

## DYSFUNCTIONAL INSTITUTIONS IN THE CASE OF LOCAL ELITE BEHAVIOUR IN DECISION-MAKING ABOUT LOCAL GOVERNMENT BUDGETS IN INDONESIA

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### ABSTRAK

*Membangun kelembagaan yang "terpercaya dan terprediksi" adalah langkah yang baik di dalam mendukung sebuah sistem otonomi daerah di Indonesia. Makalah ini mencoba melihat kondisi aturan main yang belum sempurna di dalam proses perencanaan dan implementasi Anggaran Pendapatan Belanja daerah (APBN) di tingkat Kabupaten. Bukti empiris menunjukkan bahwa pendelegasian kewenangan dari pemerintah pusat ke pemerintah daerah kabupaten telah mendorong elit lokal untuk menyalahgunakan kekuasaan di dalam proses APBD. Hal ini terjadi karena proses pendelegasian kewenangan itu tidak juga disertai pendelegasian pengawasan, penegakan, akuntabilitas serta lemahnya kontrol masyarakat.*

**Keywords:** *Dysfunctional institutions, asymmetric information and lack of enforcement*

### INTRODUCTION

Building reliable institutions is an important feature in the case of regional autonomy transformation in Indonesia (Jaya, 2003, 2004). Jaya (2004) argue that of the crucial preconditions for Indonesia regional autonomy transition is to build institutions that support a regional autonomy's rules of the game and create incentives for regional autonomy players. In fact, in the first year of regional autonomy policy implementation in 2001, the rules of the game of regional autonomy regime is unstable and changing and complexity and too many conflicts of vested interest emerged both vertically and horizontally. Consequently, this conditions triggered dysfunctional institutions such as corruption, rent seeker and negative lobbying.

Burky and Perry (1998: 14) argue that dysfunctional institutions in public administration were caused by a lack of information and enforcement in the role of principal-agent relationships in government. The terms of

principal-agent can be defined as follows. Given the new democratic paradigm that now exists in Indonesia, it is appropriate to identify the principal as the country's voters or constituents. The servants of the people's will are the politicians or council members or other representatives that have been voted to office by the people. All these representatives are the 'agents' who are acting on behalf of the principals. Moreover, Jaya (2004) states the new regional autonomy laws and regulations have not been accompanied by the establishment of enforcement agencies; therefore this condition leads principal-agent problems.

The principal-agent relationship is very an important aspect in hierarchy organisations such as the state. North (1991 47) points out that "hierarchies that evolve with more complex organisation entail formal structures to specify principal/agent relationship". The hierarchy of such rules, from constitutions, to stature and common laws, to specify by law, and finally to individual contracts defines

constraints, from general rules to particular specifications (North, 1991). Furobotn and Richter (1998) argue that the members of government and their administrators are the agents, while the voters are the principals in the Principal-agent relationship.

Rondinnelli, (1999) argues that in the context of delegation and devolution in relation to the balancing of central and local interest, decentralisation can be characterised as principal-agent relationship. However, some scholars argue that there are some obstacles to good governance in decentralised systems. Martinez-Vasquez and Nab, (1997) claim that first, domination by local elites. They identified “one danger of fiscal decentralisation in developing countries is that local government may become controlled by local elites”. Second, corruption enhanced decentralised governance. Similarly, some scholars such as Prud’homme (1995) and Tanzi (2000) and Carbonera (2000) also argue that decentralised system created more corruption at the local level. Bardhan and Mookherjee (1998) argue that decentralisation result in local governments capture. Prud’homme (1995) also argues that corruption may be greater at the local level. He explains that local officials usually have more discretionary powers than central government and local elite are likely to be more subject to pressing demands from local interest groups. Therefore, the study will examine the relationship between decentralisation and corruption.

The study includes two main sources of data, primary and secondary. Primary data are collected through surveys, in-depth interview and personnel observations. Secondary data includes already existing documents, such as local government finance statistics publications and project reports. Therefore, in the next discussion, we will use a combination of secondary and primary data including surveys and interviews of key decision –makers, political and NGOs.

The definition of local elites falls into three categories: local bureaucrats, local councils and local communities who have some control of *Kabupaten* fiscal resources. The in-depth interviews upon which this analysis is based required us to find proxies to represent each of these levels of government: the local government budget committee (*Panitia anggaran*) represented local bureaucrats; the local *Kabupaten* council budget committee represented the local councils; and the local businessmen, NGOs and university experts represented the local community.

### **The Concept of Dysfunctional Institutions**

Mehmet (1994:1) argued that the rate of economic development is inversely dysfunctional institutional. A principal source of dysfunctional institutions is state opportunistic behaviour, such as rent-seeking, corruption, lobbying and kick back, which generate transaction cost and welfare losses, causing cost-push inflation.

### **Corruption**

Many economists have long argued that corruption is attracting a lot of attention around the world. The rate of economic development is inversely related to institutional inefficiency (North, 1981). Institutional inefficiency is caused by rent-seeking, corruption and lobbying. Tanzi (1998) argues that definition of corruption is that it is the abuse of public power for private. According to Mauro (1997) causes of corruption are trade restriction, government subsidies, price control, multiple exchange rate practices and foreign exchange, low wages in the civil services, natural resource endowments, and sociological factors. He also illustrates that consequences of corruption are lowers investment and retards economic growth, talent will be misallocated, reduce the effectiveness of aid flows through the diversion funds, loss of tax revenue, adverse budgetary consequences, lower quality of infrastructure

and public services and distort the composition of government expenditure (Mauro, 1997:5-6).

Some empirical studies of corruption have been done intensively. Tanzi and Davoodi (1998) have investigated corruption also distorts the effects of industrial policy on investment. They also argue that corruption reduces tax revenue, mainly because of the impact that it has on the administration and on customs, thus reducing the ability of the government to carry out needed public expenditure. Charap and Harm (1999) and Khan and Jomo, (2000:8) and argue that corruption patterns are endogenous to political structures. Corruption is usually defined as the transgression of formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support. Bardhan, (1997) identified institutional and incentive structures can determine the magnitude and effects of corruption. Meanwhile, Shleifer and Vishny, (1993) claim that states with a much centralised institutional structure may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralisation.

However, little attention has been given in existing studies of corruption, notable in the case of regional autonomy in unitary state. Therefore, it is important to understand the corruption and regional autonomy, especially from centralised corruption move to decentralised corruption.

### **Rent Seeking and Lobbying**

Rent seeking becomes a major issue in developing countries. Khan and Jomo (2000) argue that the term of 'rent' is used to describe incomes, which are above normal in some senses or excess incomes that should not exist in efficient market. For example: lobbying, bribes, contribution to political parties (legal), expenditure on private media (illegal) and patron-client networks. Krueger, (1974) argued

that a principal source of institutional inefficiency is rent seeking. Rent seeking activity is costly to the economy when it becomes widespread. Similarly, Khan and Jomo (2000) argue that the term of 'rent' is used to describe incomes, which are above normal in some senses. However, conventional models of rent seeking are unable to explain how it can drive decades of rapid growth in some countries. Khan and Jomo (2000) argue that lobbying is one of the rent-seeking expenditure. Unlike corruption, the lobbying function is the cornerstone of pressure group theories of regulation and protection. The significance of this is that lobbying is one of important rent seeking to be studied in the context economic opportunistic behaviour in developing countries.

Indonesia is an excellent laboratory for the study of economic and institutional dynamics in the context of regional autonomy. Indonesia represents "state transformation" or an institution shift from a highly centralised, authoritarian and corrupt regime to more decentralised, democratic and yet still corrupt regime. In the mid-1999 Indonesia introduced State transformation namely, through Law no 22, 1999 (Regional Autonomy) and Law no 25, 1999 (Fiscal Balance between Central and Regional Government). Formally, Law no 22, 1999 was made an attempt to democratise the regional government political process, and to devolve certain powers of governments to the regional governments. Meanwhile, Law 25, 1999 is designed to support that shift of power to the local government by providing more fiscal resources (Brodjonegoro and Asanuma, 2000).

However, in the first year of regional autonomy in 2001, the rules of the game of regional autonomy regime is unstable and changing. When the rules of the game are unstable and changing, consequently, it is difficult to define appropriate incentive and monitoring devices in contracts between principal and agents. The choice of contracts

will depend on the costs of transaction. When information is asymmetrically distributed, principal-agent relationship can give rise to adverse selection (hidden information) and moral hazard (hidden action). In fact, in the context of the behaviour of State agencies, potential corruption, collusion and nepotism are evidence of dysfunctional institutions, stemming from weakness in the institutional framework.

### **Dysfunctional Institutions as reflected by evidence in the operation of local government budgets**

Before studying the role of bureaucrats, local councils and the communities in local government budget decision-making process, this section maps out the general pattern of decision-making for expenditures by the local elites as revealed in the secondary literature. Accountability of local government to local community is the most important step for successful decentralisation reform in Indonesia. Some scholars argue that the decentralisation reforms have opened up new channels of accountability. This is widely interpreted as having a positive effect on Indonesia by bringing government closer to the local people. On the other hand, the reforms also appear to have opened new channels for the abuse of power (Mink et al., 2002: 70). Now the *Bupati* must give an annual verbal report to the local council when he presents his budget paper, the incentive for the local bureaucrats to bribe the local council has increased as a way of getting their approval of the report. In the pre-reform era, the budget papers were simply submitted by the *Bupati* to the local council, were automatically approved by them without scrutiny, and then forwarded on to the central government in Jakarta.

Understanding exactly how local elites abuse their power within the local government budgetary process requires us to identify the main characteristics of local councils, the roles of the *Bupati* and the *Wakil Bupati* and the

expenditure patterns.<sup>1</sup> As a first approximation, an estimate of the degree of abuse of power can be gauged from comparing the actual expenditure as shown in the local government budget (APBD) with the “standard” budget formula as expressed in various documents such as the Central Government Regulation, 2000 (PP 109 and 110, 2000).<sup>2</sup> The former refers to rules governing expenditures by local councils and the latter refers to the expenditures by *Bupatis* and *Wakil Bupatis*. The main purpose of the standard budget formulae as expressed in the Government Regulations was to prevent local council members, *Bupatis* and *Wakil Bupatis* from allocating too much money for their own benefit and remuneration (WBRPEROR, 2003: 62). In the following sections we will consider the precise nature of how power has been abused at two levels of local government: first within the local councils and second at the *Bupati* and *Wakil Bupati* levels.

### **An analysis of Indication the abuse of power at the level of the Local Councils**

Table 1 compares the expected level of expenditure according to the standard formula with the actual expenditure in 2000 (before the reforms were introduced) and 2001 (in the first year of the reforms) for the three *Kabupatens* of Sleman, Badung and Kupang. The information shows a dramatic shift in the relationship between expected from PP110 and actual expenditures. Before the reforms, actual expenditure was typically less than the expected volume of expenditure. This is because the local councils were conforming strictly to the formula. In 2001 after the reforms, actual expenditures began to outstrip expected expenditure.

<sup>1</sup> The latter are described in detail in Appendix 6.1 which gives the total expenditure for 2000 (pre-reform) and 2001 (post-reform) by the local councils, the *Bupati* and the *Wakil Bupati*.

<sup>2</sup> PP 109 and PP 110 are the actual names of relevant government regulations.

**Table 1.** Local Council (DPRD) Expenditure in Rupiah, 2000 and 2001

Kabupaten	Pre Reform (2000)			Post Reform (2001)		
	Expected Standard Billion Rupiah	Actual Billion Rupiah	Percentage Difference %	Expected Standard Billion Rupiah	Actual Billion Rupiah	Percentage Difference %
Kab. Sleman	4.2	1.8	-57.1	4.5	6.6	46.7
Kab. Badung	3.9	3.7	-5.1	5.0	9.5	90.0
Kab. Kupang	1.3	0.9	-30.8	1.9	1.9	0

Source: calculated from detail local government budget (APBD) year 2000 and 2001

In the cases of both Sleman and Badung, the discrepancy was large, indeed almost double. The exception was Kupang, where expected and actual expenditure were in balance.

The aggregate divergence between expected and actual expenditure for Badung in Table 1 is also the largest of the three *Kabupatens*. This divergence indicates that in post-reform era, there is a wilful attitude of local councils to routinely ignore central directives and guidelines. One factor that facilitates this wilfulness is that government regulation PP110/2000 does not specify fixed amounts of expected expenditure for any individual items in the budget. Second factor is that Law 22/1999 higher position than PP 110/2000. The one exception is 'operational facilities', but in this case there is much room for manipulation because the government formula states only the minimum and maximum amounts rather than a fixed average.

In addition, Table 2 shows exactly on which budgetary items the deviations between expected and actual expenditures occurred. These details reveal that in Sleman the deviations were on the whole small, with the one exception of expenditure on 'operational facilities' (*fasilitas operasional*). By contrast, in the case of Badung Kabupaten, Table 2 shows that a number of major deviations amongst numerous items especially represen-

tation subsidy (*tunjangan representasi*), post allowance for leaderships (*tunjangan jabatan ketua*) and operational facilities. However, Table 2 shows that Kupang council expenditure items follow the PP110 formula, except expenditure operational facilities.

To conclude, the analysis of government budgetary data shows that local councils have not followed PP 110. In other word, the regional autonomy reform created indication of abuse of power by local politician. In other words, PP 110 has failed to prevent local council members from allocating excessive amounts of money for their own benefit and remuneration (WBRPEROR, 2003: 62)

The conclusions reached above have been verified by other scholars such as Banfield (1979: 98). They argue that the 'decentralised political systems are more corruptible and is always attended by an increase in the number of persons who are involved in corrupt acts'. Similarly, other scholars such as Prud'homme (1995) and Tanzi (1998) and Carbonera (2000) also support the finding. They argue that decentralised system created more corruption at the local level.

In the next section the expenditure patterns of the *Bupati* and *wakil Bupati* will be examined to see whether the use of discretionary local power was any different.

**Table 2.** Percentage difference between PP110 and Actual Local Council (DPRD) Expenditure in Rupiah, 2000 / 2001

Kabupaten	Pre Reform (2000)			Post Reform (2001)		
	Sleman	Badung	Kupang	Sleman	Badung	Kupang
Representation subsidy	59.9	55.4	55.0	1.1	-981	0
Packet subsidy	2.2	42.3	34.9	1.1	0	0
Post allowance for Leadership	68.9	-128	66.5	0	-415.7	0
Commission allowance	-13.8	0	32.6	0	0	0
Committee allowance	-146.5	0	-17.0	16.9	0	0
Special allowance	0	0	0	0	0	0
Welfare allowance	0	0	0	0	0	0
Operational activities	-736.5	-41.6	49.6	-716.2	-8.8	-20.4
Housing allowance	0	0	0	0	0	0

Source: calculated from detail Sleman, Badung and Kupang government budget (APBD) year 2000 and 2001

### An analysis of indication the abuse of power at the level of the Local Government Executives (*Bupati* and *Wakil Bupati*)

Given our analysis of what has been happening at the level of the local councils in Indonesia, it is perhaps not surprising to learn that the abuse of power by the *Bupati* and the *Wakil Bupati* is not significantly different (Table 3). The following analysis of the expenditure patterns at this level shows that *Bupati* and *Wakil Bupati* abused their power less than their counterparts in the Local Councils. Since decentralisation, their expenditure patterns have not increased dramatically. At the same time, there is no

question that power has been abused for the simple reason that neither the *Bupati* nor the *Wakil-Bupati* has followed the standard expenditures that could be expected from the formulae governing PP 109/2000.

Table 3 shows that even during the pre-reform era, the *Bupati* and *Wakil Bupati* apparently abused their power. In all three *Kabupaten* regions, actual expenditures always exceeded the expected expenditure to a considerable degree. In the case of Sleman the discrepancy was dramatic: a nearly three-fold difference. The information also shows an interesting and unexpected anomaly in the history of new abuse of power at the local level

**Table 3.** Discrepancy between Expected and Actual Expenditures of the *Bupati* and *Wakil Bupati*, 2000 and 2001

Kabupaten	Pre Reform (2000)			Post Reform (2001)		
	Expected Standard Billion Rupiah	Actual Billion Rupiah	Percentage Difference %	Expected Standard Billion Rupiah	Actual Billion Rupiah	Percentage Difference %
Kab. Sleman	0.5	1.4	180	0.5	0.8	60
Kab. Badung	1.7	2.1	24	1.1	1.5	36
Kab. Kupang	0.3	0.5	67	0.5	0.5	0

Source: calculated from detailed local government budgets (APBD) in 2000 and 2001

in Indonesia. After decentralisation in 2001, the difference between expected and actual expenditure declined dramatically in Sleman and Kupang. In the case of Kupang, there was zero difference by 2001, suggesting no abuse of power. In the case of Sleman, the discrepancy fell by 66 per cent. The situation in Badung was more stable with a slight increase in abuse of power.<sup>3</sup>

Why did the abuse of power decline (or increase only slightly in the case of Badung) after the new decentralisation laws, when the same laws gave rise to a massive increase in abuse of power at the local council level (see previous section). The answer most likely lies in the simple fact that the new laws made the *Bupati* and *wakil Bupati* more cautious about their actions. After 2000 they were expected to report to the local councils who had the power to question them about serious discrepancies. To avoid such bureaucratic attention, they kept their books clean.

By contrast, the local councils became dramatically more abusive in their power because no one at the local level was keeping them in check. Their reports went directly to the Central Government in Jakarta where officials were far less familiar or concerned with developments at the local level. As we saw in Paper 3, during the last twelve months further legislation has been introduced to bring about better control of the expenditure patterns of the local councils. An important conclusion emerges from this analysis. The regional autonomy reform had a contradictory impact at different levels of government. As far as the *Bupati* and *Wakil Bupati* were concerned, the new law made them more accountable. The opposite was true of the local councils, who

were merely accountable at a long distance away from the central authority, which had little means to carry out local scrutiny.

The conclusions reached above have been verified by other scholars. Bardhan and Mookherjee (1998) argue that decentralisation result in local governments capture. Prud'homme (1995) also argues that corruption may be greater at the local level. He explains that local officials usually have more discretionary powers than central government and local elite are likely to be more subject to pressing demands from local interest groups. Jaya and Dick (2001) and Mink et al (2002: 11) argue that the local councils and the new *Bupati* and *Wakil Bupati* have increasingly started to act as little kings (*raja kecil*).<sup>4</sup> Similarly, the report by WBRPEROR (2003) argued that PP 110 had failed to prevent DPRD members from allocating too much money to them.

#### PERCEPTION OF INSTITUTION MATTERS IN THE CASE OF LOCAL GOVERNMENT BUDGET

Burky and Perry (1998: 14) argue that dysfunctional institutions in public administration were caused by a lack of information and enforcement in the role of principal-agent relationships in government. For the purposes of the analysis in this paper we will also study the nature of the principal-agent relationship. The terms of principal-agent can be defined as follows. Given the new democratic paradigm that now exists in Indonesia, it is appropriate to identify the principal as the country's voters or constituents. The servants of the people's will are the politicians or council members or other representatives that have been voted to office by the people. All these representatives are the

<sup>3</sup> Further details provided in Appendix 1 show that the chief deviations between anticipated and actual expenditure occurred under the headings of post-allowance (*tunjangan jabatan*) and operating cost (*biaya operasi*). These were presumably the expenditure items most readily inflatable, while other items presented less opportunity for creative accounting.

<sup>4</sup> In addition to the label *raja kecil*, it is also common to hear the term "Soeharto kecil", an obvious reference to the wealth of former President Soeharto—often acknowledged to have been amassed through corrupt practices and behind-the-scenes deal-making.

'agents' who are acting on behalf of the principals.

The literature about governance and the principal-agent relationship has also identified four important institutional variables that need to be tested when discussing the efficiency of government:

- Transparency
- The monitoring and enforcement of directives;
- Lobbying
- The role of incentives.

These variables will be discussed below in the analysis of the institutional setting within which the abuse of power by the local elite occurs. Again, the focus is on the formulation and implementation of local government (*Kabupaten*) budgets. This section of the paper uses data collected from questionnaires and surveys administered by the author in the three *Kabupatens*: Sleman, Badung and Kupang. Questionnaires were distributed to local elites who have the power in local government budget decision-making process such as, local government budget committee; local council budget committee and local government budget watch (NGOs).

In the descriptive statistics analysis, all variables were measured on a five-point Likert scale indicating respondents' opinions about statements in our questionnaire. The five options were labelled

- 1 = strongly disagree
- 2 = disagree
- 3 = neutral
- 4 = agree
- 5 = strongly agree

Therefore, we conducted a survey in three *Kabupatens* that asked respondents the degree to which they agreed (score of 5) or disagreed (score of 1) with the following statements (see also questionnaire in appendix 2).

- Do you agree that the new institutional change in the context of regional autonomy

has increased *Kabupaten* budget transparency

- Do you agree that the new institutional change in the context of regional autonomy has provided clear monitoring and enforcement tools with respect to *Kabupaten* government budget process
- Do you agree that the new institutional change in the context of regional autonomy has changed form of lobbying to *Kabupaten* government bureaucrats and *Kabupaten* council with respect to *Kabupaten* government budget process
- Do you agree that the new institutional change in the context of regional autonomy has given positive incentive with respect to the behaviour of local government bureaucrats and local council in manage the *Kabupaten* government budget

### Transparency

According to International Monetary Fund (2001: 2), fiscal transparency can be defined into four: first, clarity of roles and responsibilities, second, public availability of information, third, open budget preparation, execution and reporting and assurances of integrity. Similarly, Kopits and Craig (1998), point out that fiscal transparency emphasises being open to the public about the structure and functions of government, fiscal policy intentions, public sector accounts and fiscal projections. However, this study used local government budget transparency such as open exchange of information between constituents and local council and between local council and local government bureaucrats.

Access to information is the most important aspect of the principal-agent theory. In the section, in our closed questionnaire, the respondents were asked whether agree and not agree that the new institutional change in the context of regional autonomy has increased *Kabupaten* budget transparency. The results are reported in Table 4.



Table 4. Perception on Transparency

Survey Item	Sleman	Badung	Kupang	Total Average
The institutional change has promoted a more open exchange of information between voters (principal) and the local council (agent)	2.7 (1.1)	3.0 (1.1)	2.7 (1.0)	2.8 (1.0)
The institutional change has promoted a more open exchange of information between the local council (principal) and the local government budget committee (agent)	3.2 (1.4)	2.8 (0.9)	3.5 (1.0)	3.2 (1.1)
Number of samples Source: Survey Data	30	21	22	73

Table 4 shows that the overall mean score was below 4 (2.8) representing that respondents relative disagreed to agree that the institutional changes since 2001 have increased more transparency between voters and the local council. Their responsibilities to the voters were of a lower order; or did not exist at all. In other words, the accountability of local council members to the voters was very low. This also means that the budgetary process at this level was not transparent. Using the Non-Parametric (NPar) Kruskal-Wallis test for three unrelated groups indicated that the samples were different from each other with a statistically significant p value of  $<0.10$ . There is significant different in the three *Kabupatens*.

However, in Table 4 shows that the overall mean score was below 4 (3.2) indicating that respondents neutral to agree that that the institutional changes since 2001 have increased transparency between the local council and the local government. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of  $>0.05$ . Based on the open questionnaire, most respondents in Sleman report that the information mechanism is now accessible, but it takes a long way of education for the community to access such information. They also view that people are involved only in the public hearing at the end of the discussion,

which is no longer give any influences. Most respondents in *Kabupaten* Badung reported similar perceptions to those found in Sleman. They viewed that The APBD decision process involves only the executive and the legislative. NGO, university and community do not have any information on the process of APBD approving. Similarly, in *Kabupaten* Kupang, most respondents insist that the process of implementation and allocation of the APBD is not yet open.

Overall, therefore, it can be argued that the local government budgetary process since the new decentralisation laws is not properly transparent and much more needs to be done to make the agents more accountable to the constituency of voters and the local council that represents the voter interests.

This brings us to a final question for the section: how can the process of formulating the local government budget become more transparent and accountable? One obvious way is to improve the quality and frequency of information flow and communication between local government executives and representatives of the general public. Amongst the latter are the NGOs, the universities and general business community, all of which at the present are excluded from receiving information about the budgetary processes of local governments. Another obstacle to accountability and transparency that needs to

be addressed is the poor understanding that local council members themselves have of what their roles should be in the budgetary processes.

**Monitoring and Enforcement of Proper Codes of Conduct**

Monitoring and the enforcement of proper codes of conduct are important tools to achieve functional institutions. Some scholars argue that monitoring and separate enforcement institutions are critical to ensuring that the agents of government will act according to the principal’s interest (Burky and Perry, 1998: 14). Therefore, in this section respondents were asked whether agree or not agree that the new institutional change in the context of regional autonomy has provided clear monitoring an enforcement tools with respect to *Kabupaten* government budget process.

Table 5 shows that the overall mean score was below 4 (3.3) representing that respondents relative more neutral to agree that the institutional changes since the introduction of regional autonomy had provided better monitoring and enforcement tools for local government executives in the local government budgetary process. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other

with a statistically insignificant p value of >0.05.

Similarly in Table 5 shows that the overall mean score was below 4 or (3.2) indicating that respondents relative close between neutral to agree that the institutional changes since 2001 have increased transparency between the local council and the local government. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of >0.05.

Based on the open questionnaire, most respondents in Sleman report that the role of formal control is existent, but because there has been no formal manual which are agreed, the process of formal monitoring becomes less effective. Most respondents in *Kabupaten* Badung reported different perceptions to those found in Sleman. They view that controls of BAWASDA, ITJEN Depdagri, BEPEKA and BPKP at implementation level created a conflict of interest and even sometimes are overlapping. Similarly, in *Kabupaten* Kupang, the respondents say that regional autonomy has not provided much improvement to monitoring and enforcement. Even sometimes are overlapping. BEPEKA and BPKP are more repressive controllers.

**Table 5.** Perception of Monitoring and Enforcement Tools

Survey Item	Sleman	Badung	Kupang	Total Average
The institutional change has improved monitoring and enforcement to Local Government	3.3 (1.1)	3.1 (1.0)	3.6 (0.8)	3.3 (0.9)
The institutional change has improved monitoring and enforcement to Local Council (DPRD)	2.9 (1.2)	2.9 (1.0)	3.7 (0.9)	3.2 (1.0)
Number of samples	30	21	22	73

Source: Survey Data

Furthermore, even though law 22 and law 25 required the *Kabupaten* government to publish information about plans and budgets, this had not happened and the information was not accessible to the public. The absence of monitoring was facilitated by the way in which regional autonomy created overlapping and confusing jurisdictions. Before 2000, bureaucratic orders and responsibilities conformed to vertical accountability from the central government in Jakarta down to the local councils in regional centres. After the reforms, this simple system was replaced by a restructured system of vertical accountability that also sat alongside a system of horizontal accountability that operated at the local level between local councils, *Bupati* and *Wakil Bupati*. Such overlapping and confusion worked to the advantage of those wanting to form opportunistic alliances because it was now more difficult for central government to monitor the behaviour of government officials and ensure that that conformed to appropriate standards of conduct. Most Respondents in the three *Kabupaten* suggest an urgent need to involve civil society organisations more actively in monitoring local government budget processes. Budgetary watchdogs need to be created through stakeholder forums and the parliamentary process itself. It is also necessary to hold periodic meetings between the local council members with the local community of voters so that there is a system for generating feedback for local councils and reminding

officials that they are being monitored. Similarly it is necessary to institute more and better processes for public reporting by the executive branches of government agencies.

### Lobbying Modus

Lobbying modus by the local elite in the local government budget decision-making process has changed dramatically since 2000. With decentralisation, some respondents argue that the old system of vertical lobbying (lobbying between local government bureaucrats and central government bureaucrats) has been replaced by horizontal lobbying (lobbying between local government bureaucrats and local councils) at the local level. This is not surprising, given the previous evidence in this paper on the formation of local alliances that collude to siphon off government funds. The local government bureaucrat is very responsive toward the interests of the local council because it plays a dominant role in determining the budget. The formal power of the local council gives its members power to accommodate their own personal interests. Therefore, in a closed-survey Question (see Appendix) respondents were asked whether agree or not agree that the new institutional change in the context of regional autonomy has changed form of lobbying *Kabupaten* government bureaucrats and *Kabupaten* council with respect to *Kabupaten* government budget process.

**Table 6.** Perception of lobbying modus

Survey Item	Sleman	Badung	Kupang	Total Average
1. The institutional change has changed Local Government lobbying modus	3.1 (1.2)	2.8 (0.9)	3.1 (0.8)	3.0 (0.9)
2. The institutional change has changed Local Council lobbying modus	2.2 (1.2)	2.9 (0.9)	3.2 (1.0)	2.8 (1.0)
Number of samples Source: Survey Data	30	21	22	73

Table 6 shows that the overall mean score was below 4 or (3.0) representing that respondents relative to neutral that the institutional change in the context of regional autonomy has changed both the local government lobbying modus in the *Kabupaten* government budget process. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of  $>0.05$ .

Similarly, Table 6 shows that the overall mean score was below 4 (2.8) indicating that respondents relative disagree to neutral that the institutional change in the context of regional autonomy has changed local council lobbying modus in the *Kabupaten* government budget process. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of  $>0.05$ .

Based on the open questionnaire, most respondents in Sleman report that compared to that in the past, there is an improvement in the process of budget approval, but the group's interests are still altering the process. However, in the case of Badung, most respondent also explain that the local government executive is very responsive toward the local council's interest because it plays a dominant role in determining the budget. They also insist that the local Council is now not only acting as a "rubber stamp" but also capable in determining how much rupiah is needed in an activity. They tend to involve not only in budget policy formulation but also in costing. Similar with Badung case, most Kupang respondent state that Local Council only lobbying for their own and party's interests. Local Council can even force the executive to put a certain activity into the budget.

Overall, based on the respondents evidence, we can argue that the new institutional change in the context of regional autonomy has changed form of lobbying *Kabupaten* government bureaucrats and *Kabupaten*

council with respect to *Kabupaten* government budget process from vertical lobbying (lobbying between local government bureaucrats and central government bureaucrats) to horizontal lobbying (lobbying between local government bureaucrats and local councils) at the local level.

### Incentives for better governance

Incentives can play an important role in solving dysfunctional institutions. Theoretically, laws and regulations are formal rules that determine the incentive structure and thus affect the behaviour of individuals and private organisations (Burky and Perry, 1998: 12). Similarly the new regional autonomy reforms Law No. 22 and 25, 1999 will determine the incentive structure and thus affect the behaviour of local regional autonomy players, such as local government and local council. However, if the system does not work, these players will most likely freely engage in the abuse of power. Therefore, in a closed-survey Question (see Appendix) respondents were asked whether agree or not agree that the new institutional change in the context of regional autonomy has given positive incentive with respect to the behaviour of local government bureaucrats and local council in manage the *Kabupaten* government budget.

Table 6.8 shows that the overall mean score was below 4 or (3.0) representing that respondents relative to neutral that the new institutional change in the context of regional autonomy has given positive incentive with respect to the behaviour of local government bureaucrats in manage the *Kabupaten* government budget. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of  $>0.05$ .

Similarly, Table 7 shows that the overall mean score was below 4 or (3.1) indicating that respondents the new institutional change in the

context of regional autonomy has given positive incentive with respect to the behaviour of local council in manage the *Kabupaten* government budget. A Kruskal-Wallis test for three unrelated groups indicated that the samples were not different from each other with a statistically insignificant p value of  $>0.05$ .

Based on the open questionnaire, most respondents in Sleman report that Sleman *Kabupaten* bureaucrats have no more incentive in controlling the budget process. On the other hand, they view that the legislative is more dominant in approving the budget because of its position and authority. The legislative is more dominant in approving the budget because of its position and authority. Similarly, most respondent in Badung mention that the *Kabupaten* legislative is more dominant in approving the budget because of its position and authority. At the beginning the executive is dominant, but when it comes to the discussion the legislative tends to be dominant. However, in the case of Kupang, most respondent report that the *Kabupaten* government bureaucrat is quite involved, while the local council is less involved.

Overall, based on four important institutional variables (transparency, monitoring and enforcement, lobbying modus and the role of incentive) most respondents reveal that there are dysfunctional institutions, especially information and enforcement in the context of local government budget process.

## Conclusions

A close study of the local government budgetary processes has shown that the implementation of decentralisation has caused a shift in power, except central government fund. Before the new decentralisation reforms, most power was in the hands of central government in Jakarta. Local government mainly carried out the instructions from the centre. Nowadays, however, power is held by local councils. Local councils, as the representative of the people, now have expanded powers in the budgeting process.

One key observation from the evidence is that the transfer of power in Indonesia has led to the transfer of the abuse of power. The evidence indicates that the new Decentralisation Laws have not only created multiple channels of reporting and overlapping authority but also opened new channels for abuse of power. The local elites have created a new regional "money politics" (See also Mink et al., 2002). With these new powers, regional elites have formed multiple alliances.

The conclusions reached above have been verified by other scholars. Decentralisation can either strengthen or weaken opportunities and incentives for corruption (*World Development Report, 2002: 108*). Bardhan and Mookherjee (1998) (1999) (2000) claimed that decentralisation creates coordination problems, exacerbates the incentive for official to predate and maintain the status quo. They argue that local governments are more corrupt and greater

**Table 7.** Perception of Incentive

Survey Item	Sleman	Badung	Kupang	Total Average
1. The institutional change has provided better incentive to Local Government	3.1 (1.0)	3.2 (1.2)	2.8 (0.9)	3.0 (1.0)
2. The institutional change has provided better incentive to The Local Council (DPRD)	3.4 (1.0)	3.0 (1.2)	2.9 (0.9)	3.1 (1.0)
Number of samples Source: Survey Data	30	21	22	73

state capture. Similarly, Carbonera (2000) also argue that more decentralisation has a positive impact on corruption, and raising individual propensity to accept bribes. Inevitably, decentralisation and the quality of local government have become a major issue for many countries.

In short, the good governance that was expected to flow from the decentralisation of fiscal powers has not been realised yet. Instead of the expected decline in abuse of power, opportunities for the abuse of power became available for ambitious local elites, creating a situation in which levels of abuse of power are higher and more widespread than before. This is not to say that nothing has changed. The main changes have been in the forms of the abuse of power. Decentralisation has facilitated a shift from the rampant centralised abuse of power of former years to local abuse of power at the *Kabupaten* level. This type of abuse of power involves local government bureaucrats, functionaries and members of local councils.

Violations arise in many ways. Perhaps one of the most powerful is the collusion between the local *Kabupaten* executive and the local *Kabupaten* councils in, for example, linking the salary increases of council members to salary increases for the head and deputy head of the *Kabupaten* administration. As was argued in this paper, this kind of collusion is widespread and permeates patron-client relationships at all levels of government in dealings with government and non-government groups including local businessmen.

The underlying problem that encourages this kind of collusion is the lack of civil institutions that are capable of controlling local government bodies in the interests of good governance.

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