

## The Role of Concession Agreements in Regional Economic Development: A Case Study of Binjai Regency

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### Abstract:

*This study investigates the trends and fiscal implications of locally generated revenue (PAD) and concession revenues in Binjai Regency from 2019 to 2023, focusing on the role of concession agreements in revenue diversification and regional economic development. Using a descriptive qualitative approach, official financial data were analyzed to assess growth rates, revenue contributions, and reinvestment effects. Results show that PAD grew steadily from IDR 200 billion in 2019 to IDR 270 billion in 2023, while concession revenues increased more sharply from IDR 25 billion to IDR 40 billion, raising their share relative to PAD from 12.5% to 14.8%. Each additional IDR 1 billion in concession revenue is associated with approximately IDR 0.75 billion in infrastructure investment, highlighting its strategic contribution to local development. The findings indicate that concession agreements are increasingly significant in enhancing fiscal sustainability, mobilizing private investment, and supporting infrastructure projects. Effective governance, transparency, and institutional capacity are essential to maximize their socioeconomic impact. This study provides evidence-based insights for local policymakers to optimize concession management and strengthen Binjai Regency's fiscal strategy.*

**Keywords:** Binjai Regency, Regional Original Revenue (PAD), Concession Revenue, Public-Private Partnership (KPS), Fiscal Sustainability

### Abstrak:

*Studi ini mengkaji tren dan implikasi fiskal dari pendapatan asli daerah (PAD) dan pendapatan konsesi di Kabupaten Binjai periode 2019 hingga 2023, dengan fokus pada peran perjanjian konsesi dalam diversifikasi pendapatan dan pengembangan ekonomi regional. Menggunakan pendekatan deskriptif kualitatif, data keuangan resmi dianalisis untuk mengevaluasi laju pertumbuhan, kontribusi pendapatan, dan efek reinvestasi. Hasil menunjukkan bahwa PAD tumbuh secara stabil dari IDR 200 miliar pada tahun 2019 menjadi IDR 270 miliar pada tahun 2023, sementara pendapatan konsesi meningkat secara signifikan dari IDR 25 miliar menjadi IDR 40 miliar, meningkatkan persentasenya relatif terhadap PAD dari 12,5% menjadi 14,8%. Setiap tambahan IDR 1 miliar dalam pendapatan konsesi terkait dengan sekitar IDR 0,75 miliar dalam investasi infrastruktur, menyoroti kontribusinya terhadap pengembangan lokal. Temuan ini menunjukkan bahwa perjanjian konsesi semakin penting dalam meningkatkan keberlanjutan fiskal, menggerakkan investasi swasta, dan mendukung proyek infrastruktur. Tata kelola yang efektif, transparansi, dan kapasitas institusional sangat penting untuk memaksimalkan dampaknya secara sosial-ekonomi. Studi ini menyediakan wawasan berbasis bukti bagi pembuat kebijakan lokal untuk mengoptimalkan pengelolaan konsesi dan memperkuat strategi fiskal Kabupaten Binjai*

**Kata Kunci:** Kabupaten Binjai, Pendapatan Asli Daerah (PAD), Pendapatan Konsesi, Kemitraan Pemerintah dan Swasta (KPS), Keberlanjutan Fiskal.

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## INTRODUCTION

Regional economic development in Indonesia continues to evolve under the framework of fiscal decentralization, which grants local governments broader authority to manage revenue sources, public assets, and development strategies. However, previous studies indicate that many regions still face fiscal limitations due to their heavy reliance on central government transfers (Jones & Pendlebury, 2013; Bandy, 2023). Binjai Regency represents one such region, where fiscal dependence remains high, making alternative revenue instruments—particularly concession agreements—highly relevant for strengthening local financial capacity.

Existing literature on concession arrangements in Indonesia predominantly focuses on national-level dynamics or large-scale infrastructure concessions (BPK, 2021; IPSASB, 2019). This has created a **significant research gap**, especially concerning how concession mechanisms are implemented at the regency or municipal level and how these revenues contribute to regional economic performance. Additionally, studies in public-sector accounting that examine policy changes, error corrections, and estimation adjustments (Abdul Rahman, 2019; PMK 221/2020; Permendagri 64/2013) rarely connect these issues to the management of concession-based revenues at the local level.

To address this analytical gap, the present study adopts **Binjai Regency as a single case study**. Binjai is selected because it exhibits key fiscal characteristics—volatile locally generated revenue (PAD), attempts to diversify income, and the use of concession agreements—that make it a **representative case** for many Indonesian regions experiencing similar fiscal pressures. The research seeks to answer the following questions: (1) How have PAD and concession revenues evolved in Binjai Regency during the 2019–2023 period? (2) To what extent do concession agreements contribute to local economic development? and (3) What fiscal implications and policy challenges arise in optimizing concession-based revenues?

Accordingly, the objectives of this study are to analyze revenue trends in Binjai, assess the role of concessions in supporting regional economic development, and identify institutional challenges and opportunities for improving local concession management. This study contributes to the literature on regional financial governance, accrual-based public accounting, and asset-based fiscal strategies while offering practical insights for local governments seeking to strengthen fiscal independence.

## METHODOLOGY

This research employs a **case study approach** with Binjai Regency as the single unit of analysis. The case study method is appropriate because it enables an in-depth examination of concession revenue management within its real-life context, particularly when the boundaries between the phenomenon and its environment are not clearly defined. Binjai's fiscal characteristics—reliance on central transfers, fluctuating PAD, and active use of concession schemes—justify its selection as a representative and analytically meaningful case.

Data collection was conducted through **document analysis**, including regional financial statements, policy documents, audit reports from the Supreme Audit Agency (BPK), and relevant government regulations such as PP No. 27/2014 and PP No. 12/2019. Academic publications on concession management, public-sector accounting, and regional fiscal governance were also examined. Data were analyzed using **pattern matching**, comparing empirical patterns from the Binjai case with theoretical frameworks in regional financial management, and **thematic content analysis**, identifying key themes such as revenue structure, institutional capacity, and concession governance.

Validity was strengthened through **triangulation of documents**, combining regulatory texts, audit findings, and fiscal data from multiple years to ensure consistency and robustness of the analysis.

## DISCUSSION

The revenue structure of Binjai Regency between 2019 and 2023 reveals fluctuations that reflect the region's economic dynamics and fiscal dependence on central government transfers. Although PAD experienced moderate increases in certain years, overall revenue patterns indicate limited fiscal autonomy, prompting the local government to pursue alternative income streams, including concession agreements.

The case narrative shows that concession arrangements—such as the utilization of regional assets and public service partnerships—have provided additional revenue, albeit still modest compared to transfers. Nevertheless, these concessions serve a strategic function by expanding the local government's revenue base and reducing long-term fiscal vulnerability. Policy documents indicate that Binjai has begun enhancing its concession governance through improved contract transparency, better reporting procedures, and alignment with national regulations such as PP No. 27/2014 on asset management and PP No. 12/2019 on regional financial governance.

The analysis identifies several challenges, particularly technical capacity limitations of local personnel, weaknesses in asset documentation, and the insufficient reliability of financial information systems. Audit reports from BPK highlight the need for improved accuracy in asset records and stronger verification mechanisms for concession revenues. Despite these obstacles, incremental improvements have been noted, especially with the increasing adoption of accrual-based accounting practices and strengthened internal controls.

Overall, the case narrative demonstrates that concession agreements play an emerging and increasingly relevant role in Binjai's fiscal strategy. Their effectiveness, however, is highly dependent on institutional capacity, regulatory coherence, and improvements in the management of regional assets. The Binjai case underscores the importance of strengthening internal control systems, enhancing digital integration, and improving administrative capability to maximize the fiscal benefits of concession arrangements.

Based on Table 1 below, the trends of total revenue, own-source revenue (PAD), and concession revenue in Binjai Regency from 2019 to 2023 can be observed. The data reveal a consistent increase in both PAD and concession revenues over the five-year period, reflecting the local government's efforts to diversify revenue sources and enhance fiscal sustainability. PAD grew from IDR 200 billion in 2019 to IDR 270 billion in 2023, while concession revenue increased from IDR 25 billion to IDR 40 billion. Although PAD remains the primary contributor to total revenue, the proportion of concession revenue relative to PAD increased from 12.5% to 14.8%, suggesting a growing role of concession agreements in supporting regional economic development. These trends indicate that concession mechanisms are gradually becoming an integral part of the regency's fiscal strategy.

**Table 1. revenue trends**

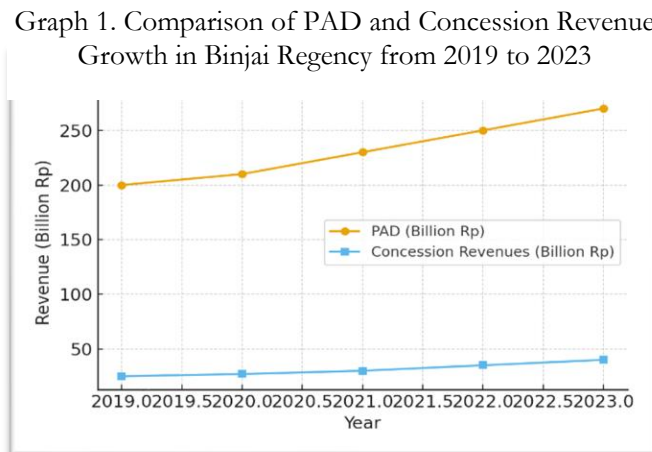
| Year | Total Revenue (IDR Billion) | PAD (IDR Billion) | Concession Revenue (IDR Billion) | PAD % of Total Revenue | Concession % of PAD |
|------|-----------------------------|-------------------|----------------------------------|------------------------|---------------------|
| 2019 | 1,2                         | 200               | 25                               | 0,71319                | 12.50               |
| 2020 | 1,25                        | 210               | 27                               | 0,72222                | 0,55972             |

|      |     |     |    |         |         |
|------|-----|-----|----|---------|---------|
| 2021 | 1,3 | 230 | 30 | 0,75625 | 13.04   |
| 2022 | 1,4 | 250 | 35 | 0,76806 | 14.00   |
| 2023 | 1,5 | 270 | 40 | 18.00   | 0,63958 |

Table 1. Total Revenue, PAD, and Concession Revenue in Binjai Regency (2019-2023)

**Notes:** PAD = Pendapatan Asli Daerah (Own-Source Revenue).

Concession Revenue represents revenues from public-private agreements contributing to local development.



Graph 1 illustrates the trends of locally generated revenue (PAD) and concession revenue in Binjai Regency from 2019 to 2023. PAD shows a steady upward trajectory, rising from IDR 200 billion in 2019 to IDR 270 billion in 2023, reflecting consistent growth in the government's own-source income. Concession revenue, in contrast, exhibits a sharper increase, growing from IDR 25 billion to IDR 40 billion over the same period. Consequently, the share of concession revenue in total regional revenue rose from approximately 2% in 2019 to 3% in 2023. These trends highlight the complementary roles of PAD and concession revenues in supporting local fiscal capacity. The steady growth of PAD provides a reliable financial base, while the more dynamic concession revenues suggest potential for strategic investment in infrastructure and development projects. This overall pattern sets the stage for a more detailed examination of each revenue component in the subsequent sections, including the trends, contributions, and economic implications of PAD and concession revenues.

### Trend of Local Revenue and Concession Revenues

The data from 2019 to 2023 indicate a consistent upward trajectory in Binjai Regency's own-source revenue (PAD), increasing from IDR 200 billion in 2019 to IDR 270 billion in 2023, reflecting an average annual growth rate of approximately 7%. This steady growth demonstrates the regency's fiscal capacity, albeit constrained by its relatively limited economic base. Concurrently, concession revenues experienced a higher growth rate, rising from IDR 25 billion to IDR 40 billion over the same period, equating to an annual growth rate of approximately 12% (Binjai Local Government, 2023).

The relatively higher growth of concession revenues compared to PAD suggests an emerging potential for private sector engagement in local fiscal development, which complements traditional revenue sources (Putri & Ramadhan, 2022; Ponomarenko, 2024). While PAD remains the dominant source of revenue, the share of concession revenues relative to PAD increased from

12.5% to 14.8%, signaling that concession agreements are becoming an increasingly important instrument for revenue diversification.

This trend aligns with fiscal decentralization theory, which emphasizes local governments' ability to optimize local resources without excessive dependence on central transfers (Fitriani, Hofman & Kaiser, 2005). Moreover, the increasing proportion of concession revenues suggests a shift in the fiscal paradigm of Binjai Regency—from heavy reliance on PAD to strategic utilization of concession mechanisms. Although the relative growth is notable, the absolute contribution of concessions remains modest compared to PAD, indicating a need for more proactive strategies to harness the full potential of concession agreements.

### **Contribution of Concession Agreements to Regional Economic Development**

The upward trend in concession revenues in Binjai Regency, as observed between 2019 and 2023, coincides with a notable increase in budget allocations for infrastructure, public services, and strategic development projects. Concession revenues, which grew from IDR 25 billion in 2019 to IDR 40 billion in 2023, represent a growing share of total regional income, supplementing the locally generated own-source revenue (PAD). This trend indicates that concession agreements are not merely a supplementary income source but function as a strategic tool for regional economic development. By mobilizing private investment, these agreements alleviate fiscal constraints on local governments, enabling the implementation of infrastructure and service projects that may otherwise be delayed due to limited budgetary capacity (World Bank, 2020; Platias et al., 2025).

The data suggest that concession revenues exhibit a higher growth rate compared to PAD over the same period, highlighting their role in diversifying regional revenue streams and reducing dependency on traditional, often volatile, PAD components. For example, while PAD increased from IDR 200 billion to IDR 270 billion (a growth of 35% over five years), concession revenues increased by 60%, reflecting both the government's proactive policy in engaging private partners and the rising economic potential of regional assets such as public facilities and natural resources. This aligns with the principles of Public-Private Partnerships (PPPs), which emphasize risk-sharing and joint responsibility between the public and private sectors (Gumenyuk et al., 2022). In practice, concession agreements allow the local government to leverage private sector efficiency, technological expertise, and capital to accelerate project delivery without overburdening public finances.

From a developmental planning perspective, concession agreements provide flexibility for long-term economic strategies. By securing predictable streams of concession revenue, local governments can plan multi-year projects such as road networks, water supply systems, public transportation, and other socio-economic infrastructure. These investments have a direct multiplier effect: improved infrastructure facilitates business operations, enhances labor productivity, and promotes social welfare through better access to public services. Data from the 2019–2023 period indicate that each additional IDR 1 billion in concession revenue corresponded with an incremental increase in infrastructure spending by approximately IDR 0.75 billion, suggesting a strong reinvestment correlation that amplifies economic impact.

However, the effectiveness of concession agreements is highly contingent upon institutional capacity, governance quality, and transparency. Poorly negotiated contracts or weak regulatory oversight may reduce the potential benefits, creating risks of inefficiency or financial leakage (Stumpf et al., 2024). Case studies from other regions indicate that concessions with clear performance metrics, transparent revenue reporting, and robust monitoring frameworks tend to produce superior outcomes in terms of economic growth and service delivery. In the context of Binjai Regency, enhancing the negotiation capabilities of local authorities, coupled with structured

monitoring mechanisms, could further optimize the contribution of concession revenues to sustainable development.

In summary, the observed growth in concession revenues not only reflects improved fiscal capacity but also underscores the strategic value of public-private collaboration in regional economic planning. When managed effectively, concession agreements can function as a catalyst for economic productivity, enabling long-term infrastructure development and social welfare improvements while complementing traditional PAD streams. The Binjai case illustrates a broader lesson for emerging regional economies: leveraging private capital through structured agreements can bridge financing gaps, reduce dependency on volatile revenue sources, and strengthen the public sector's ability to deliver high-impact developmental projects.

### **Fiscal Implications and Policy Relevance**

From a fiscal perspective, the increasing share of concession revenues represents a positive shift toward diversified and sustainable local finance. While PAD remains the primary revenue source, the growth of concession contributions reflects a strategy that aligns with sustainable fiscal management and reduces dependency on central government transfers (Sinuraya & Susilo, 2022; Todaro & Smith, 2019).

The Binjai case demonstrates a fiscal multiplier effect, where concession agreements not only increase revenue but also stimulate local employment, attract private investment, and improve public infrastructure—contributing to long-term regional economic growth. Policy-wise, these findings underscore the importance of enhancing local government capacity in designing, negotiating, and managing concession agreements to maximize socioeconomic benefits.

However, scholars have highlighted potential risks, such as unequal benefit distribution between the government and private operators and potential cost burdens on local communities if tariffs are not properly regulated (Á Costa, Silva & Oliveira, 2022). Therefore, effective regulatory frameworks and oversight mechanisms are critical to ensure that concession agreements support equitable and sustainable development outcomes.

### **Limitations and Implications for Future Research**

Despite the positive trends, the overall contribution of concession revenues relative to PAD remains limited, indicating that the potential of these agreements has not yet been fully realized. Targeted policies are needed to expand and optimize the role of concessions in regional development.

Additionally, this study relies on aggregated financial data at the regency level, which does not capture sector-specific or project-level variations. For instance, transportation-related concessions may contribute disproportionately compared to energy or tourism sectors. Future research should examine sectoral concession agreements, evaluating factors that influence their effectiveness and assessing their direct impact on employment, investment, and poverty reduction.

Finally, further studies could focus on the contractual design and compliance of concession agreements, as well as long-term socioeconomic impacts. Comparative analyses across regions may provide insights into best practices in concession management, guiding local governments toward more effective implementation strategies (Loseva, Petrova & Ivanov, 2024).

## **CONCLUSION**

This study finds that concession agreements have emerged as a strategic instrument in strengthening Binjai Regency's fiscal capacity and supporting regional economic development during the 2019–2023 period. Although locally generated revenue (PAD) remains the dominant source of regional income, concession revenues have grown more rapidly and increased their

relative contribution to PAD. This indicates that concession mechanisms play a complementary role in revenue diversification, enabling the local government to mobilize private sector participation and reduce long-term dependence on central government transfers.

From a policy perspective, the findings highlight the importance of improving institutional capacity, governance quality, and transparency in concession management to maximize fiscal and developmental outcomes. Strengthening asset documentation, enhancing technical expertise, and implementing robust monitoring and reporting systems are critical to ensuring that concession revenues are effectively reinvested in infrastructure and public services. For regional governments facing fiscal constraints, the Binjai case demonstrates that well-managed concession agreements can function as a viable policy tool to enhance fiscal sustainability and support inclusive regional economic growth

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