect Model as the model used in this study (panel data model approach that combines cross-section and time series). In this model, the dimensions of time and individuals data in the districts/cities, assumed to be the same in every period. So here is the estimation of data with the number of observations by 12 districts/cities in Riau Province in 2010-2014.

Table 5.6
Fixed Effect Model

Variables	Coefficient	Std.Error	t-Statistic	Prob.
C	-9.341005	4.191211	-2.228713	0.0309
Total Pop.	-0.601143	0.384706	-1.562605	0.1252
Gov. Spending	1.824001	0.315956	5.772952	0.0000
GRDP	0.387503	0.053798	7.202888	0.0000
R²	0.965932	Prob(F-statistic)		0.000000
F-statistic	91.13615	Durbin-Watson Stat		1.582948

Source: Processed with Eviews8.0

With this result estimation of Fixed Effect Model, we conclude the factors that affect to Local Revenue (PAD) for districts/cities in Riau Province in 2010-2014 are with following equation:

$$Y = a + b_1 X_1 it + b_2 X_2 it + b_3 X_3 + e$$

Where:

Y= Dependent Variable (LDR)

α = Constants

X1= 1st Independent Variable

X2= 2nd Independent Variable

X3= 3rd Independent Variable

$b\{1...2\}$ = Regression Coefficient of each Independent Variable

e = Error term

t = Time

i = Companies

With the following results:

$$\begin{aligned} \text{Local Revenue (PAD)} = & -9.341005 + (-0.601143\text{Total_Population}) + \\ & 1.824001\text{Government_Spending} + \\ & 0.387503\text{GDRP} \end{aligned}$$

Where:

Y = Local Revenue (PAD)

X1 = Total Population

X2 = Government Spending

X3 = Gross Regional Domestic Product (GRDP)

α = -9.341005 it means, when all independent variables (Total Population, Government Spending and GDRP) are constant or does not change, then the Local Revenue is -9.341005.

b_1 = -0.601143 it means, when Total Population increased by one people, then Local Revenue is decreased by -0.601143 and assuming that Local Revenue is constant.

$b_2 = 1.824001$ it means, when Government Spending increased by one rupiah, then Local Revenue is increased by 1.824001 and assuming that Local Revenue is constant.

$b_3 = 0.387503$ it means, when GRDP increased by one rupiah, then Local Revenue is increased by 0.387503 and assuming that Local Revenue is constant.

From the panel data regression estimation results above, we can conclude from the Local Revenue constant value in Districts / Cities in Riau Province as follows: Kuantan Sengingi on 0.604451779504, Indragiri Hulu on 0.322957952942, Indragiri Hilir on 0.138062513102, Pelalawan on 0.152954715738, Siak on -1.12098218659, Kampar on -0,259775053347, Rokan Hulu on 0.934018154979, Rokan Hilir on -0.0762003395201, Bengkalis on -1.30803662689, Kep. Meranti on 1.48199349951, Pekanbaru on -0.837764840677, Dumai on -0.0316795687438.

From the details of each districts/cities in Riau province, it can be seen that Meranti Island has a largest Local Revenue among all districts/cities in Riau Province. The revenue of Meranti Island comes from the increasing amount of taxes and levies. It happened because of Meranti people are orderly in paying taxes and levies. Otherwise, many natural resources that have the potential for economic growth contained in Meranti Islands, both in the processing sector of oil and gas, plantation, fisheries, trade and tourism. And the smallest Local

Revenue is Bengkalis. With assumption, that Local Government can manage correctly the allocation of Funds that comes from every sector in Bengkalis.

D. Statistic Test

1. T-Statistic Test

The t-test was conducted to see the significance of individual independent variables on the dependent variable to consider other independent variables are constant. The Hypothesis is formulated as:

H_0 = it means, the independent variable has no significant affect to the dependent variable.

H_1 = it means, the independent variable has significant affect to the dependent variable.

Table 5.7
Statistic Test

Variables	Coefficient	t-Statistic
C	-9.341005	-2.228713**
Total Population	-0.601143	-1.562605
Government Spending	1.824001	5.772952***
GRDP	0.387503	7.202888***

Source: Processed with Eviews8.0

Note: *** denotes significant at $\alpha = 1\%$, ** denotes significant at $\alpha = 5\%$, * = denotes significant at $\alpha = 10\%$.

To determine whether independent variables (Total Population, Government Spending and GRDP), has an influence on Local Revenue it is necessary to test hypotheses as follows:

- a. To determine whether Total Population have an influence or not towards Local Revenue, it is necessary to test hypotheses as follows:

H_0 = Total Population (Independent variable) has no significant affect to Local Revenue (Dependent variable).

H_1 = Total Population (Independent variable) has significant affect to Local Revenue (Dependent variable).

Based on the regression results with Fixed Effect Model the probability value of Total Population is $0.1252 > 0.05$, then H_0 is accepted and H_1 rejected, it means Total Population has no significant influence to Local Revenue.

b. To determine whether Government Spending has an influence or no to Local Revenue, it is necessary to test hypotheses as follows:

H_0 = Government Spending (Independent variable) has no significant affect to Local Revenue (Dependent variable).

H_1 = Government Spending (Independent variable) has significant affect to Local Revenue (Dependent variable).

Based on the regression results with Fixed Effect Model, the probability value of Government Spending is $0.0000 < 0.05$, then, H_0 is rejected and H_1 is accepted, it means Government Spending has significant influence to Local Revenue.

c. To determine whether Gross Regional Domestic Product (GRDP) has an influence to Local Revenue, it is necessary to test hypotheses as follows:

H_0 = Gross Regional Domestic Product (Independent variable) has no significant affect to Local Revenue (Dependent variable).

H_1 = Gross Regional Domestic Product (Independent variable) has significant affect to Local Revenue (Dependent variable).

Based on the regression results with Fixed Effect Model, the probability value of Gross Regional Domestic Product is $0.0000 < 0.05$, then H_0 is rejected and H_1 is accepted, it means Government Spending has significant influence to Local Revenue.

2. F-Statistic Test

F-statistic test is done to see how much influence the independent variables as a whole or together on the dependent variable. The formula of Hypothesis is:

$H_0: \beta_1 = \beta_2 = \beta_3 = 0$, meaning those independent variables (Total Population, Government Spending and GRDP) have no significant influence toward the dependent variable.

$H_1: \beta_1 = \beta_2 = \beta_3 \neq 0$, meaning those independent variables (Total Population, Government Spending and GRDP) have significant influence toward the dependent variable.

The test results from Fixed Effect Model, explain the value of F-statistic in 0.000000 with $\alpha = 5\%$, so it can be concluded that the independent variables (Total Population, Government Spending and GRDP) was

influenced the dependent variable (Local Revenue) significantly, because $0.000000 < 0.005$ which means, H_0 is rejected and H_1 is accepted.

So, from the explanation above indicates that all independent variables are clarifying the dependent variable (Local Revenue).

3. Coefficient of Determination Test (R-Square)

In essence, the coefficient of determination R^2 measures how far the ability of the model to explain variations in the independent variables to measure the goodness of a model (goodness of fit). That is how the regression of established value according to the data. The determination coefficient values between 0 and 1 ($0 < R^2 < 1$), the value (R^2) is small means the ability of the independent variables in explaining the variation of variables is very limited. A value close to 1 means that the independent variable provide almost all the information needed to predict the variation dependent models (Gujarati,2003) in (Awanis,2015).

The test results of using Fixed Effect Model, the value of R-Square is 0.965932 means that 96.5932% of independent variables (Total Population, Government Spending and GRDP) affect to Local Revenue of districts/cities in Riau Province, while the remaining 3.4068% are influenced by other independent variables, outside this research.

E. Theoretic Test (Economic Interpretation)

Based on the result of research (estimation model) above, we should make an analysis on the influences of independent variables (Total Population,

Government Spending and GRDP) towards Local Revenue in districts/cities in Riau Province which should interpret such as:

1. The influence of Total Population towards Local Revenue

As mentioned earlier, the population is something that cannot be separated by an area. Population is a requirement of the establishment of an area. Economic activities of a region depend on its population. The better the quality of the population of an area as well as the more productive activities they do, it will positively impact the viability of the area. In contrast, population with poor quality and less productive activities can cause a negative impact for the population survival in a region, even in terms of social, education and the economy.

In this case, the negative impact on the population of low quality and less productive activity that affects the economy of a region. The low growth of sale on a region, and the level of economic activities that was decreased have a bad impact in improving of Local Revenue in a region. The decreasing of Local Revenue in an area, affect to the economic growth in a region. Inadequate facilities, the high amount of poverty and rising crime in region is the negative impact of the poor quality and lack of productive activities of populations.

From the results above, Total Population has no impact to Local Revenue for districts/cities in Riau Province. Total Population has a negative coefficient, it means, Total Population not correlate positively to Local Revenue. The coefficient value of Total Population is -0.601143, which if

there is an increase of 1% while other variables are constant, the changes are in the dependent variable (Local Revenue) which is a decreasing of 0.601143%. So, we see that the negative value from Total Population has no correlation to Local Revenue, it means, when the variable in the right side (Dependent Variable) is increase/decrease, then the variable in the left side will follow the opposite direction such increase/decrease. And Total Population in this research is not affect to Local Revenue for districts/cities in Riau Province.

In this case, the author tries to identify some indicators related to the processed data. There are several things that cause to not influential of Total Population to Local Revenue, such as the weaknesses of economic business growth in Riau, it is due to public acknowledged in managing a business. The 75% of businesses in Riau are managed by entrepreneurs from outside of Riau Province. Most of Riau residents, even the residents who come from outside Riau were work as an employee, whether in government or private. The author assumes that the weak in economy and business caused by the quality decreasing of Human Resources (HR). The lack of recognition in the economic business from an early age, affect to people quality, especially in creating the business. If we see from the results of the National Labor Force Survey 2014 (SAKERNAS 2014), the composition of the labor force and not the labor force over the age of 15 years is not much different in each districts/cities in Riau. Which account for 60% to 40%, and about 25% of 40% instead of the labor force are housewives.

Besides the number of residents who are employees, affect to a high consumer culture of Riau population. In a sense, much of Riau people become buyers rather than a seller. Number of non-food consumption has increased in the Riau community last three years, in 2012 amounted to 1,080,128, an increase of 1.12139 million in 2013 and 2014 amounted to 1,136,661.

In addition to the two above, uneven population distribution in Riau is the factor which no influential from Total Population towards Local Revenue. the Population distribution in 2014 in every districts/ cities is concentrated in Pekanbaru City, which is the center of the capital of Riau province where most of the population as has been described above as an employee. Riau Province which became a target of the government's transmigration program which led to increased Population in Riau. But the uneven distribution causes the migrants who have no job, prefer to be a farmer.

In comparison with previous studies conducted by Kusriani (2015) on title "Analisis Pengaruh Belanja Langsung, Produk Domestik Regional Bruto dan Jumlah Penduduk Terhadap Pendapatan Asli Daerah" using panel data regression model with four variables which consists of Local Revenue (dependent variable) and Direct Expenditure, Gross Regional Domestic Product and Population (independent variable). In this study also determined that the variable Population does not significantly affect to Local Revenue.

With the results of this study, explains that there is no significant correlation between Total Population and Local Revenue. From this, in the period ahead, the local government in collaboration with the central

government for binding quality of the population in Riau Province, especially in the introduction and implementation of business economics, especially for people who do not get the job. Coupled with the reduction of the migrants who are mostly become a farmer. Due to the improved quality of the population in conducting business economy will affect the outcome of the productivity of the population itself.

Therefore, indirectly, the first hypothesis which assumes that Total Population has positive and significant impact to Local Revenue, can already be answered and demonstrated in this chapter, which is the absence of positive and significance impact of Total Population to Local Revenue.

2. The influence of Government Spending towards Local Revenue

Government spending is also an activity that should be implemented in the participation of local government to run the government program on Autonomy. The Government Spending is used the total of direct expenditures, indirect expenditures and financing area. In a previous study, assume that the Local Revenue is depending on the spending of local government. The size of government spending affects the size of Local Revenue.

In the above results, Government Spending showed a significant and positive sign on Local Revenue in districts/cities in Riau Province. Government Spending has a positive coefficient, which mean, Government Spending has a positive correlation towards Local Revenue. It has coefficient 1.824001, which if there is an increase of 1% while other variables are constant the changes are in the dependent variable (Local Revenue) which is

an increasing of 1.824001%. With the correlation between Government Spending and Local Revenue, means when independent variables are increasing or decreasing, then dependent variable is following to the same direction, increasing or decreasing.

So, the local government has taken the right decision in developing the potential of the region and promoting the development of facilities and infrastructures which required by people in carrying out the daily activities such as Repairing of roads, constructing of school buildings, placing of worship, offices, shopping centers and places for service and other activities.

Besides to meet the needs of the population, what has been done by the government which has a positive impact on investment. Provision of adequate facilities is the main attraction for investors who want to invest in the area. So for any spending of local governments in the provision and development of the potential and means an area, it will be greater the effect on revenue.

This is related to the economic theory of elasticity in the behavior of local people who explain that the supply and demand is strongly influenced by the prevailing high or low prices. In this study, when the Government allocated expenditure in the region to maximize the facility that can be utilized by local communities including infrastructure, construction of roads that facilitate access of economic activity, especially in distributing goods and services. Then from the perceived benefit of society, influence on people's behavior in paying taxes, levies and others. Thus, when government spending has increases, the payment of the public on revenue has increases.

Comparing to previous research which conducted Indra Rindu Datu K (2012) concluded that the increase experienced in Government Spending has positive effects on Local Revenue due to the increase in Government Spending has a multiplier effect on the increase in Local Revenue from local taxes and levies through the construction of schools, health facilities and infrastructure, so that the increase in Government Spending will be a positive impact to Local Revenue. Therefore, if the government wants to increase in Local Revenue, the government is required to use Government Spending as well as possible in order to improve the facilities and services for the communities. So it is easy for people to pay taxes and levies to local authorities (Local Government).

So that the results of this second analysis, which considered that the existence of positive and significant influence of the Government Spending on Local Revenue can be answered and proved in this section with their positive and significant effect of Government Spending on Local Revenue.

3. The influence of Gross Regional Domestic Product towards Local Revenue

From the results above, the Gross Regional Domestic Product (GRDP) showed a positive and statistically significant for all districts/cities in Riau Province. The GRDP has a positive coefficient and significant correlation between GRDP and Local Revenue. The Coefficient of GRDP is 0.387503, which if there is an increase in the value of GRDP on 1% while other variables are constant, then the changes in dependent variable (Local

Revenue) was increased on 0.387503%. The positive correlation that occurred between GRDP and Local Revenue, explained when independent variables are increasing/decreasing, then variable dependent is following to the same direction, increasing or decreasing.

In the Theory of Elasticity, as mentioned also in the previous section, that when the elasticity is less than one percent of the coefficient GRDP, resulting in less efficient it at reception Local Revenue, in the sense that when GRDP increased 1% the effect is not too big to higher receipts Regional Revenue that is equal to 0.387503, but still positive and significant impact on the acceptance of the Local Revenue. This is because the distribution of taxes and levies still not realized its full potential, especially taxes derived from the processing industry and forestry. As well as natural factors that cannot be predicted or could not be included in economic assumptions.

As described in the previous chapter, to be able to see the percentage distribution of the GRDP districts / municipalities at current prices are grouped into three main sectors of the primary (agriculture and mining), secondary (industry sector, electricity and gas, waste management, water supply, and construction) and tertiary (sectors of trade, transport, provision of accommodation to eat and drink, information and communications, financial services, real estate, etc.).

Each factor plays a role in economic growth regions in particular have the potential of its resources, both natural resources and human resources. In 2012-2014, the primary sector dominates the economy of the people of Riau,

This happened in Kuantan Singingi, Indragiri Hilir, Kampar, Rokan Hulu, Bengkalis and Rokan Hilir. Secondary sector annually highly viscous dominated in the area of Siak, Pelalawan and Pekanbaru, respectively for the year 2014 recorded the role in the economy of the district amounted to 57.67 percent, 53.07 percent and 50.23 percent. It shows the economic development in the three districts/cities is controlled by the ability of the industrial sector in driving the economy. Then the tertiary sector turns prominent role in Dumai City area. In the last three years, to the city of its role in the economy is always above 46 percent. Furthermore, in Dumai City magnitude of this leading sector drive the economy during the year 2014 amounted to 47.33 percent.

The growth of an area can be seen from the growth in the value of GRDP from the previous years which have an impact on Local Revenue. The value GRDP for Riau Province at current price without gas and oil also increased from 296,45 trillion rupiahs in year 2012 to 340,63 trillion rupiahs in 2013. So did the GRDP at constant price without gas and oil based on 2000, it increased from 56,54 trillion rupiahs in year 2012 to 60,01 trillion rupiahs in 2013. Similarly, GDRP at current prices with oil and gas shows an increase from 469,07 trillion rupiahs in 2012 to 522,24 trillion rupiahs in the 2013. Improvement also occurred on GDRP at constant prices in 2000 with oil and gas, from 106,31 trillion rupiah in 2012 to 109,07 trillion rupiah in the 2013 (Riau Dalam Angka 2015). From this, the increasing value of GRDP, then the

value of taxes and local levies which is a component of Local Revenue was increased too.

If we see from previous research, that conducted by Indra Rindu Datu K (2012), which use GRDP as independent variable, has positively effect and significant correlation between GRDP and Local Revenue in Makassar.

So based on the analysis above, the assumption for the third hypothesis, it is assumed that there is a significant and positive impact from Gross Regional Domestic Product towards Local Revenue.

F. Implications

In this section the author tries to explain the impact resulting from each of the independent variables (Total Population, Government Spending and Gross Regional Domestic Product) dependent variable (Local Revenue) with a solution that should be done by the government in improving the Local Revenue.

1. Total Population

Some assumptions that have been describe by the author in the previous chapter, to solve the problems that occurred in Riau Province is providing education on business economics as well as support all activities of business economics, particularly for indigenous people, by facilitating all activities that related to establishment and improvement for economics of creative business. So, limit people from consuming the import products by shifting it to consumptive local product.

Then, the government has to equalize the distribution of people, especially the migrants, so Riau residents are not only focused on one region, which resulted in many job proposed in one area. With it, the increasing is not only in the quantity of Riau residents, but also the increasing in population quality. So that residents can create economic opportunities of the business and can be more self-reliant through skills of the population. Then, the government equalize the distribution of people, especially residents of migrants, so that residents of Riau is not focused on one region, which resulted in many job requests in one area. With it is not only the increase of the quantity of Riau residents, but also the quality of the population itself. So that residents can create economic opportunities of the business and can be more self-reliant through skills of the population which could have a positive impact on Local Revenue growth in each region.

2. Government Spending

Government Spending is the responsibility of the government in implementing regional autonomy. The Spending is also a reflection of the government's role in promoting development of facilities and infrastructure, for communities to implement and facilitate the activities of the communities.

The government should make transparency in issuing the budget obtained. So that people can know what is used by the government toward those budgets. And also address the portion issued by the government in accordance with the needs of the community will be felt later. As well as a real

demonstration of what is issued by the government in the improvement of facilities and amenities that can be felt directly by community.

3. Gross Domestic Regional Product (GRDP)

Functionally, GRDP inform the public about which sectors are experiencing growth in value in each year. And to know which are the parts that need to be considered, so it can still be in control of growth that can lead to economic improvement. Indirectly, GDP also explain any potential that developed by the regions in improving the economy of the region.

The value of GRDP in Riau Province was increased year by year; the potential factors from each districts/cities give a positive impact to Local Revenue, especially in the increasing of economic growth in Riau. with the hope that the government can increase the value of GRDP in all districts/cities, so the increase that occurred in each area could be used as a benchmark for the region in increasing GRDP, not only an example for districts/cities in Riau, but also examples and benchmarks districts/cities in other provinces in the improvement of their economic growth