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Model of Regulatory Consistency of Local Government Capital Equalisation in Regional Development Banks

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ABSTRACT: The objective of this study is to analyze the implementation of competitive advantages of local government equity participation in Regional Development Banks for the October 2020 period in the category of commercial banks based on business activities. The research aims to develop an optimal implementation model for regional equity participation in Regional Development Banks, which should be integrated with the planning and budgeting system and regional development priorities. This study utilizes a qualitative approach to provide an accurate description of the process analysis. Direct data sources from 27 highly competent informants in regional equity participation in the Regional Development Banks of Bengkulu Province and Central Sulawesi Province were used. The research process involved a series of questions and procedures, and data collection typically occurred in participant settings. The data analysis was conducted inductively, progressing from specific to general themes. According to the study results, although 25 Regional General Treasurers serve as Regional Financial Management Officials and employ a low-cost strategy, only 20 of them (80% of informants) believe that the implementation of this strategy provides a competitive advantage. The remaining 5 Regional General Treasurers did not express an opinion. According to five regional financial management officials, the Bengkulu Regional Development Bank and the Central Sulawesi Regional Development Bank are not currently implementing cost-saving strategies in their capital participation processes. This information was reported by 20% of the informants.

KEYWORDS: Competitive Advantage, Implementation, Equity Participation

I. INTRODUCTION

The Regional Development Bank was established following Law Number 13 of 1962, which outlines the basic provisions for regional development. The capital structure of the bank is regulated by Government Regulation No. 35 of 1999, which concerns the capital participation of the Republic of Indonesia in the Regional Development Bank. The Regional Development Bank collects public funds in the form of deposits and channels them back to the public in the form of credit and other banking products. Its major function is to play a strategic role in encouraging the regional economy. According to Collender & Shaffer (2003), regional banks must focus on the empirical relationship between banking market structure and banking regulation. Banking regulations form the basis for benchmarking the successful performance of regional banks in collecting funds through deposits and channeling them back as credit and other banking products to the public.

Law No. 1/2004 on State Treasury mandates that each Regional Government establish a Regional General Cash Account at a bank designated by the Regional Head. The majority of designated banks are Regional Development Banks. These banks are appointed as regional cash holders in Indonesia. The Regional Development Bank plays a significant role in regional economic development as one of the banks in the National Banking System. Its competitive advantage lies in its ability to establish a service network in regions by collaborating with local governments to manage regional public treasury accounts. The Regional Development Bank's current work pattern aims to improve banking services for the community and local government. The intended banking performance orientation prioritizes the interests of the community and cooperation partners, which is crucial for achieving successful performance (Porter, 1985).

The list of 27 Regional Development Banks in Indonesia, as of the second semester of 2020, shows that two banks have not been able to move out of the category of commercial banks based on business activity I (core capital of less than 1 trillion rupiah) as of October 2020. These banks are Bank Sulawesi Tengah, with a core capital ownership composition of IDR 956.599.000.000,-, and Bank Bengkulu, with a core capital ownership composition of IDR 853.116.000.000,-. Bank Sulawesi Tengah and Bank Bengkulu are ranked 24th and 25th, respectively, in the rankings of Regional Development Banks based on their core capital structure. Additionally, Lampung Regional Development Bank and Banten Regional Development Bank have experienced significant growth in their core capital composition since 2019. Lampung Regional Development Bank's core capital structure increased from IDR 697.368.000 in 2019 to IDR 1.042.806,000 in 2020. In 2019, Bank Banten had a core capital structure of IDR 154.139.000.000, which increased to IDR 1.561.982.000 in 2020. The growth of Lampung Regional Development Bank and Banten Regional Development Bank is a different phenomenon from the conditions of Central Sulawesi Development Bank and Bengkulu Sulawesi Development Bank. In addition to optimizing banking services, achieving the capital participation performance target also indicates an improvement in the existing capital structure of the Regional Development Bank that meets the core capital requirements set by the Financial Services Authority Regulation. The bank's shareholders are predominantly local governments, including provincial, district, and city governments.

The shareholder structure of local government implementation remains diverse. Currently, there is no national-scale technical policy to provide regular core capital strengthening for Regional Development Banks in Indonesia. This regulatory weakness is one reason why some Regional Development Banks struggle to meet the capital structure required by the Financial Services Authority Regulation. The core capital of Regional Development Banks in Indonesia is strengthened through regional regulations that specify the composition and amount of capital participation required from the Regional Government. It is important to maintain a balanced approach to ensure the stability of the banks. The capital participation regulation format for Regional Development Banks has not yet been determined. This is evident from the capital structure composition of the 27 Regional Development Banks throughout Indonesia. As of the end of October 2020, only two Regional Development Banks had a capital structure value below 1 trillion, namely the Central Sulawesi Regional Development Bank and the Bengkulu Regional Development Bank. Meanwhile, in October 2020, Lampung Regional Development Bank and Banten Regional Development Bank experienced a significant increase in their capital structure composition, with core capital exceeding 1 trillion. It is important to note that this information is based on objective data and does not include any subjective evaluations.

Scientific studies on equity participation have been minimal from 2009 to 2019. Research that identifies factors causing local governments to not fulfill their commitment to realizing capital participation in Regional Development Banks is lacking. This research aims to develop an optimal implementation model for fostering the commitment of provincial, district, and city governments in Indonesia to participate in the capital of Regional Development Banks. Jensen & Meckling's (1976) agency theory describes the relationship between shareholders as principals and management as agents. Management is contracted by shareholders to work for their benefit. Management must be accountable for all their work to shareholders because they are chosen. According to Jensen & Meckling (1976), the agency relationship is a contractual agreement in which one or more principals employ an agent to provide a service on their behalf. This service involves the delegation of decision-making authority to the agent.

In the capital participation system based on agency theory, conflicts often arise between principals and agents. These conflicts can be reduced by aligning the interests of principals and agents. Insider ownership, or the presence of share ownership by managers, can be used to reduce agency costs. By owning company shares, managers are expected to directly benefit from every decision they make (Jensen & Meckling (1976). The implementation of local government equity participation in Regional Development Banks involves various factors. However, equity participation by local governments is currently constrained by regulations that have not been properly formulated. As a result, there is no effort to provide certain limits in the achievement of equity participation performance towards a predetermined target. One of the dominant issues facing regional banks is their failure to implement the principles of competitive advantage in regional capital participation in Regional Development Banks, in addition to regulatory problems. This tendency has contributed to the failure of Regional Development Banks to meet the minimum target of 1 trillion in core capital as of October 2020. This research aims to provide an implementation model for regional government equity participation in Regional Development Banks in Indonesia. The model will be based on the provisions in the regulations governing regional equity participation. The goal is to improve the share ownership structure of these banks. Previous studies have not found many ideal equity participation model formulations. The proposed model will contribute to the renewal of the banking sector. The contribution of other research updates is related to identifying the factors that cause local governments, as shareholders in Regional Development Banks, to neglect the competitive advantage function when implementing capital participation according to provincial/district/city government regulations.

II. LITERATURE REVIEW

Stakeholder Theory

One of the theories used as a benchmark in this research is stakeholder theory. The term stakeholder was first introduced in management literature in an internal memorandum at Stanford Research Institute in 1963. The concept of stakeholders was intended to expand the idea of shareholders as the only group that requires responsive management. Therefore, stakeholders were initially defined as groups whose support is essential for the organization's survival. The initial list of stakeholders comprised shareholders, employees, customers, suppliers, lenders, and society. This approach was first developed by Igor Ansoff and Robert Stewart in the planning department at Lockheed, and later by Marion Doscher and Stewart at Stanford Research Institute. The original approach served an important information function in Stanford Research Institute's corporate planning process (Freeman, 1984). The role of stakeholders in an organization is crucial because they have a mutual influence on each other.

In later developments, Mitchell & Agle, (1997) considered the original definition of stakeholders by (Freeman, 1984) to be too broad. They questioned a more appropriate way to identify stakeholders to be more certain about who is a stakeholder and who is not. Mitchell & Agle, (1997) answered the question by describing three identifying attributes that stakeholders may have that give color to relationships: power, legitimacy, and urgency. Mitchell & Agle, (1997) define stakeholder salience as the degree to which a manager prioritizes competing stakeholder demands based on their attributes. The stakeholder with the most attributes is considered the most salient and will receive priority attention (Mitchell & Agle, 1997). The explanation shows that stakeholder salience is not constant. It changes based on time and various factors that influence managers' evaluation of stakeholder attributes (Mitchell & Agle, 1997).

Initially, the company only had shareholders as stakeholders. (Freeman, 1984) argued that the main purpose of the company is to maximize the prosperity of its owners, but he later expanded the definition of stakeholders to include more constituents. The role of stakeholders in the organization is crucial because of the mutual influence dimension. According to Freeman, (1984) Stakeholder Theory, stakeholders are defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. According to Freeman, (1984) stakeholder theory, stakeholders are defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. This definition emphasizes the importance of considering the impact of the company's actions on all parties involved. Stakeholders are parties or groups that have a direct or indirect interest in the existence or activities of the company. The group affects and/or is affected by the company. Stakeholders include stockholders, creditors, employees, customers, suppliers, public interest groups, and governmental bodies.

Mitchell & Agle, (1997) questioned Freeman's broad stakeholder definition, which can make it difficult to determine who is and is not a stakeholder. To address this issue, Mitchell et al. identified three attributes that stakeholders may possess - power, legitimacy, and urgency - that can help clarify stakeholder relationships. The authors use the term 'stakeholder salience' to prioritize stakeholders within an organization. Mitchell & Agle, (1997) define stakeholder salience as the degree to which a manager prioritizes competing stakeholder demands. The stakeholder with the most attributes is considered the most salient and will receive more attention and priority (Mitchell & Agle, (1997). Mitchell & Agle, (1997) explain that stakeholder salience is not fixed, but rather changes over time and in response to various factors that affect managers' assessments of stakeholder attributes. It is important to avoid subjective evaluations and use clear, objective language with precise word choice. Stakeholders may have control or influence over the economic resources used by the company, which determines their power. The text should adhere to conventional structure and formatting, with a formal register and balanced tone. Additionally, the text should be grammatically correct and free from errors. The power referred to in this context can take various forms, such as the ability to restrict the use of limited economic resources, control over influential media, regulatory authority over the company, or influence over the consumption of goods and services produced by the company.

Stakeholder theory considers the impact of corporate disclosure policies on different stakeholder groups. Companies use information disclosure as a management tool to meet the information needs of various groups. Therefore, management discloses social and environmental responsibility information to manage stakeholders and gain their support, which can affect the company's survival. According to Mitchell & Agle, (1997), stakeholder theory posits that all stakeholders have the right to access information about a company's activities that may impact their decision-making. Stakeholders may choose not to utilize this information and are not able to directly participate in a company's operations..

Agency Theory

The study employs agency theory as the second supporting benchmark. This theory describes the relationship between shareholders as principals and management as agents. Management is contracted by shareholders to work for their benefit and must be accountable for all their work to shareholders. Jensen & Meckling (1976) define the agency relationship as a contract in which one or more principals engage an agent to perform a service on their behalf, delegating decision-making authority to the agent. An agency relationship is a contract between one or more principals and an agent, in which the agent is authorized to perform a service on behalf of the principal(s) and make decisions that are in their best interest. It is assumed that if both parties share the goal of maximizing firm value, the agent will act in the principal's best interest.

Agency problems may arise when a manager's ownership share of a company is less than 100%. In such cases, managers may prioritize personal interests over maximizing company profits, resulting in agency costs. According to Jensen & Meckling (1976), agency costs refer to the expenses incurred by the principal to supervise the agent. According to agency theory, it is nearly impossible for a company to eliminate agency costs and ensure that managers always make optimal decisions from the perspective of shareholders. This is due to the significant differences in interests between the two parties. However, conflicts between principals and agents can be minimized by aligning their interests. The use of managerial share ownership can help to decrease agency costs that may arise. This is because when managers own company shares, they are expected to benefit directly from their decisions.

Bathala & Moon, (1994) proposed several methods for reducing conflicts of interest, including: a) increasing management's share ownership, b) increasing the ratio of dividends to net income, c) increasing funding sources through debt, and d) instituting share ownership by institutions. Additionally, Bathala & Moon, (1994) suggested increasing insider ownership as a means of reducing agency problems. Companies increase the share of management ownership to align the position of managers with shareholders so that they act according to the wishes of shareholders. This motivates managers to improve performance and be responsible for increasing shareholder prosperity. Additionally, external supervision can be achieved through the use of debt. Adding debt to the capital structure can reduce the use of shares to minimize the agency's cost of equity. However, it is important to note that the company must repay the loan and pay interest expenses periodically. Additionally, excessive use of debt can lead to agency conflicts between shareholders and debtholders, resulting in increased debt agency costs. Furthermore, institutional investors can act as monitoring agents.

According to some researchers, the distribution of shares from institutional investors and shareholder dispersion can reduce the agency's cost of equity. This is because ownership is a source of power that can be used to support or challenge management, making the concentration or distribution of power relevant in the company. Agency theory explains the relationship that arises when individuals delegate decision-making authority to others. In this theory, principals are shareholders, while agents are company management. Agency problems arise when a conflict of interest occurs between the principal and the agent due to a misalignment of their respective utilities. The agent is responsible for optimizing the profit requested by the principal, but this may not align with the agent's interests. However, managers also have a desire for well-being. Therefore, it is possible that the agent may not always act in the best interest of the principals (Jensen & Meckling 1976).

Agency theory, as defined by Jensen & Meckling (1976), refers to the relationship between a principal and an agent. The principal hires the agent to perform tasks that benefit the principal, including delegating decision-making authority. In a company with share capital, the shareholders act as the principal, and the Chief Executive Officer acts as their agent. Conflicts between managers and shareholders often arise due to the agency relationship. This is because humans are inherently self-interested economic beings, with shareholders and managers having different goals. As a result, conflicts of interest can emerge. Shareholders seek a higher and quicker return on their investment, while managers aim to have their interests met by receiving maximum compensation or incentives for their performance in running the company. The issuance of stock dividends is suitable for investigating the complementary role of accounting information because it is primarily a paper transaction and has been interpreted as signaling better prospects.

Capital Participation

Government Regulation Number 27 of 2014 outlines the transfer of ownership of state/regional property to state-owned enterprises, regionally-owned enterprises, or other legal entities owned by the state. This transfer is considered as the participation of central/regional government capital. The assets that were not previously separated into separate assets are now calculated as state or regional capital/shares. Moreover, according to Government Regulation No. 1 of 2008 regarding Government Investment, equity participation is a type of government investment in business entities that involves acquiring ownership rights, which may include establishing or taking over limited liability companies. In managing and overseeing state finances, there are various forms of equity participation. One such form is central government equity participation, which involves transferring ownership of state property that was originally non-separated state assets into separate state assets. This is then calculated as state capital or shares in state-owned enterprises, regionally-owned enterprises, or other legal entities owned by the state or region.

Model of Regulatory Consistency of Local Government Capital Equalisation in Regional Development Banks

The regional revenue and expenditure budget may include local government capital participation in regional companies as a means of increasing regional income for the welfare of the community. According to laws and regulations, any capital participation or additional capital participation in regional companies must be regulated in a separate regional regulation on capital participation or additional capital. Capital participation is a type of investment made by local governments. According to Government Regulation Number 12 of 2019 concerning Regional Financial Management, investment is defined as the use of assets to obtain economic benefits, such as interest, dividends, royalties, social benefits, and/or other benefits, to enhance the government's ability to serve the community. According to Korkeamaki & Moore, (2003), implementing investment through equity participation can consistently support the growth of capital ownership in a company.

Competitive Advantage

In 1985, the concept of competitive advantage was introduced as a complement to competitive strategy, which initially focused on industries and companies. The operational focus of competitive advantage is to examine the fundamentals of sustainability within companies and industries. Competing in an industry requires companies to perform various activities, such as ordering, calling customers, assembling products, and training employees. It is essential to maintain a logical flow of information with causal connections between statements. Competitive advantage introduces the concept of value chains, a framework for strategic thinking about business activities. The activity-based view of the firm provides a basis for thinking about business strategy (Porter, 1985). Competitive advantage explores the role of complementary products or services in competition and competitive advantage in some industries. The ability of a firm to achieve economic profits above those of competitors in the same industry supports its competitive advantage. Companies with a competitive advantage can understand changes in market structure and choose effective marketing strategies. Competitive advantage is achieved when a company offers products or services that are more valued by customers than those of competing companies (Porter, 1985).

According to Porter, (1985), competitive advantage is the ability of a company to outperform others in the same industry or market, based on its characteristics and resources. The concept of competitive advantage gained popularity after Porter's development of it. Porter, (1985) stated that a company can achieve a competitive advantage by aligning its distinguishing competencies with the critical success factors in the industry, resulting in superior performance compared to its competitors. Competitive advantage can be attained through a low-cost strategy that allows a firm to offer products at lower prices than its competitors.Secondly, a company can achieve a competitive advantage through a product differentiation strategy. This involves creating a perception among customers that they are receiving unique benefits at a reasonable price. According to the generic competitive strategy, companies typically position themselves in one of two ways: either through an overall cost advantage strategy or a differentiation strategy. If the target market is relatively narrow, the strategy may evolve into a focused strategy (Porter, 1985).

This strategy is differentiated based on competitive advantages and target market. The low-cost strategy focuses on producing standard products at a very low cost per unit. This product is typically targeted towards price-sensitive consumers who prioritize cost when making purchasing decisions. A product differentiation strategy encourages companies to identify their unique selling points in the target market. Highlighting the uniqueness of the product can attract interest from potential consumers. A focus strategy is used to build a competitive advantage in a narrower market segment.This strategy is designed to meet the needs of a small number of consumers who make purchasing decisions independent of price.

Implementation

Strategy implementation is the administrative task of designing and managing systems to achieve the best integration of people, structures, processes, and resources in achieving organizational goals. It is often referred to as the action stage of strategic management (David, 2011). Strategy implementation is the administrative task of designing and managing systems to integrate people, structures, processes, and resources to achieve organizational goals (Spekman, 1983). The focus of strategy implementation is on the work patterns of structures, processes, and resources to achieve specific goals in a public organization. Successful implementation in public organizations requires the integration of structures, processes, and resources. Implementation failure can result from malfunctioning integration systems in implementation management.Effective strategy implementation considers the relationship between seven factors: strategy, structure, systems, style, staff, skills, and subordinate goals (Okumus, 2003).

Strategy implementation is the administrative task of designing and managing systems to achieve the best integration of people, structures, processes, and resources in achieving organizational goals (Spekman, 1983). It is often referred to as the action phase of strategic management (David, 2011). In principle, implementation in the context of strategic management is the process by which an organization moves from the formulation of a strategic plan into the operations required to achieve the specific goals and strategies identified in the plan. Implementation is a crucial part of a strategic management series. Effective implementation is crucial for the success of the feasibility analysis of strategic plan goals. This requires ensuring that actual operations align with the well-planned operations and that actual results match the planned or anticipated results. Strategic management is incomplete and of little value without such implementation.The final stage of strategic management is the implementation process (David, 2011). This stage determines the extent to which planning can be successfully executed within an organizational system. It is important to objectively evaluate the implementation process to identify any potential issues or areas for improvement.

Previous Research

Previous researchers have conducted studies on investment, capital participation, and investment development of regional development banks. Korkeamaki & Moore, (2003) provide insights into convertible bond financing for investment in regional banking companies. Furthermore, Alpenberg & Karlsson, (2019) research explains that the Swedish government's most dominant form of capital investment is the rate of return on internal loans and the payback method. Guo & Jiang, (2013) researched venture capital investment and its contribution to the development of entrepreneurial capital structure in China. They also studied the evaluation of local banking products by research and development of banking companies. Zhang's (2012) research on Venture Capital Investment Selection Decision-Making, based on Fuzzy Theory, explains that the evaluation of local banking products by banking companies is crucial for the sustainability of the investment control system.

Sevilir (2010), conducted a study on the efforts of local banking companies to prioritize the role of human resources in the development of local banking investments. Previous research by Iyer, Mcbride, & Reckers (2012) discussed the concept of decision-making in banking capital investment. The research titled 'The Effect of a Decision Aid on Risk Aversion in Capital Investment Decisions' provides valuable information about the impact of decisions on the development of banking company capital. It is important to note that the research should be read objectively, without subjective evaluations. Paquin, Gauthier, & Morin (2016) focus on Project Efficiency Management and Project Risk Management Programmes. Menezes, Kelly, Grossmann, & Vazacopoulos (2015) explain the resolution of capital investment planning problems by considering the stages of transition with the term Capital Investment Planning. Chaudhuri, Koudal, & Seshadri (2010) research also contributes to investment banking research by developing the concept of Investments in the Indian manufacturing sector.

In other studies, Jackson & Keune (2013) provide an overview of the role of decision-makers in investing capital. Zasada, Reutter, Piorr, Lefebvre, & Gomez (2015) support previous research on local bank development, which focuses more on Rural Development Policy in the field of capital investment in banking companies. Paravisini et al. (2008) researched the financial constraints experienced by local banks and provided strategies for these banks to offer credit products. Chaudhuri, Koudal, & Seshadri (2010) also researched restructuring regional banks by changing organizational behavior. The research focuses on how changes in banking organizations can affect policy efforts to restructure the regional bank work system. Koller (2007) provides information in the research 'The World's Local Bank': Globalization as a Strategy in Corporate Branding Discourse, that in regional banking terms, branding is also known as a way to expand banks' product offerings to the community.

Farragher, Kleiman, & Sahu (2007) suggest the need for performance audits of capital investments in banking organizations to provide periodic evaluation results for the banking system. Qiao Yu (1998), supports the idea that changes in investment or capital structure can affect regional sectoral economic growth. In his research titled 'Local Bank Office Ownership, Deposit Control, Market Structure, and Economic Growth,' Shaffer (1886) discusses the issue of mergers between local banks that are not expected to affect the economy in the region. In some cases, the merger of local banks is a solution to strengthen capital or investment in the region. Schilder (2006) presents a similar concept in his research titled 'Does Venture Capital Investment Require Spatial Proximity?' An Empirical Investigation on the Relationship between Capital Investment in Banking and Personal Proximity in Social Relationships. This study explores the relationship between capital investment in banking and personal proximity in social relationships. The researcher argues that investment decisions are behavioral matters that can either encourage or discourage organizational planning. Additionally, Bertrand (2000) suggests that capital investment in banking is primarily focused on stabilizing the capital structure of regional banks. A role for emergent analysis tools?', Alkaraan & Northcott (2006), discuss the development of the concept of efficiency strategy in the capital investment system in banking. Bos & Kool (2004) also provide an overview of this topic. They argue that implementation related to capital investment often overrides efficiency, causing capital investment to function less well. In their research entitled 'Strategic Capital Investment Decision-making: A Study of Practice in Large UK Manufacturing Companies: How Capital Investment Decisions are Structured to Strengthen the Economic Structure in Manufacturing. According to Hilary (2006), capital investment is a major force in the capital structure of banks.

III. RESEARCH METHODS

This research employs a qualitative methodology to obtain an accurate depiction by developing a process analysis utilizing primary data sources. According to Bogdan & Biklen (2007), qualitative research utilizes the researcher as the primary instrument and an actual setting as the direct data source. The research is descriptive in nature, with data collected in the form of words or pictures rather than numbers. Qualitative researchers prioritize the process over results or products and tend to analyze their data inductively. According to Creswell (2009), the research process involves emergent questions and procedures, data collection in participant settings, and data analysis that builds inductively from specific to general themes. Researchers then make interpretations about the meaning of the data. The final written report should have a flexible writing structure. Additionally, Saldana (2011) explains that qualitative research is an umbrella term for various approaches and methods used to study natural social life.

The data collected and analyzed is primarily non-quantitative, consisting of textual materials such as interview transcripts, field notes, and documents, as well as visual materials such as artifacts, photographs, video recordings, and internet sites. These materials document human experiences of others and the self in social action and reflexive circumstances. According to Creswell (2009), the research process involves emergent questions and procedures, data collection in participant settings, and data analysis that builds inductively from specific to general themes. Researchers then make interpretations about the meaning of the data. The study included 27 informants, 25 of whom were Regional General Treasurers or Regional Financial Management Officials from the Provincial/Regency/City Governments in Bengkulu Province and Central Sulawesi Province. The remaining two informants were the President Director and Deputy Commissioner of Bengkulu Regional Development Bank Shareholders.

IV. RESULTS AND DISCUSSION

The research findings indicate that Regional Development Banks have a competitive advantage in achieving the performance target of implementing regional government equity participation in the category of commercial banks based on business activity 1 in Indonesia. The language used in the original text was already clear and objective, so no changes were made. The only change made was to rephrase the sentence to improve its readability and flow. The Regional Development Banks' implementation of capital participation for competitive advantage (low-cost strategy, product differentiation strategy, and focus strategy) during the October 2020 period, still falls under the category of Commercial Banks Based on Business Activities I. In terms of competitive advantage, the substance of the low-cost strategy of 25 regional treasurers is as follows: According to 20 Regional General Treasurers, the implementation of the low-cost strategy has not been optimal in terms of competitive advantage (80% of informants). Additionally, 5 Regional General Treasurers, who serve as Regional Financial Management Officers, explained that there is currently no implementation of low-cost strategies in a series of capital participation processes carried out by the Regional Development Bank in both the Bengkulu Province and the Central Sulawesi Regional Development Bank working areas (20% of informants).

The results of research related to the analysis of competitive advantage seen from the substance of the product differentiation strategy of 25 Regional Public Treasurers as Regional Financial Management Officers, 12 Regional Public Treasurers stated that the implementation of competitive advantage seen from the substance of the product differentiation strategy is still not optimal 48% informants), and 13 Regional Public Treasurers as Regional Financial Management Officers stated that there is currently no product differentiation strategy at all in the series of capital participation processes conducted by the Regional Development Bank, both Regional Development Banks in the working area of Bengkulu Province and Regional Development Banks in the working area of Central Sulawesi (52% informants). The research results related to the analysis of competitive advantage seen from the substance of focus strategy of the research results can be explained that out of the 25 Regional General Treasurers as Regional Financial Management Officers who were used as research informants, 23 Regional General Treasurers stated that the implementation of competitive advantage seen from the substance of focus strategy was still not optimal (92% of informants), and 2 (two) Regional General Treasurers stated that currently there is no focus strategy at all in the series of capital participation processes conducted by the Regional Development Bank, both Regional Development Banks in Bengkulu Province working area and Regional Development Banks in Central Sulawesi working area (8% of informants).

The optimal implementation model for achieving an efficient integration of equity participation systems of provincial, regency, and city local governments into the Regional Development Bank involves integrating capital participation management with local regulations on regional medium-term development plans, strategic plan documents, and local government work plan documents during Stage 1. Stage 2 of capital participation management is implemented through regional regulations on regional revenue and expenditure budgets. The realization and evaluation of this stage occur in general meetings of shareholders and/or other coordination meetings. The Regional Regulations on Capital Participation serve as the legal basis for realization, which is then strengthened by regional head regulations. These regulations ensure the actual amount of capital participation value that is realized in current conditions. In this study, interesting phenomena were found regarding the allocation of capital participation expenditure. Specifically, there were instances where the realized allocation of capital participation expenditure did not match the amount allocated in the regional revenue and expenditure budget for the year.

V. CONCLUSIONS

The study found that the most effective model of equity participation is one that is integrated with the development planning system and priority budgeting system. The Regional Medium-Term Development Plan contains the priority program and activity planning system. This plan is implemented through a strategic plan document and a Regional Government Work Plan document, which are derived from the regional regulation on the Regional Medium-Term Development Plan. These documents serve as a reference for the preparation of the general policy priority budget ceiling, as well as the regional revenue and expenditure budget for the year in question. Informants mentioned this model as an ideal implementation model. It is measurable because it is included in the comprehensive local government planning and budgeting system. The regional regulations on capital participation by the Regional General Treasurer are explained in more detail, with an emphasis on the availability of implementation regulations, rather than on regulations that position capital participation in the development priority scale of mandatory regional capital investment affairs. The current condition has not been fully integrated into the medium-term development planning system, including the implementation mechanism of regional capital participation. The system needs improvement to address concerns regarding the Regional Development Bank's suboptimal role in promoting the capital participation product's competitive advantage model. The analysis study identifies three supporting strategies: cost leadership, product differentiation, and focus. These strategies should be thoroughly considered to enhance the system's effectiveness. When including capital participation in the priority expenditure section of the planning document, the budgeting mechanism will align with the medium-term planning document. The equity participation paradigm, which is linked to the planning system and budgeting system, provides new input for improving the implementation system of local government equity participation to regional development banks in Indonesia. The model formulated with a more comprehensive approach is seen to be able to strengthen of the performance system of regional equity participation in the Regional Development Bank. Capital participation expenditure in the priority scale of the regional medium-term planning document can better ensure that budget availability is well planned within 5 years.

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