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## **FEASIBILITY OF INVESTMENT IN THE AREA AFFECTED BY THE CONSTRUCTION OF THE EAST RING ROAD SURABAYA, INDONESIAN**

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### **ABSTRACT**

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Indonesian government both central and local governments have an important role in the development of the public sector. Public sector development carried out with the aim of improving people's welfare. The purpose of this research is to know how big the investment feasibility of each region were affected due to the construction of the ring road east of Surabaya. How big investment feasibility of economic sectors in this research with emphasis three sector from nine sectors. Three sectors is industrial, trade and services sectors from of each affected regions. Measuring the feasibility of using financial analysis tool that internal rate of return or IRR. The results showed that each affected region shows particularly feasible for all sectors of trade, services and industrial. The highest sector is trade followed are the services and the lowest industrial.

**Keywords** : Investment, economic sectors, public sectors, IRR.

### **INTRODUCTION**

Public sector development both by the central government and local government is building to create solutions to problems that exist in society. Besides creating solutions to problems as well as to create hope and prosperity for the people of both the economy and life. Development of the public sector will be created properly if there is a good cooperation between central government, local government, private sector and society. Public sector development related to investment decisions should be well planned well because it is associated with very large amounts of capital and long-term. According Dombusch and Fischer (1998: 331) states that investment is directed public spending in order to increase the stock of non-financial capital or physical assets or capital. Many factors affect investment decisions. One of the factors that affect the investment decision is a benefit in the future (Kunarjo, 1982:30).

Funding The investment made by the government-financed public investment in the form of procurement and development of public services. One of the public sector investment is the

construction of road infrastructure provision. Development of road infrastructure both new road construction or development of existing roads. Good construction of toll roads and non-toll road. This form of construction of a government effort to improve services in the form of transport aimed at improving the competitiveness and efficiency of business activities surrounding communities in particular and the wider community in general. Development of the public sector especially in the development of road infrastructure is one done by the city of Surabaya. One of infrastructure development undertaken Surabaya city government is the construction of ring road east.

Construction of the east ring road is planned to be connect between Suramadu and Juanda airport. Construction of the east ring road will pass through and affect the five (5) districts in Surabaya. 5 (Five) of the affected districts of the District of Bulak, Mulyorejo, Sukolilo, Rungkut and Mount Anyar. Five sub-district in Surabaya that will connect the districts hibiscus Tambak Oso Sidoarjo. Construction of the eastern ring road is closely related to investment

decisions. Before performing investment decision it will be a good investment feasibility studies on the procurement of assets and the assets of the company. Investment feasibility studies related to evaluating the feasibility of investment from each district were affected from the construction of East circumference. Investment feasibility studies serve to assess and analyze whether the investment activities undertaken will later give a big payoff to the public individually and society as a whole if the investment really do.

Investment feasibility evaluation of each district affected is expected to be known to potential economic power to be developed further. Knowing the strength of the economic potential of each government, especially local government facilitates the investment has the potential to grow in the area on an ongoing basis so that it will increase the GDP and income per capita as well as district and the city of Surabaya.

Valuation of investments of each district affected by using two scenarios are moderate and pessimistic. From the second scenario we compare with the next later based on existing data. Based on the explanation above, this study aimed to evaluate the feasibility of public investments affected districts based on the East Ring project.

Furthermore, this article is structured as follows methodology, result and discussion, conclusion.

### METHODOLOGY

This research is descriptive research by focusing more on research evaluation aimed to provide input or support decision making. The scope of the study is to assess the investment opportunities in the region affected by the two districts are optimistic and pessimistic scenarios.

The research data is primary (kuisinier) and secondary (GDP Surabaya and districts affected, income per capita cities and districts affected).

### The analysis tool

#### 1. Internal Rate of Return (IRR)

The interest rate that equates the present value of the expected cash flows (outflows expected cash). Formula as follows:

$$\sum_{t=0}^n \frac{A_t}{(1+r)^t} = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \dots + \frac{A_n}{(1+r)^n}$$

When  $A_1, A_2, A_3 = \dots = A_n$  then it can be simplified into:

$$A_0 = A_1 \sum_{t=1}^n \frac{1}{(1+r)^t}$$

#### 2. Net Present Value (NPV)

Net present value is the present value difference between the present value proceed with initial investment (outlay). This method as well as the internal rate of return method, the discounted cash flow method.

$$NPV = -A_0 + \sum_{t=1}^n \frac{A_t}{(1+r)^t}$$

Where  $r$  is required rate of return, or more precisely, is the weighted average cost of capital, is  $A_0$  and  $A_1$  are investment proceeds or net cash flow. Questionnaire data based on information obtained by the respondent of the affected districts as well as sector-based economy. The frequency of respondents based on each of the districts affected by 42 to a total of 210. The distribution of respondents based economic sectors, namely industry, trade and services, each with 14 frequencies with a total of 42 frequencies.



## RESULT AND DISCUSSION

### Investment Analysis based for Regional

Analysis based on the value of IRR the investment of each region affected by comparing the prevailing interest rate. Then analyzed the value of IRR of two economic conditions are optimistic and pessimistic economic conditions in each sector of the economy, namely industry, trade and services.

**Table 1:** Results of Analysis IRR the District Area

No	District Area	Optimistic average	pessimistic average	IRR average
1	Gununganyar	23,1%	16,8%	19,95%
2	Rungkut	23,9%	18,8%	21,35%
3	Sukolilo	23,6%	18,8%	21,2%
4	Mulyorejo	23,8%	16,7%	20,25%
5	Bulak	24,0%	19,0%	21,5%
	Average	23,68%	18,02	20,85%

Source: Data survey on though

Based on the above table shows that the average IRR as a whole amounted to 20.85% greater than the interest rate generally applicable is 12%. IRR of each district affected shows are also greater than the interest rate generally. This shows that all districts berpotensi to be developed on the basis of investment potential of each of the three sectors of the economy with emphasis on different priorities. The third sector of the economy is the industry sector, trade and services.

### Investment Analysis of the Industry Sector

Investment feasibility using the Internal Rate of Return (IRR) with 2 conditions the results are optimistic and pessimistic for the industry sector are the following:

**Table 2:** Results of IRR Industry Sector Analysis

**Table 2:** Results of IRR Industry Sector Analysis

No	District Area	economic conditions		
		optimistic	Pessimistic	Average
1	Gununganyar	23,2%	19,2%	21,2%
2	Rungkut	23,9%	19,0%	21,45%
3	Sukolilo	23,6%	18,8%	21,2%
4	Mulyorejo	23,8%	16,7%	20,25%
5	Bulak	23,4%	17,2%	20,3%
	Average	23,6%	18,2%	20,7%

Source: Survey Data processed

Based on the above table shows that the average IRR industry as a whole of five districts affected are 20.7% higher than the prevailing interest rate is approximately 12%. While the average IRR of each district is greater than the prevailing interest rate. This indicates that the fifth region to be developed to the industry sector. While per district that has the highest IRR is Rungkut with an IRR of 21.45% and the lowest IRR achieved by districts bulak with a value of 20.3%. This indicates that Rungkut expected to grow even more in the industry sector from now.

### Investment Analysis of the Trade Sector

Investment feasibility using the Internal Rate of Return (IRR) with 2 conditions the results are optimistic and pessimistic, it can be served on the analysis of investment in the Trade Sector as follows:

**Table 3.** Results of IRR in the Trade Sector Analysis

No	Wilayah Kecamatan	Economic Conditions		
		optimistic	Pessimistic	Average
1	Gununganyar	26,0%	18,8%	22,4%
2	Rungkut	27,3%	23,8%	25,55%
3	Sukolilo	26,9%	23,8%	25,35%
4	Mulyorejo	25,0%	21,0%	23,0%
5	Bulak	28,6%	24,5%	26,55%
	Average	26,76%	22,38%	24,57%

Source: processed survey data

Based on the above table it can be seen in general IRR of investments in the trade sector amounted to 24.57% greater than the interest rate generally applicable is 12% This shows the trade sector investment deserves to be studied further. Meanwhile, estimates of investment by assuming two economic conditions which amounted to 26.76% optimistic and pessimistic at 22.38%. While per district that has the highest IRR is Bulak districts with an IRR of 26.55% and the lowest IRR



achieved by sub-district Gunung Anyar with a value of 22.4%. This indicates that the Bulak is expected to grow even more in the trade sector, followed by subdistricts other.

**Investment Analysis of the Services sector.**

Investment feasibility using the Internal Rate of Return (IRR) with 2 conditions the results are optimistic and pessimistic, it can be served on the analysis of investment in the sector services are as follows:

**Table 4.** Results of IRR Analysis the Services sector.

No	District Area	Economic Conditions		
		optimistic	Pessimistic	Average
1	Gununganyar	20,9%	16,6%	13,75%
2	Rungkut	23,1%	18,7%	20,9%
3	Sukolilo	21,4%	17,1%	19,25%
4	Mulyorejo	23,7%	12,9%	18,3%
5	Bulak	22,9%	18,6%	20,75
	Average	22,4%	16,8%	19,6%

Source: processed survey data

According to the table above general investment IRR of area services sector amounted to 19.6%, which means the value of IRR is greater than the interest rate generally applicable is 12%. This means that investments in the Services Sector feasible. Meanwhile, estimates of the investment assuming 2 economy is optimistic of 22.4% and 16.8% pessimistic. While per district that has the highest IRR is Rungkut districts with an IRR of 20.9% and the lowest IRR achieved by sub-district Gunung Anyar with a value of 13.75%. This indicates that Rungkut expected to grow even more in the Services sector followed by subdistricts other. Overall indicate that potentially in the development of industry sector and services are Rungkut districts. This is highly related and supports all of the developments larger than the above two sectors of industry and services, especially in the district Rungkut followed by subdistricts affected other. While the trade sector with the largest IRR obtained in the area Bulak Bulak this is due to previously as the fishprocessing and have high potential in growing trade in areas other

than fisheries and supported by the area near the beach.

Development of the public sector that do both central and regional government aimed to improve infrastructure to both the affected community or not. Improved facilities and infrastructures will have an impact on people's welfare. Indicator welfare improvement is the increase of income per capita. By increasing income per income will increase the GDP of the central government and local derived from tax revenue. GDP this is one source of funding for the development of the public sector. Fund development of the people and is used by the people. Evaluation is what gives picture of how the development impacts that will be felt by the people, especially in improving the economy.

**CONCLUSION**

Based on the foregoing description of the evaluation of the feasibility of investment, it can be concluded districts Rungkut very dominant in industry and services sectors and sub Bulak in trade. Although both these districts provide great IRR in the sector, the government should not ignore the other affected districts along the eastern rim. These five districts are mutually support progress in the economy. The linkage between the five districts affected or not affected on the East

Ring road of development is needed to improve the economy of the surrounding community and the city of Surabaya development in general.

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