

Evaluation of the Feasibility of Capital Participation Plan by Bangli Regency Government to PT. BPR Bank Daerah Bangli in 2023



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ABSTRACT: This study aims to evaluate the feasibility of investment in capital participation by the Bangli Regency Government in PT BPR Bank Daerah Bangli for the period 2022-2026. This evaluation uses financial analysis methods including Payback Period, Net Present Value (NPV), and Internal Rate of Return (IRR). Based on the results of the analysis, it is known that the capital investment of Rp13 billion during the period generates significant cash flows, with a Payback Period of 4 years and 5.29 months. This shows that the investment capital can be returned faster than the planned investment duration of 5 years, thus indicating that this investment is feasible. The NPV calculation shows a positive value of Rp603,879,838, which indicates that this investment is profitable and provides added economic value to the Bangli Regency Government. Meanwhile, the IRR calculation result of 5.20% also shows that this investment provides a higher rate of return than the cost of capital. Thus, the combination of a positive NPV and an adequate IRR indicates that this investment project is economically feasible and can contribute positively to local finances. The projected profits earned during the analysis period show an increasing trend each year, further strengthening the potential sustainability of this investment. The profit received as dividends in 2022 was recorded at Rp2.71 billion and increased to Rp3.47 billion in 2026. In addition to providing a decent return for the government, this investment also has the potential to increase Regional Original Revenue (PAD) and support other regional development programs. Therefore, the Bangli Regency Government's capital participation in PT BPR Bank Daerah Bangli is considered a strategic step that is low risk but provides significant benefits.

KEYWORDS: Payback Period, Net Present Value, Internal Rate of Return, Capital Investment, PT. BPR Bank Daerah Bangli

I. INTRODUCTION

The development of the globalization era makes everything can be seen as an opportunity as well as a challenge. One of the impacts of globalization that is quite pronounced is the entry of foreign workers into the country, but not a few Indonesian workers could work abroad both as professional workers and as non-professional workers, and this is often referred to as the phenomenon of migration between countries. This migration phenomenon is considered a natural process that will channel surplus labor to developed countries that have higher labor absorption capacity compared to developing countries (Romdiati Haning, 2015). Indonesia from 2012 to 2030 is experiencing a demographic bonus, and between those years the number of productive-age Indonesians will exceed the number of non-productive-age Indonesians (Falikhah, 2017). The demographic bonus that occurs can be a problem if it is not followed by the growth of employment opportunities. The productive-age population is more interested in working in modern (capital-intensive) sectors with specialized educational backgrounds, while traditional (labor-intensive) sectors such as agriculture and animal husbandry are less desirable and are slowly being abandoned. The process of labor transmission is a challenge and a phenomenon of globalization where people now work across borders (across countries).

The lack of employment opportunities in the country causes the young population to migrate abroad, especially to developed countries to seek experience or work opportunities by becoming Indonesian migrant workers (Puspitasari & Kusreni, 2017). Modern countries are destinations where migrant workers look for work, experience or networks that will later be used to develop themselves and their regions of origin. Indonesian Migrant Workers (TKI) is a term for Indonesian citizens who work abroad in labor relations for a certain period by receiving wages / salaries. However, the term TKI is often connoted with unskilled workers because TKI is a collection of unskilled workers who are a government program to reduce unemployment in the country. In

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addition to reducing the number of unemployed in the country, TKI is also considered as one of the heroes of foreign exchange, as a source of state income (Cuecuecha et al., 2000). Indonesian workers who work abroad can be categorized into two, namely skilled and non-skilled workers. Skilled migrant workers are those who work in foreign companies abroad, while non-skilled migrant workers are those who work without having special skills, for example working as domestic assistants and the like. Compared to other countries that also have a lot of labor such as the Philippines and India, Indonesia is still quite far behind these two countries. Based on data obtained by the World Bank in the World Bank document (World Bank, 2016), the Philippines has earned foreign exchange of 10 billion USD and even India has reached 20 billion USD, this figure is quite different from Indonesia which has only earned foreign exchange of around 5 billion USD.

Reflecting on this, Indonesia is still unable to compete with labour exporting countries. This information is a driving force to improve the quality of labour in the international world, even Indonesia, which is referred to as a country with the most human resources, what's more, Indonesia's population is ranked 4th largest in the world. Working abroad as an alternative to tackling unemployment in the country, even some regions have through government assistance have made efforts to encourage the sending of productive age workers to work abroad.

The results of the Bangli Regency BPS Survey in 2020 (BPS Bangli, 2020) recorded the number of working-age population in Bangli Regency as many as 178,071 people. Of this number, as many as 146,377 people are in the labor force, consisting of a working population of 143,650 people, and an open unemployment rate of 2,727 people. Of those who are working, it turns out that most of them work in the primary sector (agriculture in a broad sense) at 40%, followed by the secondary sector at 21% and the service sector at 20%. Human capital theory states that workers who have a higher educational background will potentially earn a bigger and better income because they tend to have better productivity compared to those with a lesser educational background. Reflecting on the theory and data above (Wuttaphan, 2017), it can be easily seen that the educational background of the workforce in Bangli Regency mostly has a maximum high school education and only a small portion has an educational level with a diploma / college background, while for work most Bangli Regency residents who are engaged are dominated by laborers / employees (30%) and (14%) are self-employed. From this information, there is great hope for the workers in Bangli Regency to be able to work and do internships abroad so that they can add insights and experiences that will serve as provisions, when they return to Bangli Regency and are expected to be able to create new business opportunities, with new businesses having an impact on improving community welfare and will have an impact on increasing regional income (PAD). To support this, the role of the Bangli Regency government is very decisive, one of which is to make policies to facilitate workers who are interested in working abroad in collaboration with PT. BPR Bank Daerah Bangli, especially for underprivileged people.

The plan of the Bangli Regency Regional Government to make capital participation to help underprivileged people to be able to work and intern abroad through the provision of loans is a good thing. The assistance that will be provided to the community will be carried out through the intermediary of PT BPR Bank Daerah Bangli in the form of working capital loans, so that the funds included by the Regional Government to PT BPR Bank Daerah Bangli can be managed properly in accordance with applicable banking regulations and still consider aspects of security and effectiveness. To carry out government programs to help people who want to work and intern abroad through loans from PT BPR Bank Daerah Bangli, it is necessary to make a feasibility study and analysis of providing credit to underprivileged people who have an interest in working and interning abroad, as a material consideration. The results of the feasibility study are allowed as a basis for decision making by the Bangli Regency Government.

II. CONCEPTUAL OVERVIEW

Regional Development

Regional development is a process by which local governments and communities manage available resources and form a partnership between local governments and the private sector to create new jobs and stimulate the development of economic activity in the region (Kahar Kato et al., 2021). In general, the objectives of economic development are as follows: 1). Develop employment opportunities for the existing population; 2). Achieve regional economic improvement; and 3). Develop a diverse economic base and employment opportunities. In the implementation of regional economic development, it is necessary to have a good and directed regional economic development strategy to achieve the desired goals and objectives. Success in economic growth itself is closely related to economic development strategies (Ratwianingsih, 2019). Regional development strategies can be grouped into four groups:

1. Physical or Locality Development Strategy: The strategy is carried out through a program of improving the physical condition or locality of the region for the benefit of industrial and commercial development. The aim is to create a regional or city identity, improve the charm base or quality of life of the community and improve the regional business world.

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2. Business Development Strategy: Business development is an important component in regional economic development planning because of the attraction, creation or power of a healthy regional economy.
3. Human Resource Development Strategy: Human resources are the most important aspect of the economic development process.
4. Community Economic Development Strategy: Community development activities are activities aimed at developing local communities with the aim of creating social benefits.

Regional Finance

In the local government's efforts to reduce unemployment, provide employment for the population, improve the regional economy and develop a diverse economic base and employment opportunities, will be greatly influenced by regional financial conditions (Ratwianingsih, 2019). Good regional financial conditions will reflect the readiness of sufficient capital support in the development process. The required capital can come from several sources of regional income such as PAD, Government Balance Funds and Other Legitimate Revenues. The government can make investments with capital owned to BUMD which can function as an accelerator to reduce unemployment and encourage economic growth provided that both regional finances and BUMD are in good and healthy condition.

Regional finances as contained in Law Undang Undang Nomor 32 Tahun 2004 Tentang Pemerintahan Daerah concerning Regional Government are all regional rights and obligations that can be valued in money and everything in the form of money and goods that can be used as regional property related to the implementation of these rights and obligations as long as they are not owned or controlled by the state or higher regions and other parties in accordance with the provisions of applicable laws and regulations. The Regional Government has a source of regional revenue consisting of regional revenue and regional financing. Regional Revenue is the right of the local government as a source of regional wealth in the relevant period. Meanwhile, regional financing is all activities of a region that need to be financed or paid back both in one fiscal year and the following fiscal years.

Regionally Owned Enterprises

Regarding the authority of local governments in realizing good and sustainable regional autonomy, local governments are required to be able to generate sources of income from various fields. One of the things that regions can do is to form regional companies / BUMDs. The purpose of regional companies is to participate in carrying out regional development and national economic development in general. In the framework of guided economic development to meet the needs of the community by prioritizing industrialization and tranquility towards a just and prosperous society. In the formation of BUMD, it is prioritized to carry out public benefits in the form of providing quality goods and / or services for the fulfillment of people's lives according to the conditions, characteristics and potential of the region concerned based on good corporate governance. BUMD is a business entity that is wholly or partially owned by the Region BUMD is established with the aim of providing benefits for the development of the Regional economy in general, organizing public benefits in the form of providing quality goods and / or services for the fulfillment of people's lives according to the conditions, characteristics and potential of the Region concerned based on good corporate governance Undang Undang Nomor 23 Tahun 2014 Tentang Pemerintahan Daerah.

BUMD is a business entity established by the local government in which most/all the capital belongs to the local government and is stipulated through local regulations. BUMD based on its target category consists of 2 (two) groups, namely regional companies to serve the public interest and regional companies for the purpose of increasing regional revenue. The purpose of establishing BUMD is to carry out regional development through services to the community, implementation of public benefits and increase regional income. In accordance with Undang Undang No. 23 Tahun 2014 Tentang Pemerintahan Daerah, local governments do not have to have BUMDs, but BUMDs can be a consideration for regions to become a means of providing services to the community. Government Regulation No. 54 of 2017 regulates that BUMD capital sources can be in the form of Regional capital participation, loans, grants and other capital sources Regional capital participation as referred to in paragraph (1) letter (a) can be sourced from the APBD and / or conversion of loans as referred to in paragraph (1) letter (b) can be sourced from Regions, other BUMDs and / or other sources in accordance with statutory provisions. Such capital participation can be carried out in the context of establishing BUMDs or increasing BUMD capital, either in the form of money or regional property.

Pecking Order Theory

The concept of pecking order theory is a concept first described by Gordon Donaldson in 1961 with a study entitled Corporate Debt Capacity: A Study of Corporate Debt Policy and Determination of Corporate Debt Capacity (Suhardi, 2019). In its initial concept, it was stated that companies tend to prioritize (prioritize) funding from internal sources to pay dividends and fund investments, if the need for funds is lacking, funds from external sources are used as additional or use external funding through

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debt issuance (Myers, 1984) Internal equity is obtained from retained earnings from the results of company activities and external such as creditor loans or issuing new shares In internal equity, this has direct implications for how much retained earnings are closely related to the amount of dividends allocated to shareholders.

III. RESEARCH METHOD

There are several analytical techniques to assess whether an investment (capital investment) is necessary or to choose various investment alternatives, the following are several analytical techniques for assessing an investment proposal:

1. **Payback Period (PP):** Payback Period is defined as the period required to return the value of the initial investment through the revenues generated by the investment project. Or in other words, this method is one of the investment methods that assesses how long the value of the money invested will return. This payback period shows the comparison between the initial investment and the annual cash flow.
2. **Internal Rate of Return (IRR):** Internal Rate of Return is the interest rate that equates the present value of cash inflows with the present value of cash flows for investment expenditures. An investment plan is considered feasible if $IRR \geq \text{Cost of capital}$ and rejected if $IRR < \text{Cost of capital}$. IRR is the discount rate that makes the net present value of cash inflows equal to the net present value of cash outflows equal to zero. This method assumes that cash inflows are reinvested at the same internal rate of return.
3. **Net Present Value (NPV):** Net Present Value compares the present value of future cash flows to the initial cash outlay for the investment. The net cash flow is the difference between the expected cash inflows due to the investment and the expected cash outflows for the investment.

IV. RESULTS AND DISCUSSION

Payback Period

Payback Period analysis aims to assess how long it takes to estimate the return on investment. The results of the analysis with Payback Period are presented in Table 4.1 below:

Table 4.1 Calculation of Payback Period of Capital Participation Bangli Regency Government in PT. BPR Bank Daerah Bangli 2022 - 2026 (Rupiah)

Year to	Initial Investment	Cash Flow	Cumulative Cash Flow	Payback Period
0	13.000.000.000			
1		2.710.760.741	2.710.760.741	
2		2.901.979.946	5.612.740.687	
3		3.093.199.152	8.705.939.839	
4		3.284.418.357	11.990.358.196	
5		3.475.637.562	15.465.995.758	4 years 5,29 months

Resource: Data Analysis Results (2024)

Based on the Payback Period calculation table of Bangli Regency Government's equity participation in PT BPR Bank Daerah Bangli for the period 2022-2026, the initial investment of Rp13 billion generates significant annual cash flow. At the end of year 4, the cumulative cash flow reached Rp11.99 billion, which was close to the initial investment amount. Then, in year 5, the cumulative cash flow reached IDR15.46 billion, making the investment fully recoverable in 4 years and 5.29 months. This analysis shows that the cash flow generated each year increased steadily. In the first year, the cash flow reached IDR2.71 billion, increased in the second year to IDR2.90 billion, and continued to increase every year until it reached IDR3.47 billion in year 5. This reflects the good financial performance of PT BPR Bank Daerah Bangli and the effectiveness of local government investment. The Payback Period of 4 years 5.29 months shows that this investment is in the feasible category, because the payback period is faster than the investment duration set, which is 5 years. In other words, the capital invested by the Bangli Regency Government can be returned faster than expected, providing benefits to the region. In addition, after reaching the break-even point, the cash flow received in the following period will be pure profit for the local government, which will increase local revenue and support other development programs. Based on this Payback Period calculation, equity participation in PT BPR Bank Daerah Bangli is a wise decision. This investment offers a quick return, with relatively low risk, and has a positive impact on regional financial stability in the long term.

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Internal Rate of Return (IRR) dan Net Present Value (NPV)

The results of the calculation of the Internal Rate of Return (IRR) and Net Present Value (NPV) of the Bangli Regency Government's capital participation in PT BPR Bank Daerah Bangli (years 2022 - 2026) are presented in Table 5.2 below:

Table 5.2. Capital Addition Plan, Profit Projection and NPV and IRR Calculation Results Bangli Regency Government Capital Participation in PT BPR Bank Daerah Bangli 2022 - 2026 (Rupiah)

Description	2022	2023	2024	2025	2026
Profit received as dividend	2.710.760.741	2.901.979.946	3.093.199.152	3.284.418.357	3.475.637.562
Total equity participation	3.000.000.000	2.000.000.000	0,00	0,00	0,00
Total Paid-up Capital	11.000.000.000	13.000.000.000			
IRR (%)					5.20%
NPV (+)					603.879.838

Source: Projection results and data analysis results (2022)

Based on Table 5.3, which presents the capital increase plan, profit projections, and the results of the calculation of Net Present Value (NPV) and Internal Rate of Return (IRR) on the Bangli Regency Government's capital participation in PT. BPR Bank Daerah Bangli in 2022-2026, it can be concluded that this capital participation provides a prospect of return that is quite profitable and feasible to implement. The Bangli Regency Government's capital participation in PT. BPR Bank Daerah Bangli with a value of Rp.5,000,000,000 with details in 2022 amounting to Rp.3,000,000,000. and in 2023 amounting to Rp.2,000,000,000 so that the total investment (capital participation) that has been made by the Bangli district government from the beginning to 2023 is Rp.13,000,000,000.

The profit received from this capital investment continues to increase every year. In 2022, the profit received as dividends was recorded at Rp2.71 billion, which increased to Rp2.90 billion in 2023, Rp3.09 billion in 2024, Rp3.28 billion in 2025, and reached Rp3.47 billion in 2026. This increase in profit reflects the stable financial performance of PT BPR Bank Daerah Bangli, as well as the effectiveness of capital participation in increasing the profitability of this regional bank. One of the main indicators used to assess investment feasibility is the Internal Rate of Return (IRR). In this table, the IRR obtained of 5.20% indicates that the internal rate of return of the investment is above the minimum acceptable level. In general, if the IRR of an investment is higher than the prevailing interest rate or the minimum expected rate of return, then the investment can be considered feasible and profitable. With an IRR of 5.20%, this indicates that the government's investment in PT BPR Bank Daerah Bangli provides an adequate rate of return, and the project is projected to provide positive cash flows in the long term. In addition, the results of the Net Present Value (NPV) calculation also show positive results, which amounted to Rp603,879,838. A positive NPV indicates that the total cash flow generated by this investment is greater than the amount of capital invested, after adjusting for the discount factor. In investment analysis, a positive NPV is a sign that the investment will provide added economic value to investors, in this case the Bangli Regency Government. A positive NPV indicates that the investment not only returns the initial capital, but also generates a decent additional profit.

From the investment results, the feasibility of the investment can be assessed as follows, First, the Internal Rate of Return (IRR) obtained at 5.20% is greater than the cost of capital compared to the BI 7-Day Reverse Repo Rate (September 21, 2022) which is 4.25%, (www.bi.go.id). Based on the IRR value, this investment is declared feasible. BI 7-day (reverse) repo rate is an interest rate policy set by Bank Indonesia with monetary policy that will be applied to all Indonesian people. Second, the Net Present Value (NPV) obtained a figure of Rp. 603,879,838.00, which means that this investment is feasible or profitable because it produces a positive NPV.

The combination of IRR and NPV is very important in investment feasibility analysis. The IRR gives an idea of how much the rate of return on the investment is, while the NPV shows whether the investment provides a net profit after considering time and value for money factors. With an IRR that is at an adequate level and a positive NPV, the government's investment in PT BPR Bank Daerah Bangli can be categorized as a viable and strategic investment. With increasing profits each year and a relatively fast return on capital based on the previous Payback Period analysis, this capital investment not only contributes to the economic growth of PT. BPR Bank Daerah Bangli, but also supports the financial stability and growth of the Bangli Regency Government. The profits

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obtained from this investment can be used to finance other development programs, increase Regional Original Income (PAD), and strengthen the regional financial position in the long term. This investment provides very positive potential for the Bangli Regency Government. With a projected profit that continues to increase, a decent IRR, and a positive NPV, this capital participation is an appropriate, profitable, and low-risk investment decision.

V. CONCLUSIONS

Based on the results of the feasibility analysis of the Bangli Regency Government's capital participation in PT BPR Bank Daerah Bangli for the period 2022-2026, it can be concluded that this investment is feasible and profitable. The calculation results show that the Payback Period of the investment of Rp13 billion can be achieved within 4 years and 5.29 months, faster than the investment period set, which is 5 years. This shows that this investment can return capital quickly. In addition, the positive Net Present Value (NPV) of Rp603,879,838 indicates that this investment provides significant economic added value to the local government. The Internal Rate of Return (IRR) of 5.20% also shows that the rate of return on this investment is above the cost of capital, further strengthening the feasibility of this project. Overall, this capital injection is not only financially beneficial, but also supports the economic growth of PT BPR Bank Daerah Bangli and strengthens the finances of the Bangli Regency Government. This investment is expected to increase regional own-source revenue (PAD) and provide a long-term positive impact on regional development.

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