

# Do Incumbents<sup>22</sup> Utilise Local Government Budgets in Their Re-nomination in Regional General Election? Evidence from Indonesia

Irwan Taufiq Ritonga<sup>23</sup>, Lecturer at Department of Accounting, Faculty of Economics and Business, Universitas Gadjah Mada

## Abstract

*The phenomenon of money politics in regional general election needs special attention, especially when an incumbent become a candidate in the election. Being nominated as a candidate in the election, incumbents have an opportunity and a tendency to politicise local government budgets to support their political objective to be re-elected. Grant expenditures and social aid expenditures are the most probable parts of local government budget that could be utilised by the incumbent. Therefore, this study is focused to analyse data of grant expenditures and social-aid expenditures of local government budgets from fiscal year 2009 to 2010, the period of the most frequent regional general elections that have ever been held in Indonesia. The objective of this study is to investigate whether incumbents utilize local government budgets in their re-nomination in the regional election. To achieve the objective, this study tests whether: (1) significant differences exist in grant expenditure and social aid expenditure of incumbent local government budgets before and during the process of the regional election; (2) significant differences exist in grant expenditure and social aid expenditure between incumbent local government budgets and non-incumbents local government budgets. The data were analysed using paired sample t-test, independent sample t-test, Wilcoxon Signed Ranks Test and Mannwhitene-test with  $\alpha = 5\%$ . The results show that incumbent candidates tend to utilise local government budgets in their re-nomination in the regional election.*

## 1. BACKGROUND

The constitutional system in Indonesia has been experiencing fundamental changes since the third amendment to the Constitution of 1945 in 2001. One of the fundamental changes is that the head of the local governments are elected directly and democratically by people. From 2005 to 2008, regional elections have been conducted in 314 provinces, districts, and cities all across Indonesia. In addition, in the year 2010 alone, there were 238 regional elections held.

The tendency of incumbent candidates to utilise local government budget, local government facilities, as well as money politics during the regional election becomes an important issue from time to time. The Chairman of the Constitutional Court found that money politics will continue to occur if the current system of regional elections is not changed. Money politics became a classic problem in a number of election-related lawsuit (*Harian Kabar Indonesia*, 4 February 2013). The issue is primarily addressed to the head of local government as an incumbent candidate in the regional election. Allegations of local government financial irregularities will increase with the holding of regional elections. As an incumbent candidate, heads of local governments have the opportunity to take advantage of the local government's budget in their interest. To persuade people to vote for them again in the regional election, parts of the local government's budget that most probably are used by the incumbent candidates are grant expenditures and social-aid expenditures. This study argues that during the year of

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<sup>22</sup> Incumbent refers to someone who is in office (regent, mayor, governor, president) who come to be participants in the general election to be re-elected in office.

<sup>23</sup> Lecturer at Department of Accounting, Faculty of Economics and Business, Universitas Gadjah Mada. He can be reached at [irwanritonga@ugm.ac.id](mailto:irwanritonga@ugm.ac.id)

regional election, both expenditures will increase significantly. This significant increase in such expenditures will contribute to unfavourable effects on the local authorities as a whole. This situation will deteriorate the performance quality and objectivity of the local government's budget because those expenditures do not have measurable performance measures. To prepare the budget of those expenditures, there are no requirements of performance budgeting attributes such as performance indicators, performance benchmarks, and performance targets. As a consequence, level of performance and objectivity of local government budget will decrease.

In addition, the significant increase in grant expenditure and social aid expenditure could disturb the sustainability of regional development. This condition occurs because some portion of the local government budget that should be allocated for development programs and activities is switched to grant expenditures and social aid expenditures.

In general, the allegations of the misuse of the local government facilities and money politics committed by incumbent candidates are mostly seen from the social and political aspects. However, to the author's knowledge, discussions that provide empirical evidence from the aspect of local government financial management have not been had. Therefore, based on the indicated problem stated above, the objective of this study is to provide empirical evidence using financial information as to whether incumbent candidates utilise local government budgets in their re-nomination in the regional elections. To achieve the objective, this study examines the variations in grant expenditures and social aid expenditures. Those expenditures are perceived as the susceptible parts of local government budgets that can be used by the incumbent during the general election process.

Results of this study will provide inputs to the central government to improve the existing regulations on grant expenditures and social-aid expenditures. In addition, results of this study offer considerations for the auditors in implementing their audit strategies and procedures.

## 2. LITERATURE REVIEW

"Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men" is a well-known proposition expressed by Lord Acton. Bhakti (2012) argues that the proposition is appropriate to describe the heads of local government who are susceptible to abusing their power. Corruption in Acton's proposition above is not just about money, but also politics or policies. In the context of regional election, abuse of power by the incumbent candidates is associated with the use of local government's money and decision-making in the local government budget preparation. As the holder of the local government's financial management authority, a head of local government has the authority to make financial management policy ranging from planning, budgeting, implementing and reporting local government finance (Regional Financial Management Government Regulation, 2005). These broad authorities provide a great opportunity for heads of local government to use local government budgets if they become a candidate in the regional election. Using its financial authorities, the incumbent candidate could make local government financial management policies (particularly in the planning and budgeting phases) in his/her favor for the regional elections. This is consistent with the function of local government budget as a political tool (Jones & Pendlebury, 2000).

Rubin (2000) states that in determining the amount and allocation of public funds, there is always political interests that are accommodated by the bureaucrats. The budget allocation often also reflects the interests of policymakers related to their constituents. Meanwhile, research conducted by Manor and Crook (1998) state that in many cases, the regional election and a clear separation between the head of local government and members of parliament in developing countries has led to a worsening of governance practices. Major factors in deteriorating governance practices are: characteristic of local elites who always preclude other parties to

compete in politics; poor knowledge and poor political awareness of the people; and lack of continuous monitoring of the parliament towards the heads of local government. Furthermore, as confirmed by Prasojo (2009), these factors are also reflected in several local governments in Indonesia. Co-optation of power by incumbent candidates is done by leveraging their access to the bureaucracy.

In the agency theory perspective, the proposal put forward by the executive (as agent) to legislative (as principal) has a charge of the interests of the executive. An executive can submit a budget that could increase its agency, in terms of both financial and non-financial resources (Smith & Bertozzi, 1998). In addition, Prasojo (2009) stated that in the aspect of political equality, the relationship between the executive and legislative in the implementation of regional autonomy is characterized by the dominance of the executive in the budgeting process.

Opportunistic behavior of incumbent candidates toward the holding of the regional election became stronger in the budgeting process. The heads of local government who ran in the regional election as incumbent candidates have a greater chance to use local government budgets for their interests. This study argues that grant expenditures and social aid expenditures are parts of local government budgets that are prone to be exploited by the incumbent candidates to persuade people to vote for them.

The argument above is strong enough because both types of expenditures are part of the indirect expenditures and the process of their accountability is relatively easier compared to other expenditures since they do not need to go through a tender mechanism. The nature of such expenditures is discretionary expenditure, so their budget allocations are tended to be subjective. Groups of indirect expenditures are budgeted expenditures that are not directly related to the implementation of local governments' programs and activities (Guidance on Regional Financial Management Minister of Home Affairs Regulation, 2006). This condition causes the allocation of grant expenditures and social-aid expenditures to be determined by discretionary power of the executives and legislative members (Abdullah & Asmara, 2006; Halim & Abdullah, 2006). Furthermore, recipients of those expenditures are decided by the head of the region, which is expressed in the regional head regulation. This suggests a tendency of absolute power in the hands of regional heads that could lead to abuse of power.

### ***Grant Expenditure Budgeting Policy***

Grant expenditure is an expenditure that is used for awarding grants in the form of cash, goods and/or services to the central government or other local governments and community groups or individuals. The use of this expenditure has been specifically defined. The nature of grant expenditures are not binding, non-recurring and must be used in accordance with the requirements set forth in the text of the grant agreement (Guidance on Regional Financial Management Minister of Home Affairs Regulation, 2006; Guidance on Regional Financial Management Amendment Minister of Home Affairs Regulation, 2007).

Awarding grants in the form of money or services can be budgeted if the local government had complied with all matters concerning the expenditure needs to meet minimum service standards stipulated in legislation. A local government is allowed to award grants in the form of goods if the goods do not have any economic value to the local government, but beneficial to the recipients (i.e. central government or other local governments and/or community groups/individuals).

### ***Social Aid Expenditures Budget Policy***

Social aid expenditure is an expenditure that is used for providing assistance in the form of money and/or goods to the community, which aims to improve the welfare of the community (Guidance on Regional Financial Management Minister of Home Affairs Regulation, 2006;

Guidance on Regional Financial Management Amendment Minister of Home Affairs Regulation, 2007).

Criteria or prerequisite of social aid expenditure allocations are: not continuous/non-recurring for each fiscal year, selective and have a clear designation of its use, meet the budget functions as an instrument of justice and equity in improving services, and social welfare. Social aid expenditures in the form of money can be budgeted if the local government had complied with all matters concerning the expenditure needs to fulfil minimum service standards set out in the legislation. In addition, social aid expenditures to political parties are given in accordance with the provisions of the legislation.

### *Hypotheses Development*

Based on literature review and argument discussed in the previous section, this study's proposed hypotheses are as follows.

H1: The proportion of grant expenditures in an incumbent candidate's local government budget **at** the period of regional election is higher than those **before** the period of election.

H2: The proportion of social aid expenditures in an incumbent candidate's local government budget **at** the period of general election is higher than those **before** the period election.

H3: The proportion of grant expenditures in an incumbent candidate's local government budget is higher than those of a non-incumbent candidate **at** the time of election.

H4: The proportion of social aid expenditures in an incumbent candidate's local government budget is higher than those of a non-incumbent candidate **at** the time of election.

## 3. RESEARCH METHODS

### **Length of Observation**

The observation was done for fiscal years 2009 and 2010 because 2010 is the year with the highest number of elections ever held in Indonesia. This condition occurs because there were no local elections in 2009 due to the presidential election held in that year.

### **Data**

The data used in this study are secondary data. The information about the data is as follow:

1. Data of regions that held elections in 2010 are sourced from the General Elections Commission.
2. Data of the status of the head of the provincial/district/city (i.e., re-nominated or not) are sourced from the Ministry of Home Affairs.
3. Data of grant and social-aid expenditures for fiscal years 2009 and 2010 are derived from the Directorate General of Fiscal Balance of the Republic of Indonesia Ministry of Finance and local government financial statements.

Total grant expenditures in 2010 included grant expenditures for the holding of the regional election to the General Elections Commission and the Regional Election Supervisory Body. In addition, the total grant also incorporated regional election security expenditures for the provinces, districts, and cities that held regional elections in 2010. These expenditures were not available in the total grant expenditures in fiscal year 2009. Therefore, the amounts of such expenditures were eliminated from the total grant expenditures in 2010 so that the components of grant expenditures for 2010 are comparable to the components of grant expenditures in 2009 (i.e., apple to apple comparison).

## Sampling

This study utilises the convenience sampling technic due to limitation on data availability regarding information on candidate status (i.e., incumbent or non-incumbent) and information on grant expenditures and social-aid expenditures information for the fiscal years 2009 and 2010. As a result, the number of samples used in this study were as many as 96 regions out of 238 regions that held regional elections in 2010. The 96 regions consist of 60 regions with incumbent candidates and 36 regions with non-incumbent candidates.

## Data Analysis

To determine an appropriate statistical tool to test the hypotheses, this study first tested the normality of data using Kormogorov-Smirnov One Sample Test and Shapiro-Wilk test. If the data satisfy the criteria of normality, the t-tests will be used to analyse the data; and if the data distribution are not normal, then the data analysis is done by using the Wilcoxon Signed Ranks Test or Mann Whitney-test(Lind et al., 2011). The confidence level is set at 95% with one-tailed significant testing.

## 4. FINDINGS

### Descriptive Statistics

The following table reports the descriptive statistics of grant expenditure and social aid expenditure of the **incumbent** local government budget **before** and **at the year** of regional election; and grant expenditure and social aid expenditure of **non-incumbent** local government budget **at the year** of general election.

Table 1: Descriptive Statistics of Observed Variables

Variable	N	Minimum	Maximum	Mean	Standard Deviation
<b>Incumbents</b> Grant Expenditures <b>before</b> regional election (2009)	60	.00015	.09657	.01520	.01557236
<b>Incumbents</b> Grant Expenditures <b>at</b> regional election (2010)	60	.01679	.14382	.05904	.02890618
<b>Incumbents</b> Social aid Expenditures <b>before</b> regional election (2009)	60	.0042	.07088	.02303	.01486167
<b>Incumbents</b> Social aid Expenditures <b>at</b> regional election (2010)	60	.0039	.08384	.02610	.01746042
<b>Non-Incumbents</b> Grant Expenditures <b>at</b> regional election (2010)	36	.00883	.07382	.04666	.01739317
<b>Non-Incumbents</b> Social aid Expenditures <b>at</b> regional election (2010)	36	.00021	.05991	.01958	.01519577

Table 1 above shows that the mean of the proportion of **incumbent's** grant expenditures **at** the regional election period (2010) is 5.90% which is higher than its proportion of 1.52% **before** the period of regional election (2009). Similar situation also occurs in the case of proportion of social aid expenditures where the proportion of **incumbent's** social aid expenditures **at** the regional election period (i.e., 2.61%) is larger compared to its proportion **before** the regional election period (i.e., 2.30%)

In addition, Table 1 also reports that both proportions of **incumbent's** grant expenditures and social aid expenditures **at** the election period (2010), which are 5.90% and 2.61% respectively,

are higher than the proportions of **non-incumbent's** grant expenditures (i.e., 4.66%) and social aid expenditures (i.e., 1.95%).

Further, to ensure the level of probability of the observed variables in this study, the statistical tests are run to test the hypotheses as stated in the previous section. In order to apply appropriate statistical tests, the normality of data is examined before testing the hypotheses.

### Testing the Normality of Data

Results of testing the normality of data are presented in the following table:

Table 1: Results of Normality Tests

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Incumbent grant expenditure before general election period (2009)	0.167	60	0.000	0.754	60	0.000
Incumbent grant expenditure in general election period (2010)	0.118	60	0.036	0.939	60	0.005
Incumbent social aid expenditure before general election period (2009)	0.138	60	0.006	0.900	60	0.000
Incumbent social aid expenditure in general election period (2010)	0.151	60	0.002	0.876	60	0.000
Non - incumbent grant expenditure in general election period (2010)	0.097	36	.200 <sup>b</sup>	0.962	36	0.249
Non - incumbent social aid expenditure at general election period (2010)	0.155	36	0.029	0.908	36	0.006

Based on the results of both normality tests of Kolmogorov-Smirnov and Shapiro-Wilk indicate that the proportion of grant expenditures of incumbent candidates *in the period* of the regional election (2010); the proportion of grant expenditures of local governments of incumbent candidates *before the year* of the regional general election (2009); the proportion of social aid expenditure of incumbent candidates *in the year* of the regional election (2010); the proportion of social aid expenditure of incumbent candidates *before the year* of the regional general election (2009) did not satisfy the criteria of normality because the significant values for those data are less than 5%. Therefore, the non-parametric test of Wilcoxon Signed Ranks Test was used to test the first and the second hypotheses.

Table 1 above also reports that data of grant expenditure of non-incumbent candidates *in the period* of the regional election (2010) met the assumptions of normality because its significant value is more than 5%. Thus, the parametric test of independent sample t-test was used to test the third hypothesis. On the other hand, data of social aid expenditure of local governments of *incumbent candidates in the year* of the regional election (2010) and data of social aid expenditure of local governments of *non-incumbent in the year* of the regional election (2010) did not meet the assumptions of normality. As a result, the non-parametric test of Mann Whitney U-test was used to test the fourth hypothesis.

### Testing the First Hypothesis

The Wilcoxon Signed Rank test was used to test the first hypothesis. The results of the test can be seen in the following table.

Table 2: Results of testing the first hypothesis

	Grant Expenditure of Incumbent at Period of Election – Grant Expenditure of Incumbent before Period of Election
Z	-5.580 <sup>a</sup>
Asymp. Sig. (2-tailed)	.000

a. Based on negative ranks.

b. Wilcoxon Signed Ranks Test



The results demonstrate that the value of z is -5.580 and the significance is 0.00 (smaller than  $\alpha = 0.05$ ). Thus, this study *accepts* the hypothesis that the ratio of grant expenditures of local governments budgets of incumbent candidates in the period of the regional elections is higher than those before the period of the regional elections. This result indicates that regional elections *cause* grant expenditures to increase in local government budgets of incumbent candidates.

### Testing the Second Hypothesis

The Wilcoxon Signed Rank Test was used to test the second hypothesis. Table 3 below shows the results of the test.

Table 3: Results of testing the second hypothesis

	Social aid expenditure of incumbent at period of election – Social aid expenditure of incumbent before election
Z	-1.811 <sup>a</sup>
Asymp. Sig. (2-tailed)	.070

a. Based on negative ranks.

b. Wilcoxon Signed Ranks Test

The results in Table 3 demonstrate that the value of z is -1.881 and the significance is value 0.07 (larger than  $\alpha = 0.05$ ). Thus, this study *rejects* the hypothesis that the ratio of grant expenditures of local governments of incumbent candidates in the period of the regional election is higher than those before the period of the regional election. This result indicates that the regional general election *does not* cause grant expenditures to increase in local governments of incumbent candidates.

### Testing the third hypothesis

The independent sample t-test was used to test the third hypothesis. The test results can be seen in Table 4 below.

Table 4: Results of testing the third hypothesis

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Grant Expenditure 2010	Equal variances assumed	8.769	.004	2.327	94	.022	.01238021	.00532121	.00181483	.02294559
	Equal variances not assumed			2.620	93.994	.010	.01238021	.00472541	.00299778	.02176264

The results demonstrate that the t value of t is 2.62 (equal variances not assumed) and the significance value is 0.01 (smaller than  $\alpha = 0.05$ ). Thus, this study *accepts* the hypothesis that the ratio of grant expenditures of local governments of incumbent candidates in the period of the regional election is higher than grant expenditures of local governments of non-incumbent

candidates in the period of the regional election. This result indicates that incumbent candidates *utilize* grant expenditures in the period of the regional election.

### Testing the Fourth Hypothesis

The Mann Whitney U-test was used to test the fourth hypothesis. The test results can be seen in Table 5 below.

Table 5: Results of Testing the Forth Hypothesis

	Social-aid Expenditures 2010
Mann-Whitney U	814.000
Wilcoxon W	1480.000
Z	-2.013
Asymp. Sig. (2-tailed)	.044

The results demonstrate that the value of z is -2.013 and the significance value is 0.04 (smaller than  $\alpha = 0.05$ ). Thus, this study accepts the hypothesis that the ratio of social aid expenditure of local governments of incumbent candidates in the period of the regional election is higher than social aid expenditures of local governments of non-incumbent in the period of the regional election. This result indicates that incumbent candidates utilize social aid expenditures in the period of the regional election

## 5. CONCLUSION AND DISCUSSION

Based on findings discussed in the previous section, this study concludes that the proportion of grant expenditures in incumbent candidates local government budget **at** the time of election is higher than **before** the time of regional election; the proportion of social aid expenditures in incumbent-candidates local government budgets **at** the time of election is higher than **before** the time election; the proportion of grant expenditures in incumbent candidates local government budget is higher than those of non-incumbent candidates **at** the time of election; and the proportion of social aid expenditures in incumbent candidates local government is higher than those of non-incumbent candidates **at** the time of regional election. Those findings indicate that incumbents tend to utilise local government budgets in their re-nomination in regional election. As a result, this condition tends to decrease the performance quality and objectivity of the local government budget. Furthermore, the significant increase in such expenditures could disturb the sustainability of regional development.

This condition brings several implications. Firstly, the central government via the Ministry of Home Affairs needs to develop new more stringent regulations regarding the management of social-aid expenditures and grant expenditures. The new regulations should encompass a more tight-fitting how to plan, to budget, to execute, to report, and to monitor the expenditures. The new regulations have to ensure that quality of the transparance and accountability of such expenditures is improved. As a result, the democratic costs and local government finance will be more efficient and effective in the future.

Secondly, the auditor, which is the Supreme Audit Board, should give more attention to social aid expenditures and grant expenditures during their audit on local government financial statements, especially at the time of regional election. The auditor should consider a higher audit risk on these expenditures. As a consequence, they have to allocate more time and be more thorough while auditing such expenditures.



Thirdly, the incumbent candidates have bigger opportunities than other non-incumbent candidates to win in the regional election. If the incumbent candidates do not commit a significant mistake during their period of leadership, normally, they will win the next regional general election.

The limitation of this study is that the authors do not identify incumbent-equivalent candidates who become a candidate in regional elections. This happens because such data are not available. An incumbent-equivalent candidate is someone who has special relationship with the incumbent, such as sons or daughters of incumbent, wife of incumbent, or relatives of incumbent. The incumbent-equivalent candidates should be categorized in the same group with incumbent candidates. Therefore, other researchers should address this issue in future research.

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