

Correlation of Regional Taxes and Regional Expenditures on Regional Fiscal Capacity Parigi Moutong District

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ABSTRACT

This research aims to analyze the relationship between regional taxes and regional expenditure on the regional fiscal capacity of Parigi Moutong Regency 2016-2022. The research method uses a quantitative approach with a total of 7 years of observations obtained from the Regional Financial and Asset Management Agency Report of Parigi Moutong Regency and analyzed using simple linear correlation (least square method). The research results show that the regional tax variable is positively and significantly correlated with the regional fiscal capacity of Parigi Moutong Regency. The regional expenditure variable has a negative and insignificant correlation with the regional fiscal capacity of Parigi Moutong Regency. The results of this research illustrate the importance of optimizing regional taxes through intensification, extensification, and using the budget effectively and efficiently so as to create regional independence. The limitations of this research are that it does not cover all the dominant variables that support regional fiscal performance and still uses relatively small data.

INTRODUCTION

Regional Fiscal Capacity is an indicator used in calculating the amount of transfers from the central government to regional governments, which has the main aim of reduce the fiscal gap. Law Number 33 of 2014 Article 1 paragraph 21 concerning Financial Balance between the Center and the Regions defines DAU as funds sourced from APBN revenues allocated with the aim of equalizing financial capacity between regions to fund regional needs in the context of implementing decentralization. Furthermore, Article 27 paragraph (2) explains that DAU for a region is allocated based on the fiscal gap and basic allocation. The fiscal gap is calculated from the difference in fiscal needs minus regional fiscal capacity. Referring to Minister of Finance Regulation Number 193/PMK.07/2022 Article 1 concerning Regional Fiscal Capacity Maps , Regional Fiscal Capacity is the financial capacity of each region as reflected through regional income and certain regional financing receipts minus income whose use has been determined , certain expenditures, and certain regional financing expenditures. Meanwhile, the Regional Fiscal Capacity Map is a description of regional financial capacity which is grouped based on the Regional Fiscal Capacity ratio. Regional fiscal capacity maps can be used for 5 purposes, namely: a. Considerations in determining grant recipient areas; b. Determination of the amount of accompanying funds by the regional government, if required; c. Considerations in establishing regional endowment funds; d. Considerations in providing regional debt financing; and/or e. Other uses in accordance with statutory provisions. The Regional Fiscal Capacity Map is prepared in two stages, namely a) Stage I Calculation of Regional Fiscal Capacity; and b) Stage II Calculation of Regional Fiscal Capacity Ratio.

The efficient and successful implementation of fiscal decentralization by regional governments is the primary factor driving the growth and fortification of regional fiscal capability (Financial Audit Agency of the Republic of Indonesia, 2020). Together, fiscal decentralization and regional autonomy promote the financial independence of regional governments (Financial Audit Agency of the Republic of Indonesia, 2020) . The main element in strengthening regional fiscal capacity is increasing regional revenue receipts, especially in the PAD sector. The phenomenon of lower PAD contributions in the APBD composition is a common challenge faced by Indonesian regional governments in overseeing the country's fiscal order. These governments primarily rely on contributions from transfer fund revenues obtained from the central government, which are commonly referred to as balancing funds. Judging from the Regional Tax Revenue, Parigi Moutong Regency is supported by 9 (nine) types of regional tax objects which have great potential and contribution to regional revenue, namely hotel tax, restaurant tax, entertainment tax, advertising tax, swallow's nest tax, street lighting tax. , excavated material extraction tax C, Rural and Urban Land and Building Tax (PBBP2) and Land and Building Rights Acquisition Tax (BPHTB). The realization of regional taxes for Parigi Moutong Regency for 2016-2022 amounted to IDR.13,983,718,534, increasing to IDR.21,870,283,843.09 or experienced growth of 7.55 percent.

All liabilities of the Regional Government that are recorded as a deduction from the value of net assets during the applicable fiscal year period are referred to as Regional Expenditures. The implementation of government activities that are under the jurisdiction of the province, district, or city is financed by regional expenditures. These activities include mandatory, optional, and joint government-managed affairs in specific domains. Components of Operational, Capital, Unexpected, and Transfer expenditures are included in the Parigi Moutong Regency's regional expenditure structure. Parigi Moutong Regency Regional Expenditure Realization in the last 7 years (2016-2022) shows a fluctuating realization but tends to decrease, namely from IDR.1,461,272,504,564.35 decreased to IDR.1,303,857,937,366.48 with an average growth of -1.28 percent. Based on each expenditure component, it shows that employee expenditure has increased every year with an average growth of 4.18 percent. Meanwhile, unexpected spending grew by 13.74 percent. Meanwhile, the speed of development of regional expenditure realization over a certain period of time can be done by comparing the annual growth rate. The growth in the realization of Regional Expenditures in Parigi Moutong Regency experienced fluctuations which tended to decrease. In 2016 it was -1.50 percent, increasing to 11.84 percent in 2019, but in 2020 it decreased to 1.43 percent until 2022 it became -14.48 percent.

The KFD ratio of Parigi Moutong Regency over the last 7 years has ranged between 0.230-1.328 with an average of 0.700, which is in the IKFD range <1.171 , meaning it is still very low. The Regional Fiscal Capacity Index value really shows a rise in tandem with the occurrence of relatively erratic regional tax increases in Parigi Moutong Regency. Meanwhile, Regional Expenditures tend to fluctuate, but in a downward direction. Although Parigi Moutong's IKFD value shows an increase, it is still in the very low category. This value indicates that the regional financial capacity of Parigi Moutong Regency, which is reflected in regional income and regional financing receipts, is still low so that dependence on transfer funds is still high. Thus, Parigi Moutong Regency PAD must be sought to become the main source of financing for regional expenditure in Parigi Moutong Regency. Especially the Land and Building Tax (PBB), which starting in 2014 has been included as a regional tax, is expected to strengthen the PAD position and regional income of Parigi Moutong Regency as a whole. Based on the background description, the research objective is to analyze the relationship between regional taxes and regional expenditure on the regional fiscal capacity of Parigi Moutong Regency in 2016-2022.

LITERATURE REVIEW

Regional Fiscal Capacity

In an effort to strengthen fiscal capacity, the central government through Minister of Finance Regulation Number 193/PMK.07/2022 explains that, the fiscal capacity index is a reflection or reflection of the financial capacity of each region identified through local revenues (excluding special allocation funds, funds emergency, previous loan funds, and other types of revenue

whose use is only limited to certain types of expenditure provided by the central government) to fund its expenditure. The larger the index, the greater the financial capability or capacity in a region. Regions that have low IKFD need financial assistance from the central government to carry out economic activities, especially to finance their expenses. Meanwhile, regions that have very high IKFD are not entitled to receive grant assistance from the central government. The provision of financial assistance by the central government is solely aimed at developing and enlarging regional fiscal capacity. This not only includes efforts to increase regional revenue, but also as a trigger to explore potential sources of revenue so that at least the level of poverty in each region can be reduced (Hamzah & Sofilda, 2022).

Regional fiscal capacity is the basic foundation for the central government to provide a portion of the allocation of decentralization funds, such as: General Allocation Funds (DAU) in the form of grants to regional governments. In detail it can be described as follows: (i) The DAU fiscal capacity given to each region is calculated based on a certain formula on the fiscal gap and basic allocation. As previously explained, the regional fiscal gap is the difference between needs and fiscal capacity, while the basic allocation is determined by the total salary of employees in the region; and (ii) Fiscal capacity is the basic foundation for foreign loans to regional governments in the form of grants as stated in Government Regulation No. 2 of 2006 which refers to procedures for procuring loans (Hamzah & Sofilda, 2022). The policy to overcome the fiscal gap between regions is carried out by transferring funds from the central government to the regions through the concept of the fiscal gap, namely regional needs (fiscal needs) compared to regional potential (fiscal capacity). Regional needs that exceed fiscal capacity will be covered by fund transfers from the Central Government. General Allocation Funds distributed to Provinces and Regencies/Cities can increase regional fiscal capacity (Herdaleny, 2015).

Fiscal capacity is used as a benchmark to see how much economic potential can be explored and utilized as a source of regional income. Because as we know, the main obstacle faced in implementing regional autonomy is the limited sources of financing for implementing decentralization so that regional independence in running their households cannot run optimally. One indicator of achieving regional independence against central government dependence can be seen from the fiscal capacity map and fiscal capacity index (Lisnawati, 2018). Calculating fiscal capacity, the index is divided between regions, which is estimated through the fiscal average of all provinces in Indonesia (Edame & Okoi, 2014); (Gropp & Kostial, 2000). With the same calculations, this applies to index calculations at the city level. In Article 6 paragraph 7, Regulation of the Minister of Finance Number 193/PMK.07/2022 that based on the calculation of the regional fiscal capacity index, existing areas can be grouped into 4 categories, namely: (i) Regions whose fiscal area index is greater of or equal to 2 is an area with very high IKFD; (ii) Areas where the fiscal capacity index is equal to 1 or less than 2 are areas with high IKFD; (iii) Areas where the fiscal capacity index ranges between 0.6-1 are areas with medium category IKFD; and

(iv) Regions whose fiscal area index is smaller than 0.6 are regions with a low IKFD category.

Regional Tax

Regional taxes based on Law Number 28 of 2009 article 1 paragraph 10 concerning Regional Taxes and Regional Retributions, are mandatory contributions made by individuals or bodies to regions without direct, balanced compensation which can be enforced based on applicable laws and regulations, which used to finance regional government administration and development. Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments states that Regional Taxes, hereinafter referred to as Taxes, are mandatory contributions to the Regions owed by individuals or bodies that are coercive based on law, with no direct compensation and used for regional needs for the greatest prosperity of the people (Mardiasmo, 2011). The types of regional taxes collected by district/city governments based on Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments consist of: a. PBB-P2; b. BPHTB; c. PBJT; d. Advertisement tax; C. PAT; f. MBLB Tax; g. Swallow Charcoal Tax; h. Opsen PKB; and i. Opsen BBNKB. This is different from the types of regional taxes based on Law Number 28 of 2009 concerning Regional Taxes and Regional Levies which explains that the types of Regency/City taxes consist of: a. Hotel Tax. b. Restaurant tax. c. Entertainment Tax. d. Advertisement tax. e. Street Lighting Tax. f. Tax on Non-Metal Minerals and Rocks. g. Parking Tax h. Groundwater Tax. i. Rural and Urban Land and Building Tax. j. Fees for Acquisition of Land and Building Rights.

Meanwhile, it can be seen in article 2 paragraph (4) of Law Number 28 of 2009 concerning Regional Taxes and Regional Retributions that it is explained that by regional regulations, types of Regency/City Taxes other than those stipulated in paragraph (2) can be determined that meet the following criteria: a). It is a tax and not a levy. b). The tax object is located or located in the relevant Regency/City area and has quite low mobility and only serves the community in the relevant Regency/City area. c). The object and basis of tax imposition do not conflict with the public interest. d). The tax object is not a provincial tax object or a central tax object. e). The potential is adequate. f). Does not have a negative economic impact. g). Pay attention to aspects of justice and community capacity, and h). Maintain environmental sustainability.

Empirically, regional taxes as a source of regional income have a correlation with regional fiscal capacity. Azhar, et.all (2023) found that the Regional Tax variable is positively correlated with the Fiscal Capacity of Bogor Regency. Another phenomenon researched by Widyaningsih (2018), Lisnawati (2018), Sumantri & Jannah (2022) is that regional taxes have a negative correlation with fiscal capacity so that if regional taxes increase, the fiscal capacity will be lower. Fenochietto & Pessino (2013) examined panel data of 115 countries to estimate their tax capacity (the maximum level of tax revenue that a country can achieve) and tax effort (the ratio between actual revenue and tax capacity). The main factors that influence tax capacity are the level of

development, trade, education, inflation, income distribution, corruption, and ease of collecting taxes. Haque (2010) used panel data from 50 developing countries between 1995 and 2009 to identify the determinants that influence low tax efforts in developing countries. Tax efforts were found to be lower in developing countries on the Asian continent compared to other continents.

Regional Expenditure

Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Government states that Regional Expenditures are all regional obligations that are recognized as a deduction from the value of net assets in the relevant fiscal year period. Regional expenditure is also one of the items that is part of the APBD structure. In this case, spending is divided into two types, namely routine spending and development spending. Development spending is another name for capital spending, where this type of expenditure or spending carried out by local governments takes place in one particular budget year, but the benefits of this spending can be felt in subsequent budget years (Hamzah & Sofilda, 2022) . According to Halim & Kusufi (2014), Regional Expenditures are regional government obligations which are recognized as a reduction in net asset value. According to Anggara (2016), regional expenditure is grouped into nine expenditure groups with the following structure. 1. Indirect shopping, namely: a. employee expenditure; b. flower shopping; c. subsidy spending; d. grant spending; e. social assistance spending; f. profit sharing expenditure/financial assistance; g. unexpected shopping. 2. Direct shopping, namely: a. program; b. activities (personnel expenditure, goods/services expenditure, and capital expenditure).

The phenomenon that emerged in the autonomy era, that government transfers, especially DAU, were dominant in financing regional spending, and had little impact on regional PAD, was indicated as a fiscal illusion (Sasana, 2011). According to Adi & Ekaristi (2019), there is a negative relationship between income variables and expenditure variables, so there is a fiscal illusion. Ernawati & Riharjo (2017) show a positive and significant correlation between capital expenditure variables and regional independence. Meanwhile, Novitasari & Novitasari (2019) show a negative and significant correlation between capital expenditure variables and regional independence. Research by Ariani & Putri (2016), Rostina (2014), and Simatupang (2016) concluded that capital expenditure has a positive correlation with the level of regional independence. The conceptual framework of the relationship between regional tax variables and regional expenditure on the regional fiscal capacity of Parigi Moutong Regency is described as follows.

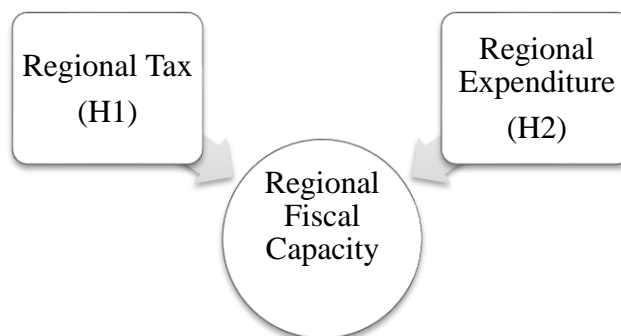


Figure 1. Research Conceptual Framework

Hypothesis

1. Hypothesis 1 (H1): Regional Taxes are Positively and Significantly Correlated with Regional Fiscal Capacity.
2. Hypothesis 2 (H2): Regional Expenditure has a negative and insignificant correlation with regional fiscal capacity.

METHODOLOGY

Types of Research and Research Data

According to Sugiyono (2009), this study employs a quantitative approach, which is a positivist-based research methodology used to examine certain populations or samples with the goal of testing preconceived notions. This study falls into the genre of causality research, which is defined as studies that indicate the direction or intensity of a relationship between two or more variables. The study observation period was from 2016 to 2022. The Parigi Moutong Regency Regional Financial and Asset Management Agency Report for 2016–2022 provided the secondary data that was used. Regional fiscal capability is the dependent variable (Y), and regional taxes and spending are the independent variables (X). Regional tax variables are measured in rupiah units, regional expenditures are measured in rupiah units, and regional fiscal capacity is measured in index number units. This is how the study variables are operationalized.

Data Analysis

The least squares method, or basic linear correlation analysis, is used to analyze research data. According to Usman and Akbar (2006), (r) is a number that indicates the direction or intensity of the relationship between the variables. The range of the r value is -1 to +1. The numerical value indicates the intensity of the association, whereas the direction can be written as either positive (+) or negative (-). The simple linear correlation formula uses the least squares method, namely:

$$r = \frac{n\sum XY - \sum X \cdot \sum Y}{\sqrt{(\sum X^2 - (\sum X)^2)(n\sum Y^2 - (\sum Y)^2)}} \dots\dots\dots(1)$$

Where r is the correlation coefficient, n is the number of observations, X is the regional tax and regional expenditure variable, Y is the regional fiscal

capacity variable. If $r = -1$, it means perfect negative correlation. This indicates that there is an inverse relationship between the regional tax, regional expenditure and regional fiscal capacity variables, where if the regional tax and regional expenditure variables increase, then the regional fiscal capacity variable decreases. If $r = +1$, it means perfect positive correlation. This indicates that there is a unidirectional relationship between the regional tax, regional expenditure and regional fiscal capacity variables, where if the regional tax and regional expenditure variables increase, then the regional fiscal capacity variable also increases.

Basis for Decision Making:

1. If the Significant value is <0.05 , then it is correlated
2. If the significant value is >0.05 , then it is not correlated

Guidelines for Degrees of Relationship:

1. Pearson Correlation value 0.00 – 0.20, no correlation
2. Pearson Correlation value 0.21 – 0.40, weak correlation
3. Pearson Correlation value 0.41 – 0.60, moderate correlation
4. Pearson Correlation value 0.61 – 0.80, strong correlation
5. Pearson Correlation value 0.81 – 1.00, very strong correlation

RESEARCH RESULT

Descriptive Statistical Analysis of Research Variables

Descriptive statistical analysis is used to describe the data obtained in the research and then analyzed to determine the relationship between the variables studied.

Table 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Regional tax	7	1398371853 4.00	21870283843. 09	16794573806.0 829	2471911582.3 9411
Regional Expenditure	7	1303857937 366.48	16901475162 41.69	1510772261993 .6213	13374761271 4.87088
IKPD	7	,230	1,328	.69957	.345494
Valid N (listwise)	7				

The calculation results show that in a sample of 7 observation data, the average regional tax variable for Parigi Moutong Regency for 2016-2022 was IDR.16,794,573,806,0829 with a minimum value of IDR.13,983,718,534 and the maximum value is IDR. 21,870,283,843.09 and a standard deviation of IDR.2,471,911,582.39411 lower than the mean value. When the average value is greater than the standard deviation, it can be interpreted that the regional tax variable is well distributed. The average regional expenditure variable for Parigi Moutong Regency for 2016-2022 is IDR.1,510,772,261,993.6213 with a minimum value of IDR.1,303,857,937,366.48 and a maximum value of IDR.1,690,147,516,241.69 and a standard deviation of IDR.133,747,612,714.87088 lower than the mean value. When the average value is greater than the standard

deviation, it can be interpreted that the regional expenditure variable is well distributed. The average fiscal capacity index variable for Parigi Moutong Regency for 2016-2022 is 0.69957 with a minimum value of 0.230 and a maximum value of 1.328 with a standard deviation of 0.345494 lower than the mean value. When the average value is greater than the standard deviation, it can be interpreted that the fiscal capacity index variable is well distributed.

Analysis of the Relationship between Regional Taxes and the Regional Fiscal Capacity of Parigi Moutong Regency

To statistically test and prove the relationship between regional taxes and the regional fiscal capacity of Parigi Moutong Regency for 2016-2022, partial correlation analysis was used with the help of the SPSS for Windows version 21.0 program. Partial correlation analysis is used to determine the correlation between one independent variable and one dependent variable with ordinal data categories.

Table 2. Correlation between Regional Taxes and Regional Fiscal Capacity

		Regional Tax	IKPD
Regional Tax	Pearson Correlation	1	,814 *
	Sig. (2-tailed)		.026
	N	7	7
IKPD	Pearson Correlation	,814 *	1
	Sig. (2-tailed)	.026	
	N	7	7

*. Correlation is significant at the 0.05 level (2-tailed).

The results of the correlation analysis show that between regional taxes and regional fiscal capacity, a correlation coefficient (r) value of 0.814 is obtained with a significance of 0.026. This means that there is a positive correlation between regional taxes and regional fiscal capacity with a very strong level of relationship, and this correlation is significant because $p < 0.05$ ($0.026 < 0.05$). Based on these results, the proposed hypothesis is proven, namely Hypothesis 1 (H1): regional taxes are positively and significantly correlated with regional fiscal capacity.

Analysis of the Relationship between Regional Expenditures and the Regional Fiscal Capacity of Parigi Moutong Regency

To statistically test and prove the relationship between regional spending and the regional fiscal capacity of Parigi Moutong Regency for 2016-2022, partial correlation analysis was used with the help of the SPSS for Windows version 21.0 program. Partial correlation analysis is used to determine the correlation between one independent variable and one dependent variable with ordinal data categories

Table 3. Correlation between Regional Expenditure and Regional Fiscal Capacity

		Regional Expenditure	IKPD
Regional Expenditure	Pearson Correlation	1	-.602
	Sig. (2-tailed)		.153
	N	7	7
IKPD	Pearson Correlation	-.602	1
	Sig. (2-tailed)	.153	
	N	7	7

The results of the correlation analysis show that between regional expenditure and regional fiscal capacity, a correlation coefficient (r) value of -0.602 is obtained with a significance of 0.153 . This means that there is a negative correlation between regional expenditure and regional fiscal capacity with a strong level of relationship, and this correlation is not significant because $p > 0.05$ ($0.153 > 0.05$). Based on these results, the proposed hypothesis is proven, namely Hypothesis 2 (H2): regional expenditure is negatively and insignificantly correlated with regional fiscal capacity.

DISCUSSION

The Relationship Between Regional Taxes and Regional Fiscal Capacity

The results of the research show that the regional tax variable is positively and significantly correlated with the regional fiscal capacity of Parigi Moutong Regency in accordance with the proposed hypothesis which has been proven. This means that every increase in regional taxes will increase the regional fiscal capacity of Parigi Moutong Regency. The results of this research are in line with research conducted by Azhar, et.all (2023) that the Regional Tax variable is positively correlated with the Fiscal Capacity of Bogor Regency. This means that every increase in regional taxes will increase regional fiscal capacity in Bogor Regency. Meanwhile, based on the concept of fiscal independence, this research is also supported by Saraswati & Nurharjanti (2021), regional taxes have a positive and significant correlation with regional fiscal independence. The more regional taxes collected, the stronger the regional fiscal independence. Thus, it can be said that a region has succeeded in increasing regional financial independence by strengthening regional fiscal capacity from the regional tax revenue sector. This research is supported by research results from Nggilu, et.all (2016), Novalistia (2016), Febriayanti & Faris (2019), and Novitasari & Novitasari (2019) with similar results.

The Relationship Between Regional Expenditures and Regional Fiscal Capacity

The results of the research show that the regional expenditure variable has a negative and insignificant correlation with the regional fiscal capacity of Parigi Moutong Regency in accordance with the proposed hypothesis which has been proven. This means that every increase in regional spending will reduce the regional fiscal capacity of Parigi Moutong Regency. The results of

this research are in line with research conducted by Novitasari & Novitasari (2019) show a negative and significant correlation between capital expenditure variables and regional independence. In other words, allocating capital expenditure to profitable sectors will support increasing regional fiscal capacity, whereas if capital expenditure is allocated in large amounts but is not on target it can be detrimental and reduce regional fiscal capacity. The phenomenon that emerged in the autonomy era, that government transfers, especially DAU, were dominant in financing regional spending, and had little impact on regional PAD, was indicated as a fiscal illusion (Sasana, 2011). Regional spending is essentially a function of regional revenue, claim Adi & Ekaristi (2019). The quantity of expenditure, being a dependent variable, is contingent upon the source of finance for the region, which might come from both central government transfers and own income. Therefore, there is a fiscal illusion in the measurement if there is a negative connection between income and expenditure variables.

Budget allocations can be used by the government in two different ways: directly for community service programs and other government operations, or indirectly for ordinary operational expenses. In order to pay their own regional expenditures, which include both capital and operational (routine) expenses, regions are granted the ability to investigate financial resources within their own borders under the framework of regional autonomy. The amount of the budget that is directly felt by the community decreases as the amount allotted for indirect expenses increases (Nurhidayati & Yaya, 2013). Every year, the needs of the government and local communities always increase. As a consequence, the amount of funds required for regional spending is always increasing. In the end, the amount of spending depends on regional income capacity.

CONCLUSIONS

1. The regional tax variable is positively and significantly correlated with regional fiscal capacity.
2. The regional expenditure variable is negatively and insignificantly correlated with regional fiscal capacity.

RECOMMENDATIONS

1. It is hoped that the regional government of Parigi Moutong Regency will not only rely on transfer funds from the central government, the regional government should continue to strive to increase revenue through intensification, extensification, and using the budget effectively, efficiently and gradually reducing dependence on the central government and optimizing its local economic potential to increase revenue regions so as to create regional independence to finance expenses so that ultimately dependence on the central government can be reduced .

2. It is hoped that the regional government of Parigi Moutong Regency will allocate regional expenditure, especially capital expenditure, to be rightly targeted at profitable sectors so as to support increasing regional fiscal capacity.

ADVANCED RESEARCH

For future researchers, it is hoped that they will use other variables related to supporting indicators for increasing regional fiscal capacity, such as Special Allocation Funds, Loan Funds, Employee Expenditures, etc. The limitation of the research is that this research has not covered all the dominant variables that support regional fiscal performance and still uses relatively small data.

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