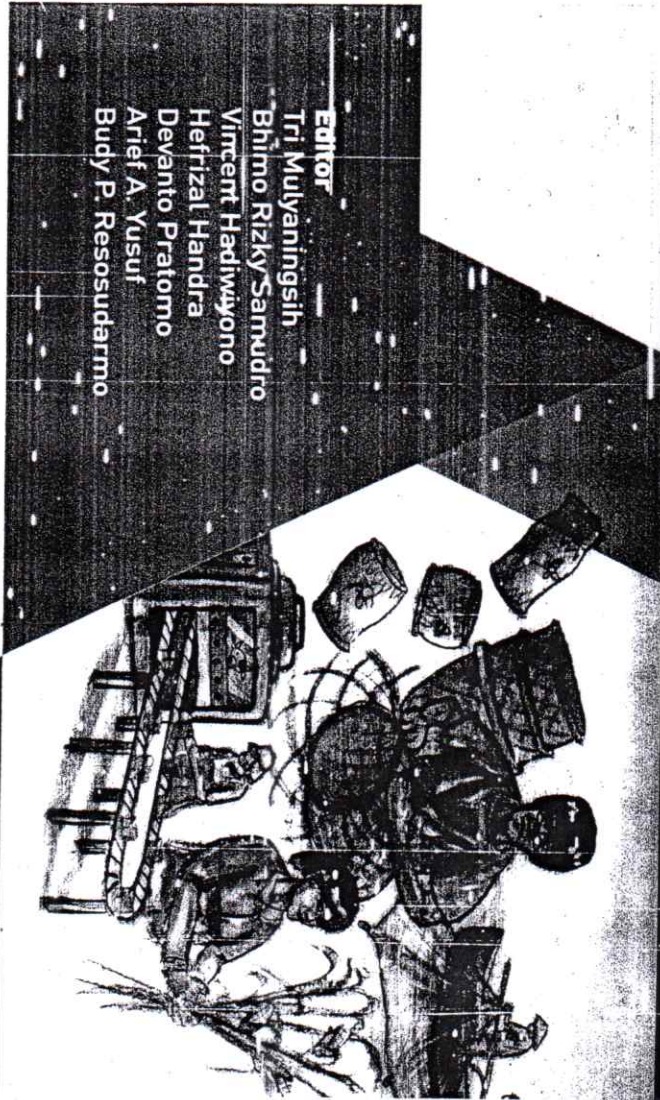




STRENGTHENING AND LOCAL COMMUNITY



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FOREWORD

First, I would like to congratulate the publication of "Strengthening Regional and Local Economy", the 2019 IRSA Book Series of Regional Development. The content of this book was selected from the best presentations at the 14th IRSA International Conference held in Solo, hosted by Universitas Sebelas Maret in 2018. IRSA is indebted to all the authors of each of the chapter and in particular to the editors who have worked tirelessly to maintain the quality of the book series. IRSA Book Series of Regional Development, in addition to IRSA Annual Conference, is the flagship of IRSA activities and the key to IRSA's reputation in the academic and policy arena in Indonesia and the Asia Pacific region.

The topic of this book is also a special one, particularly for IRSA and regional scientists in Indonesia in general. Although Indonesia has been decentralizing many of its development authority to regions and localities, national issues or development agendas that have nation-wide attention are still more appealing as topics of analysis to academics and development practitioners. This may have made the real development actions at the local and regional level get less attention than it deserves. Indonesia's geography, demography and socio, economic and political aspects are so spatially-heterogenous that require specific analysis that are so distinct from place to place.

This book, therefore, serves as a reminder to all of us that selecting development priorities should not be done in Jakarta, but should start at the local level. One of the challenges to this is the regional imbalance of intellectual activities. Many best academic institutions including its intellectuals are still centered around Jakarta or a few regions in Java. Yet, development challenges are mostly local and regional. IRSA has definitely a responsibility to close this imbalance through various

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CHAPTER TEN

DEMOCRACY, EFFECTIVE LEADERSHIP, AND PUBLIC SERVICES DELIVERY

Ni Made Sukartini, Achmad Solihin, Albertus Giriik Allo
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INTRODUCTION

Fiscal decentralization has been implemented in Indonesia for more than ten years (MacIntyre and Resosudarmo 2003). Fiscal decentralization is formally adopted by introducing two regulations (Haryanto 2015). The first one is Undang-Undang Nomor 22 Tahun 1999. This regulation focuses on *Pemerintah Daerah* or Local Government. The other one is Undang-Undang Nomor 25 Tahun 1999. The second regulation is focused on the financial balancing between central and local government. Central government must provide transfer fund for local government according to the two regulation above. Central government has the obligation to allocate transfer fund. The forms of transfer fund are: block grant or *Dana Alokasi Umum* (DAU), specific grant or *Dana Alokasi Khusus* (DAK), revenue sharing fund (taxes and mineral resources) or *Dana Bagi Hasil* (DBH Pajak and DBH Sumber Daya Alam). Allocation of transfer fund from central government for local government is known as the implementation of fiscal decentralization.

At the same time, Indonesia has been adopting democracy to enhance development process. Democratic general election for electing executive and legislative bodies has been initiated since 1999. General election is implemented every five years. The second Democratic general

election is conducted in 2004. In this election, new rules and conditions were applied (Ekawati 2017; KPU 2018). The first rule introduced about 14 (fourteen) amendments for *Undang-Undang Dasar 1945*, and the concerns were mainly about 2004 election process. One of the *Amendments* regulates the composition of Indonesia legislative body. According to this Amendment, *Majelis Permusyawaratan Rakyat* (MPR) consists of central legislative body or *Dewan Perwakilan Rakyat* (DPR) and regional legislative body or *Dewan Perwakilan Rakyat Daerah* (DPRD). These amendments should be formally implemented by 2004. The second rule concerns on implementation of direct election for electing MPR and DPR members. Regarding these new regulations, since 2004 military representative has been excluded from the legislative body, especially MPR. The last rule concerns on direct election for electing executive body, i.e., president and vice president. By implementing these processes, it is said that Indonesia became one of the most democratic countries in terms of implementation of general election.

The elected president for the period 2004-2014 is Susilo Bambang Yudhoyono or SBY. He is the top leader of Democrat party. Formally SBY was elected as the president of Indonesia for two terms of office, 2004-2009 and 2009-2014 (www.kpu.go.id). As one of new democratic countries which implement fiscal decentralization, it is interesting to investigate how fiscal decentralization and democracy take place in Indonesia. Is there a kind of political connection between the winning parties and local government in terms of transfer funds allocation for supporting regional development? This study, however, will focus on fiscal performance of village government in 2011.

Theoretical and empirical findings indicate there are mixed evidences of political budget cycle for majority of new democratic countries around the world (Cazal and Mandon 2015; Ebeke and Olier 2013; Enkelmann and Leibrecht 2013; Klein and Sakurai 2014; Vergn, 2009; Walther 2012). Government budget fluctuated significantly before and after general election take places. Mixed evidences are reported for cross sectional studies as a single country.

This study will investigate the impact of democracy measured as political connection on the allocation of fund transfer from government at district and province level as well as central government to the village

level in Indonesia. This study is therefore slightly different from the study on political budget cycle as discussed previously and three major studies conducted in Indonesia by Skoufias et al. (2014), Pal and Roy (2010), and Setiawan and Rizkiah (2018) which will be explained in the next section. First, the focus of this study is set at village level, while all previous related studies in Indonesia investigated conditions at district level. Hence, village level is chosen as unit analysis, as it provides a deeper insight regarding the implementation of political connection.

Second, this study attempts to find out whether villages that are politically connected with the central government receive significantly higher fund transfer. We define political connection similar as Pal and Roy (2010); Skoufias et al. (2014), and Setiawan and Rizkiah (2018). Political connection exists if there is interconnection of the top five winning party in national and village level during Indonesia's 2004 General Election. We also consider whether the winning parties have office and party's representative at village as the complementary indicator of winning condition. In other words, whether villages that are politically connected in terms of winning's voter and have representative agents gain significant higher transfer fund from government at the district, province and national levels? Technically, all the previous studies focus on how fiscal composition during election date for the purposes of influencing election outcomes. This paper focus on what happened with fiscal allocation at the village level if village's government and government at higher level adorning and representing similar political party. Will villages receipt higher share of transfer fund if villages are politically connected with the winning parties and elected government?

Third, due to the scarcity of data this study only focuses on investigating the potential of political connection against fund transfer in one presidential regime, namely Susilo Bambang Yudhoyono or SBY regime. President SBY was elected in 2004 for leading in period 2004-2009 and re-elected in 2009 for the 2009-2014 term of office. This paper is then organized into five sections. It begins with a literature review discussing the impact of government expenditure on election. It is then followed by a discussion on the relationship between political connection and government's fund transfer, which is the focus of this study. The following three sections present the use of data and empirical model, results of estimation, and some conclusions.

IMPACTS OF GOVERNMENT EXPENDITURE ON ELECTION

Investigating 42 developing countries that adopted new democracy, Vergne (2009) reported that capital and infrastructure expenditure rose one and two year before election taking place, but these expenditures drop significantly during election and after the election period. Enkelmann and Leibrecht (2013) investigate various types of government expenditures one and two years before election. Their study focuses in 32 OECD countries. Their study found that government expenditure for environment rose more than 25% if a country predetermined or formally scheduled an election. However, when disaggregating data for non-predetermined election, no specific expenditures were recorded to increase.

Wallner (2012) investigates 96 developing countries, focusing on macro-economic performance, i.e., the inflation and unemployment rate one and two years before election date. His study is focused on the periods of 1996-2010. The author argued that if budget was as a mean for attracting voter attention, then money in circulation and inflation should rise during campaign periods. Wallner's study found that both inflation and unemployment rate decreased about 0.02-0.01 before election but the rate rose after the election.

Enkelmann and Leibrecht (2013) investigate 32 OECD countries for the period of 1990-2010. Focusing on economic function of government expenditure, both authors provide evidence how government and politician can influence the electorate result. Depending on degree of democracy, the authors conclude that in young and immature democracy countries, electorally motivated spending is effective for incumbent to gain and re-elected. However, this strategy was not effective in mature democratic countries. Current and capital expenditures were commonly fluctuated in young democratic countries, but in mature one capital expenditure commonly increase but not the current expenditure.

Ebeke and Olcer (2013) investigate fiscal performance of 68 Low Income Countries (LICs) in sub-Saharan Africa during 1990-2010. Both authors concern on countries that receive structural adjustment program from IMF known as Poverty Reduction Program. Selected samples of LICs experienced fiscal deficit not only during the election but also at the

beginning of institutional and Structural Adjustment Program (SAP). Their observation implies that general election not only put consequences on macroeconomic cost but also painful SAP cost after experiencing fiscal deficit during election.

Klein and Sakurai (2014) investigate 3,393 municipalities in Brazil, for the period of 2001-2008. The authors found significant fiscal performance between first terms and second terms mayor in Brazilian municipalities. During the election date, first term mayor, i.e., those who have possibility for being re-elected in the second term tend to lowering taxes rate and by the same time change budget composition by lowering current expenditure but increasing the amount of capital expenditure. This policy results in balance budget that remains unchanged but favoured the targeted community. No significant difference in fiscal composition was observed between first term and second term mayors. Second term mayors are those municipalities' leaders who are banned by the law to be re-elected in the succeeding election.

Cazal and Mandon (2015) conducted a meta analysis study on political budget cycle by analyzing 58 papers that were released before January 2015. Meta Regression Analysis (MRA) study was applied and the authors conclude that: (1) fiscal manipulation is commonly applied during election period; (2) incumbent leader applies budget deficit and the degree of deficit depends on the tool chosen, either lowering taxes or increasing expenditure and subsidies; and, (3) the periods and degree of deficit depend on country's institutional quality.

On the other hand, studies that focused on one specific country also report mixed evidences (Litsching and Morrison 2010; Jin and Zhang 2017). Litsching and Morrison (2010) investigated cash transfer program in Brazil by applying semi experimental study. This study found that cash transfer programs were significantly reaching higher beneficiary in targeted areas compared to non-targeted areas. Targeted beneficiaries are defined as regions where incumbent party has high chance to win the election. Focusing on the economy of China, Jin and Zhang (2017) reported that government subsidies for industries rose significantly during pre-election date. Subsidies were mainly directed to firms and industries which are politically connected with the power. Firms are said politically connected if one of the owner or CEO of the firms and industries are part of state parliamentary or one of China ministry.

In the case of Indonesia, three major studies concerning on this topic are conducted by Skouffias et al. (2014), Pal and Roy (2010), and Setiawan and Rizkiah (2018). The study of Skouffias et al. (2014) focuses on investigating the effects of government spending on infrastructure and human investment. Their study compares local government spending ratio in district with direct election and indirect election during 1999, 2004 and 2009. This study concluded there is no evidence for higher investment on infrastructure as well as human capital investment in districts that applying direct election compares to districts that not. In other words, either democratic or less democratic regions the composition of human capital investment is not differ.

The study conducted by Pal and Roy (2010) compare the impacts of election on development in at district level. Regions where elites exist or election that is implemented in free and fair election have significantly better economic performance compared to districts that are not. Furthermore, the study of Setiawan and Rizkiah (2018) investigate the budget cycle of local government in Indonesia and relate it with the elections that were run in 2004, 2009 and 2014. This study focuses on various expenditures, such as total expenditures, social expenditure, financial assistance, balance budget and others. Panel data regression is implemented in this study. The study reports that social assistance and total expenditure at districts level increase during the year and one year of election date.

RELATIONSHIP BETWEEN POLITICAL CONNECTION AND FUND TRANSFER

The result of *Pendataan Potensi Desa* (PODES) Survey in 2005 provides data and information about the top five winning political parties at village level in the 2004 election. Based on the PODES 2005 data, we assign ordinal scale data that represent political connection indicator. This study also utilizes the previous studies conducted by Ekawati (2016), Liddle and Mujani (2007), and Mujani and Liddle (2010) which are focused on the election results and coalition parties in the 2004 and the 2009 General Elections.

According Ekawati (2016), the 2004 General Election involved two voting rounds. The first round's result showed that none of the five major

parties have voters' supports more than 50%. The second round's result showed that Demokrat party won 60.62% due to its coalition with Partai Amanat nasional (PAN) and Partai Keadilan Sejahtera (PKS). In the first round, Demokrat indeed collaborated only with Partai Bulan Bintang (PBB), and Partai Keadilan dan Persatuan Indonesia (PKPI). The coalition of those five political parties—i.e Demokrat, PBB, PKPI, PAN and PKS—led them to win the 2004 General Election. Then, we assigned the value of political connection ranging from 0 to 5 in which value 0 means none of the top five winning political parties at village level was similar with the winner parties at national level. Value 1 means there was one winning party at village level having similarities with the top five winners at national level; and Value 5 represents the notion that all the winning parties at national level also the winning parties at village level.

This study will investigate the association of political connection in the 2004 election with the size of transferred fund in 2011 and 2014. Figure 1 in the Appendices illustrates the connection between election date and fund transfer. PODES survey is conducted every three years. The last four surveys were conducted in 2005, 2008, 2011 and 2014, whereas General Election was conducted in 2004, 2009 and 2014. Data regarding the 2004 election's results are only available in the 2005 PODES Survey; the data were not available in PODES 2008, 2011 and 2014. Therefore, this paper introduced a variable of political connection only based on PODES 2005. On the other hand, data on allocated fund to village level began available on PODES 2008, 2011, and 2014.

This paper is only able to use data from PODES 2005, 2011 and 2014. PODES 2008 is not available for analysis due to scarcity of the required data. If data of PODES 2008 were available, this paper should be able to describe the difference in magnitude of transfer between PODES 2008, 2011, and 2014. If political connection exists, then it must be more clearly reflected in fiscal transfer in 2008 (PODES 2008 data) rather than fiscal transfer in the later year (PODES 2011 and 2014). According to Political Budget Cycle (PBC) theory, if the schedule of general election was 2009, then fiscal transfer in 2008 must be fluctuated for the purposes of social and campaign program from incumbent party, i.e., Demokrat Party.

As it is mentioned previously, the purpose of this paper is to investigate the association of political connection and the amount of allocated fund received by the villages after the election takes place. PODES 2011 did not provide the result of 2009 election, however the winner of the election was similar, i.e. Demokrat and SBY as the president for the second round. Therefore, the amount of transfer fund distributed to villages in 2011 and 2014 are investigated as a form of price for political support in the previous election. It can also be said that fiscal transfer as form of implementation of political promises during the campaign.

This study applies pool cross section regression, i.e., investigate the amount of transferred fund received by villages in 2011 and 2014. The 2005 Survey of PODES was conducted in about 69,957 villages; PODES 2011 surveyed about 77,961 villages, and PODES 2014 surveyed about 82,190 villages. However, not all 69,957 villages in 2005 survey are re-surveyed in 2011 and 2014. Therefore, only matched villages in 2005, 2011 and 2014 are included in our analysis. There are 53,264 villages that match and are used as samples of this study. We applied village ID in PODES 2005 as merging reference for combining PODES 2005, 2011 and 2014. Therefore, any splitting villages in 2011 and 2014 were automatically excluded as the ID must be not available in PODES 2005 as the reference indicator.

USE OF PODES DATA AND THE OLS REGRESSION

PODES for the periods 2005, 2011, and 2014 are employed as source data for our analysis. Ordinary Least Square (OLS) regression is chosen as the main analysis. Referring to the title of this paper, there are two points being the concerns of this paper. The first one is democracy and the second is about effective leadership and public services delivery. Regarding the point of democracy, this paper will focus on investigating the association of electorate result and allocation of transfer fund at village level. The term 'democracy' is represented by the event of election in 2004. Regarding with the point of democracy, our basic interest in this investigation is whether the proxy of political connection in election 2005 influenced the amount or size of fund transfer to the villages in 2011 and 2014. Empirical model is expressed as the following equation.

$$Y_i = \alpha_0 + VC_i \beta + PC_i \gamma_i + \epsilon_i, \dots \dots \dots \quad (1)$$

Notation in Equation-1 is as follows. The dependent variable, Y_i is the amount of transfer fund to village from the higher government level, such as district level, provincial level and national level. Notation VC_i is village's characteristic and PC_i is measure of political connection. We select some indicators as village's characteristics which reflect remoteness condition. Village characteristics include population size, village size and its location. The majority of PODES data are reported as categorical data. Therefore, we generate the data mostly as dummy variable. For example dummy for village geographic location.

Geographically, villages are differentiated as: (i) Geographic location, i.e., beach versus non-beach areas. Non-beach areas include hilly side, mountainous area, and riverside. Value 1 is assigned for village located in non-beach areas; and zero otherwise; (ii) Village's location, i.e., this characteristic is differentiated as: outside, inside or near the forest. Value 1 is assigned for village located inside and near the forest, and zero otherwise. (iii) Village's areas. This characteristic is differentiated as: urban or rural areas. Value 1 is assigned for villages categorized as rural area and zero for urban area.

Other village's characteristic is road quality and transportation access. Road quality is differentiated as: good quality asphalt, low quality asphalt and no-asphalt. Value 1 is assigned in village where majority of its road is without asphalt. Furthermore, three type of main transportation accesses are considered, namely: land transportation, water transportation and mixed land and water transportation. Value 1 is assigned for villages that can be accessed through water transportation only. We also add village's characteristic with other information, i.e., number of households with electricity access, either the power is distributed by state electricity, i.e., PLN or non-PLN.

Being the election's winning party at village level is not exogenous, as many factors might influence it. Exposure of TV campaign program, role of social media and other access on information might some factors that determined electoral results (Ariuguzoh 2015; Jimenez 2012; Waisbord 1993). Waisbord (1993) presented qualitative study illustrating how media TV, especially national channel became the main of campaign program during election year 1983-1989 in Argentina.

According to Waisbord (1993), the more intense the campaign program and prioritizing the prime time, session the more efficient target information deliberated to the targeted voter.

Jimenez (2012) presented a kind of meta analysis study, summarizing the effect of media exposure on electoral campaign. In general Jimenez concludes that mixed evidence of determinant of media and information on electoral result. In developed countries, where democracy is relatively more advanced, better information access can improve community participation. In less developed countries, the impact of media exposure on electoral result depended on the intensity of campaign program and who and how the campaign was delivered. Aringuzoh (2015) described the role of television program during election campaign in Nigeria. As Nigerian government is the major shareholder of TV and radio, then it was easier for Nigerian incumbent government to deliver their campaign.

Following the idea of some previous studies (Aringuzoh 2015; Jimenez 2012; Waisbord 1993), this paper will use the quality of TV signal on village as instrument of winning parties and political connection at village level. Similar regression with Equation-1 is run, but the winning on election or political connection is instrumented with quality of TV signal at the village. Quality of TV program is measured as binary data, i.e., value 1 if the signal quality is very good or good; and value 0 if the signal quality is bad or very bad.

Regarding the second points, i.e., effective leadership and public services delivery; this paper focus on analyzing the association of head of villages's characteristic to find non-transfer fund as other source of village income. Non-transfer fund is defined as sources of fund from non-government institution, i.e., private institution and foreign aid. Some studies report that the existence of well-educated leaders really matters for development process (Besley et al. 2011; Diaz-Serrano and Perez 2013). Following these studies' findings, we propose the following empirical model:

$$Y_i = \alpha_0 + \eta LC_i \beta + \eta L_i \gamma + PC_i \delta_i + \epsilon_i \quad \dots \dots \dots (2)$$

Some notations in Equation-2 represent similar information as the one in Equation-1. The dependent variable Y_i represent amount of village's income excluding transfer fund from upper level (district, provincial, and national government). This village's income includes grant from private companies and grant from foreign countries. Receiving grant either from private institution or foreign institution should require a competitive proposal. Grant proposal must be well prepared, and this must depend on skill and education level of village's leader. Based on this reason, we add individual characteristic of village's leader as one of independent variables. Following Besley et al. (2011) and Diaz-Serrano and Perez (2013) then we consider sex, age, and education as individual characteristics of village's leader. This is notated as LC_i in Equation-2. Notation L_i represents village's geographic location, which is defined similar as Equation-1 and notation PC_i as indicator of political connection.

ASSOCIATION OF POLITICAL CONNECTION AND FUND TRANSFER: ESTIMATION RESULTS

Estimation results for Equation-1 is tabulated and presented in the Appendices. Funds transferred from district, province and national government are summarized in Table 2, 3 and 4 respectively. This study investigates whether the value of transfer fund received by village government varies by or has correlation with political connection. When transfer fund from the higher level of government to the lowest one, i.e. village varies by political connection, and then the budgeting aspect can be said to lack transparency.

Table 1 summarizes some selected variables, such as number of frequency of villages with indicator of political connection. This is represented by number similarities between winning parties at village and national level. This indicator is also represented by number of winning parties with official or representative person in village. This indicator has range of score between 0 – 5. Data and Frequency in Table 1 indicate that most of winning parties have official representatives, and at mostly two winning parties at village level were connected with those at national level.

Table 2 summarizes the determinant of transfer fund from district government to villages. There are three estimation coefficients in the table, the first one is Ordinary Least Square (OLS) for estimation of transfer fund in 2005, the second column is estimation for year 2011 and the third column is estimation for year 2014. The difference of estimation technique in column 2 and 3 with column 1 is that columns 2 and 3 are estimated with Instrumental Variable or IV. As being a winner party is not truly exogenous, it might depend on various factor, such as exposure of information through TV and radio media. Nationally, Indonesians might be aware that some TV's media belong to particular leader parties, or at least partially related with businessman which are closely related with incumbent government. Excessive, bias programs and information regarding parties' campaign are quite apparent. For this reason, we try to introduce instrument namely the availability of signal and the quality of media transmission in the village as IV.

Our main interest is investigating the association of political connection and transfer fund; therefore we should discuss this association firstly. Estimation result indicates that when applying OLS regression, political connection in terms of similarities in winning party is negatively associated with the value of transfer fund in 2005. This finding economically sounds strange as transfer fund in 2005 is the first year of the "honeymoon period" for elected government to run the government. Therefore, IV regressions are presented in the second and third column under the header IV_District_Tr.11 and IV_District_Tr.14, which mean regression results for instrumental variable at district level for period 2011 and 2014 respectively. The result came out as expected in which the signs of political connection turned to be positive and significant. We interpret this coefficient carefully as, "villages that have political connection with the elected government in 2005 election, tend to receive larger value of transfer fund from the district government", in 2011 and 2014.

In terms of the magnitude of political connection, it is found that the amount of transfer fund in the fiscal year 2011 was larger than the fiscal year 2014. Fiscal year 2011 is the second year for the second round of the re-elected president: SBY (2009-2014). This period is critical for the community to evaluate the implementation of President SBY's promises during the campaign. People also expect that new program might be

implemented as the re-elected president is accompanied with new vice president. On the other hand, the fiscal year 2014 is the last year for SBY regime as the elected president. By rules, one is not allowed to be elected as president for the third time subsequently. Rationally, it is less pressure for higher level of government to allocate transfer fund to the lower level for the sake of voting price. Therefore, it is reasonable that politically the amount of transfer fund in 2014 has smaller magnitude compared to the amount of transfer fund in 2011. Similar result and interpretation are implemented in terms of political connection for transfer fund from Province (Table 3) and from central government (Table 4).

As with the village's characteristics, the association between population and village size is not clear. Even though both population and village size are assigned as weighted in the formula of most transfer such as *Dana Alokasi Umum* (DAU) and *Dana Alokasi Khusus* (DAK), the coefficient of our estimation is not statistically significant, as it cannot be interpreted as either following equity or equality principle. In terms of geographic location, it is found that geographically disadvantaged areas, such as being located in non-beach areas (hilly side, mountainous, and river side) or located in forest area, the transfer fund from district government is significantly positive and significant compared to the transfer from province and central government. This result implies that the goal of decentralization program through district level is reducing the development gap between remote and non-remote areas. Therefore, estimation coefficient of transfer fund from district level is significantly larger compared to transfer from province and central government. This result implies that fiscal decentralization starts taking place in local government of Indonesia, by allocating fund larger in disadvantaged regions to break the horizontal imbalances. This program might be as an implementation of *Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia* (MP3EI program), i.e., Masterplan for Acceleration and Expansion of Indonesia's Economic Development which was first introduced in 2011.

Turning our attention into transportation and accessibility to the villages, this estimation shows there is no clear association between transfer fund and access of transportation as well as access on electricity. It is found that the more difficult access of transportation to the villages such as lack of asphalt road, water transportation only, the lower the

transfer fund, either from district, province and national level. We do carefully interpret this result. We realized that many conditions might influence the amount of the transfer fund, such as program's proposal and other factors, such as records of earlier budget allocation; why some regions do receive lower transfer fund.

We consider the number of households with electricity access as indicator of productive economic activities. It is expected that the larger the economic activity the more likely transfer fund for fostering the economic activity (Allcott et al. 2014; Attigah and Tasch 2013; Chaurey et al. 2004; Chen et al. 2006; Davidson and Mwakasonda 2002). This study found that in regions with low access on electricity are associated with lower chance for transfer fund allocation.

Before discussing about effective leadership, we will discuss the first stage regression in the Instrumental Variable model. The estimation is summarized in Table 5. The first stage regression determines variables, such as quality transmission channel of: national private TV, national TV, international TV, local TV, mobile phone, fixed line phone and telephone kiosk. The better the quality of information transmission through TV, radio, telephone and other channels, the more probability of a particular party to spread their programs and campaign. Estimation results indicate that regarding transfer fund from district level, quality transmission of SCTV, TV7 and international program is significantly associated with the winning of top five political parties and the number of party representatives in the village. However, regarding the transfer fund from province and central government, the quality of TPI, RCTI, La TV and ANTV TV transmission in 2005 is associated with probability of top five political parties to win the election at village level.

The arising research questions are: Does the instrumental variable explain the association between political connection and transfer fund at the village level, or Is the instrument of political connection good enough? The following test we conduct is the endogeneity test. The Hypothesis and Statistical result's are attached in Appendices.

There are two Statistical test, i.e., the P-value of the Durbin test (χ^2 test) and Wu-Hausman test (F-test) that can be implemented for endogeneity test. The Statistical P-value is close to zero means that we have to reject H_0 ; and it means that H_1 , i.e., all variables that are

endogenous should be considered as true. In this case, it can be concluded that proxies variable of political connection are endogenous. This means (i) similarities (number) of winning party at village and national level in 2004 election, and (ii) number of individual representatives and official parties at the village level are not exogenous. To further test whether the signal and quality of TV and radio transmission at particular village are sufficient as instrument, we use the Weak-Instrument-Robust Inference 1 test. The hypothesis and statistical result is attached in Appendices.

There are three Statistical tests, namely Anderson-Rubin Wald test (F test and Chi Square statistical test) and Stock-Wright LM Statistic test. All of these three coefficients have P-value 0.00. Therefore we have to reject the null hypotheses that stating that all instrument are not significant or orinogonality conditions are valid. This rejection of H_0 imply that at least one variable i.e. TV channel is significantly influence the winning chances. In other words, we can say that the test for signal and quality of signal TV and radio transmission weak is rejected at 1 per cent. This means the selected instrument is not weak or it just sufficient instrument. Therefore, we can say that the probability of similarity between the winning party at village level and national level associate with the quality of TV signal at village level.

The second terms to be discussed in this paper is to find out whether fiscal decentralization lead to efficient leadership in terms of source of funding for development program. In this paper we use the terms effective leadership as the association of leader's individual characteristic and the opportunities of the villages having positive source of revenue instead of only depending on transfer fund from the upper level of government. The terms of effective leader is indicated by the ability of the village proposing and receive financial support in terms of foreign aid. Some studies conclude that education attainment of village leader does matter for the success and efficient of development program (Besley et al. 2011; Diaz-Serrano and Perez 2013; Yu and Jong-A-Pin 2016).

We summarize of estimation of leader characteristic and the amount of non-transfer fund at the village level in Table 5 and 6. Table 5 summarizes the estimate of village's total revenue excluding transfer fund from government, and Table 6 summarizes foreign aid as competitive source of fund for villages. The ability of village to generate total revenue other than transfer fund in 2005 was related with the education of village

vice leader, the number of households in the village with electricity access, and measure of political connection. However, neither of these characteristics are significant statistically in the estimation of data 2011 and 2014. Regarding the chance of villages to get foreign aid, the estimation result is presented in Table 6. The estimation result of this specification is similar with Table 5. As the estimation for village have own source of revenue, the specification for the year 2005 indicates that some villages have foreign aid, and it was significantly related with village's leader education. Other variables, such as access to village and remoteness factor, are not significant. We cannot interpret that overall village development in 2005 was better compared to that one in 2011 and 2014. Further investigation for finding the evidence whether effective leadership, i.e., the opportunity of villages to get other source of revenue excluding fund transfer and to receive foreign aid, is better in non-politically connected villages compared to those in villages where political connections exist.

CONCLUSIONS

This study investigates the association of political connection and the amount of transfer fund at village level in Indonesia. Measure of political connection is approached by comparing the similarity of the top five winning parties at village level and national level. This study found that transfer fund from district, province and national level to the village level in 2005, 2011 and 2014 were significantly larger as the more similar the top five winning parties between those at the village and national levels in the 2004 election. Election result of 2009 is not surveyed either in the 2008 and 2011 surveys of PODES. Data of election results are only available in PODES 2005. This study cannot present the amount of transfer fund in 2008 as we have limitation on this data.

In terms of village own source of fund and potential for getting foreign aid, this study found that specifically only in 2005 was the village's leader characteristics matter for improving the source of local revenue. The estimation in 2011 and 2014 indicate that none of leader characteristics matter for village's financial revenue. We interpret this result carefully as we do not confirm whether this is truly reflecting leader's ability or there were no foreign aids for village's development in 2011 and 2014.

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APPENDICES

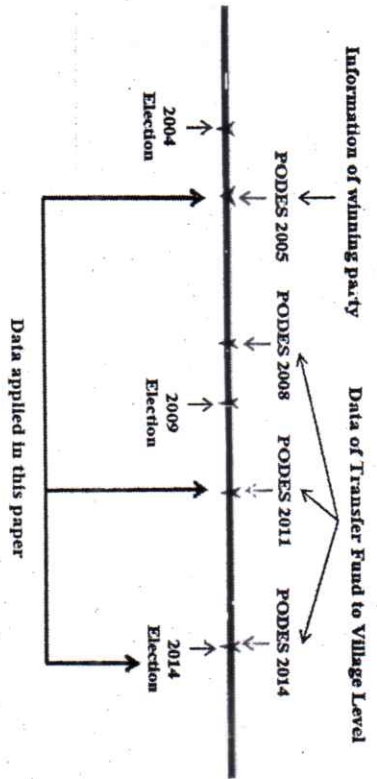


Figure 1. Illustration between Time of General Election and Data Used

Table 1. Summary Statistic of Selected Variables

No	Variable	Value and Percentage
1	Political Connection is measured by similarities between number of winning parties in villages and national level	0 (none) : 6,143 (11.53) 1 : 22,596 (42.42) 2 : 20,313 (38.14) 3 : 4,088 (7.67) 4 : 122 (0.23) 5 : 2 (0.00)
	Total	53264
	Number of official or representative party at village level	0 (no official) : 7,455 (14.00) 1 : 3,072 (5.77) 2 : 4,537 (8.52) 3 : 6,456 (12.12) 4 : 4,041 (13.22) 5 : 24,703 (46.38)
	Total	53,703
2	Geographic Location a. Non-beaches b. Beaches	Location: Non-beaches (=1): 47,108 (88.44) Beaches : 6,156 (11.56)
	Total	53,264
3	Villages is surrounded by forest area a. villages are located inside and near to forest area (=1)	Forest areas: 1 : 12,439 (23.35)

No	Variable	Value and frequency
	b villages are outside of forest area (=0)	0 : 40,825 (76.65)
	Total	53,264
4	Quality of TV signal a. Good quality (=1) b. Bad quality (=0)	TVRI 1: 40,059 (75.21) 0: 13,205 (24.79) Trans 1: 25,016 (46.97) 0: 28,248 (53.03) TPI 1: 27,151 (50.97) 0: 26,113 (49.03) RCTI 1: 33,311 (62.54) 0: 19,953 (37.46) SCTV 1: 30,047 (56.41) 0: 23,217 (43.59) Indosiar 1: 29,833 (56.01) 0: 23,431 (43.99) TV7 1: 21,556 (40.47) 0: 31,708 (59.53) Global 1: 17,575 (33.00) 0: 35,689 (67.06) ANTV 1: 24,067 (45.18) 0: 29,197

No	Variable	Value and frequency
5	Road Quality a. Good quality asphalt (=1) b. No Asphalt (=0)	Indl TV 1: 1,672 (3.14) 0: 51,592 (96.86) Local TV 1: 15,556 (29.22) 0: 37,598 (70.78) Road quality: 1: 45,627 (14.34) 0: 7,637 (14.34)
6	Village's Leader Characteristic Sex: a. male (=1) b. female (=0)	PODES 2011: 1: 49,627 (93.17) 0: 3,637 (6.38) PODES 2014: 1: 47,661 (89.48) 0: 5,603 (10.52)
	Secretary Sex: a. male (=1) b. female (=0)	PODES 2011: 1: 43,605 (81.87) 0: 9,659 (18.13) PODES 2014: 1: 40,270 (76.20) 0: 12,994 (24.40)
6	Education Level PODES 2011 1. Never schooling 2. Not graduated/completed Elementary School 3. Elementary School	Head village Secretary 1: 170 (0.32) 1: 157 (0.33) 2: 395 (0.75) 2: 599 (1.24)

Tabel 2. Political Connection and Transfer from District Level

Independent variables	Dependent variable is Transfer Fund from District			
	OLS	IV Tr_District II	IV Tr_District14	IV Tr_District14
Constant	-34.98*** (7.310)	-928.3*** (412.3)	-1,448*** (549.5)	
Village Characteristics				
Population Size	0.00516*** (0.0007)	-0.00518 (0.004)	-0.0115*** (0.005)	
Village Size	0.002*** (0.0003)	0.0019*** (0.0006)	-0.0015*** (0.0006)	
Rural Area=1	124.6*** (4.200)	205.5*** (37.76)	230.7*** (50.75)	
Non-Coastal Areas =1	6.322* (3.768)	25.01*** (7.930)	24.52*** (11.06)	
Forest Area=1	0.132 (2.930)	34.06* (20.49)	58.20*** (27.03)	
Road Quality, Non-asphalt=1	-16.31*** (4.100)	-51.84*** (20.57)	-49.68* (27.56)	
Transport, through Water only=1	-9.402*** (4.787)	-93.13*** (40.68)	-130.8*** (54.52)	
Electricity (non_PLN)	0.105*** (0.0128)	0.00580 (0.0501)	-0.124* (0.0651)	
Electricity (PLN)	0.0165*** (0.00355)	-0.0202 (0.0167)	-0.0291 (0.0224)	
Political Connection				
winlegis12004	-7.078*** (1.512)	273.3* (150.2)	427.6*** (200.3)	
Nlegislative	3.011*** (0.648)	168.2*** (67.70)	262.4*** (90.35)	
Observations	53,264	53,264	53,264	
R-squared	0.036	-	-	

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1
Note: we do not report the R² for IV regression

Tabel 3. Political Connection and Transfer from Province Level

Independent Variables	Dependent Variable: Fund Transfer from Province			
	OLS	IV Tr_Prov11	IV Tr_Prov14	IV Tr_Prov14
Constant	-4.687 (3.764)	-11.00 (14.17)	-219.3*** (52.06)	
Village Characteristics				
Population	0.0002 (0.0004)	0.0003 (0.0003)	-0.0006 (0.0007)	
Village Size	0.0002 (0.0002)	0.0003*** (0.0001)	0.0002 (0.0002)	
Rural/Urban	32.10*** (2.163)	35.24*** (1.748)	76.79*** (5.307)	
Non-Coastal Areas	1.074 (1.940)	-1.803 (1.815)	-1.062 (3.421)	
Forest Area	0.517 (1.509)	2.345 (1.620)	10.43*** (3.107)	
Road Quality	4.426*** (2.111)	3.628*** (1.836)	-4.184 (3.706)	
Transport	-2.594 (2.465)	-2.460 (2.738)	-14.43*** (5.587)	
Electricity (PLN)	0.005** (0.002)	-2.68e-05 (0.00156)	-0.003 (0.003)	
Electricity (non_PLN)	0.003 (0.007)	0.005 (0.0045)	-0.0185*** (0.00891)	
Political Connection				
winlegis12004	4.274*** (0.779)	17.33*** (5.545)	75.60*** (19.72)	
Nlegislative	-2.168*** (0.334)	-5.757*** (2.475)	30.40*** (8.628)	
Observations	53,264	53,264	53,264	
R-squared	0.036	-	-	

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1
Note: we do not report the R² for IV regression

Tabel 4. Political Connection and Transfer from National Level

Independent Variables	Dependent Variable: Fund Transfer from National Level		
	OLS Level	IV_T1_Natl11	IV_T1_Natl14
Constant	-16.14*** (5.239)	-152.6*** (29.17)	-298.0*** (47.59)
Village Characteristics			
Population	0.00526*** (0.000524)	0.00320*** (0.000585)	-3.94e-05 (0.000721)
Village Size	0.000165 (0.0002)	-0.000335* (0.0002)	-2.76e-05 (0.0002)
Rural/Urban	60.69*** (3.010)	74.75*** (3.237)	72.69*** (4.951)
Non-Coastal Areas	-8.071*** (2.701)	0.957 (3.496)	3.601 (2.975)
Forest Area	2.559 (2.100)	3.191 (2.612)	14.53*** (3.258)
Road Quality	4.768 (2.939)	2.779 (3.543)	-6.862* (3.588)
Transport	-3.711 (3.431)	-13.39*** (5.004)	-26.53*** (5.833)
Electricity (PLN)	-0.0116*** (0.00254)	-0.0164*** (0.00279)	-0.0165*** (0.00301)
Electricity (non_PLN)	0.00813 (0.00919)	-0.0124 (0.00811)	-0.0478*** (0.00936)
Political Connection			
winlegisl2004	-3.931*** (1.084)	25.20** (12.20)	90.62*** (18.02)
Nilegislativ	1.529*** (0.464)	32.21*** (4.977)	51.93*** (7.975)
Observations	53,264	53,264	53,264
R-squared	0.036	-	-

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Note: we do not report the R² for IV regression

Tabel 5. First Stage Regression for Instrumental Variable for Number of Winning Party

Independent Variable	Dependent Variable: (i) number of winning party and (ii) the existence of office and number of representative staff		
	(i) transfer from district	(ii) transfer from Province	(iii) transfer from central govt.
Constant	3.247*** (6.81)	1.239*** (58.84)	1.239*** (58.84)
TVRI	-5.392 (3.550)	-1.770 (1.828)	1.829 (2.544)
Trans	-9.906** (5.033)	-1.047 (2.591)	-0.877 (3.607)
TPI	-0.621 (4.630)	4.856** (2.384)	3.064 (3.318)
RCTI	-0.0712 (5.555)	13.02*** (2.861)	-7.618* (3.981)
SCTV	75.45*** (6.091)	-8.992*** (3.137)	7.069 (4.365)
Indosiar	-27.46*** (5.666)	-8.707*** (2.917)	2.597 (4.061)
TV7	26.32*** (5.066)	-3.097 (2.606)	-11.31*** (3.627)
Global	-22.41*** (4.276)	-3.680* (2.202)	4.213 (3.064)
ANTV	-27.96*** (5.008)	0.547 (2.579)	18.39*** (3.589)
LaTV	-1.309 (5.181)	5.765** (2.668)	2.655 (3.713)
Metro	-5.525 (4.093)	3.276 (2.108)	-3.536 (2.934)
TV International	44.61*** (6.763)	5.194 (3.483)	4.912 (4.847)
TV Local	-3.383 (3.283)	-3.164* (1.691)	0.0209 (2.353)
Quality of MP connection	3.071 (3.458)	0.513 (1.781)	3.212 (2.478)
# HH with fixed telephone	-0.047*** (0.004)	-0.007*** (0.002)	-0.016*** (0.0028)
Wartel	1.159*** (0.350)	0.0415 (0.180)	-0.0659 (0.251)