



City Government Intervention in *Gampong* Budgeting: Case Study in Banda Aceh, Indonesia

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Abstract

Objective – This study aims to explain the intervention of City Government in budgeting in *Gampong*¹ by using agency theory in Banda Aceh.

Design/methodology – This study is qualitative approach, by collecting data through interviews officials and members of the *Gampong*'s People Representative Council in 5 *gampongs* in Banda Aceh City, Head of sub-district, City Inspectorate, and representatives from the *Gampong* Community Empowerment Office. Questionnaires were distributed with a total of 363 respondents.

Results – The results showed that there was an intervention from City Government in the budgeting process in *Gampong* as a result of the existence of City Government authority as a coach and supervisor of the *Gampong* government. In addition, the results of the inspectorate's examination also greatly influenced budgeting in the village the following year.

Research Limitation/Implications – The lack of literature and previous research on agency problems that occur in the village, the limited competence and lack of cooperation between *Keuchik* and *Tuha Peut Gampong* (TPG) when asked for information through interviews and questionnaires, and The lack of literature on the influence of personal conflict factors (interpersonal) on agency problems.

Novelty/Originality – The results of this study are expected to be a reference material for academics to examine agency problems in the *gampong*.

Keywords: Village Finance, Agency Problems, Local Government Intervention, Dual Accountability, Budgeting.

1. Introduction

Law Number 6/ 2014 provides a space for village in Indonesia to develop in accordance with their character through the principles of decentralization and village autonomy as fourth-level administrative subdivision, including in terms of village financial management. The regulations that are derived from this Law regulate in more detail technical matters that must be implemented by the Village Government, such as Minister of Home Affairs Regulation Number 113/2014 and Regulation Number 114/2014, which makes the planning and budgeting process in villages have in common others, both in preparation, document type, process, and output. This model is also almost the same as the financial management process in the Regional (City or Regency) Government (City or Regency Government is second-level administrative subdivision in Indonesia), where the village also prepares the Village Mid-Term Years Development Plan for 6 years, the Village Government Activity Plan for 1 year, and the Village Revenue and Expenditure Budget for 1 year. Planning and budgeting documents in Village's Authority were prepared by involving Head of Village, Village's People Representative Body), village communities, and local government as Village Budget and Expenditure evaluators. The contractual relationship between these par-

¹ *Gampong* is an administrative division at the village level in Aceh Province, Indonesia. *Gampong* is under *Mukim*.

ties can be explained by an agency perspective (Halim & Abdullah, 2006) due to the characteristics of universality in the agency theory (Abdullah, 2012; Ross, 1973). The budgeting aspect has an important position in the management of village finances, so that the implementation of guidance, supervision, and inspection is a necessity carried out by the superior regional government, namely the regency or city regional government.

The agency problem in the formulation and determination of public policy arises from the existence of various forms of interest in the contractual process, which has implications for the emergence of opportunistic behavior (Bendor et al., 1985). This malignancy problem is the result of information asymmetry between the principal and the agent, where the agent has more complete information than the principal (Dobell & Ulrich, 2002). Agency problems are present when agents behave opportunistically at the expense of principal interests in order to achieve their self-interest, which has an impact on the erosion of the interests of the ultimate principal, namely the public/voter society.

Budgeting in villages has several problems, such as incomplete regulations that become technical guidelines for preparing Village Budget and Expenditure, inaccurate unit price standards, low human resource capacity, disputes in the supply of goods and services, and misuse of village assets. The problem in budgeting is the beginning of village non-compliance with laws and regulations and the use of village funds (Asmony, 2018), even though the village apparatus themselves are confused with policies issued by district / city governments, which are often inconsistent (Satriajaya et al., 2018). Local governments as regulators as well as supervisors and auditors for village financials report can declare this non-compliance leads to fraud (Satriajaya et al., 2018). The Corruption Eradication Commission suspects that poor regulatory aspects are a potential source of problems in financial management in the village (antaranews.com, 2015).

The phenomenon of inconsistency of Regional Government (in this research, City Government) policies that occur indicates that there is an agency problem between the Village Government and the Regional Government, because the Regional Government acts as a regulator that regulates all aspects of financial and administrative management in the village, as well as evaluators, supervisors, and village supervisors (Peraturan Kementerian Dalam Negeri Nomor 113 Tahun 2014 Tentang Pedoman Pengelolaan Keuangan Desa; Peraturan Kementerian Dalam Negeri Nomor 20 Tahun 2018 Tentang Pengelolaan Keuangan Desa; Undang-Undang Republik Indonesia Nomor 6 Tahun 2014 Tentang Desa). The meaning of inconsistency in this case is government regulations that keep changing. The impact of the City Government's authority over the village created an agency relationship between the two, because the regional government delegated some of its administrative authority to the village as a contractual form of binding regulations between the two parties (Halim & Abdullah, 2006).

The indication of agency problems between the Regional Government and the Village or *Gampong* in local term is an interesting study to study in an agency perspective, given that research related to agency problems in the Village is very minimal in Indonesia. This research was conducted in a *gampong* the city of Banda Aceh. The *Gampong* Government in Banda Aceh City has its own uniqueness compared to other provincial capitals which are still in the form of Kelurahan. All *Gampongs* in Banda Aceh City are the result of the change from "Kelurahan" to "*Gampong*" (Qanun Kota Banda Aceh Nomor 3 Tahun 2010 Tentang Penghapusan Kelurahan Dan Pembentukan *Gampong*). The conversion of the form of government from Kelurahan to *Gampong* makes the average *Gampong* in Banda Aceh City geographically, demographically, and people's knowledge different from Villages in general which are located in regencies/cities outside the provincial capital, and of course will make the results of this study different from research done in other villages.

The location of this research was carried out in the *gampong* in the Banda Aceh City. The selection of case study locations is based on the uniqueness of the Aceh Province special status, because all Urban Village or Kelurahan in its city area must be converted into *Gampong* as a result of the implementation of Special Autonomy in the

Province (Qanun Kota Banda Aceh Nomor 3 Tahun 2010 Tentang Penghapusan Kelurahan Dan Pembentukan *Gampong*; Undang-Undang Republik Indonesia Nomor 11 Tahun 2006 Tentang Pemerintah Aceh). The existence of conversion from Kelurahan to *Gampong* in Banda Aceh City has caused demographic differences and social science mindset between people in urban areas compared to communities in villages in the regency, which affects the agency relationships and problems that exist between the City Government and the *Gampong* Government. The phenomenon of sociology and behavior is very closely related to agency theory, because agency theory has the basis of sociology (Halim & Abdullah, 2006).

The results of this study have the benefits and major contributions to the government both at the regional and central levels as input or evaluation material on various factors that become obstacles in the budgeting process in the *gampong*. The benefits of this research are also expected to be a reference material for academics to examine agency problems in the *gampong* given that scientific research with that theme is still very minimal. This study aims to uncover and explain the agency relationships and problems that occur between the village government and city or regional government.

The purpose of this study is to explore and explain the factors that cause agency problems between the *Gampong* Representative Council or TPG (*Tuha Peut Gampong*), the *Gampong* Head or *Keuchik*, the *Gampong* Community or *Gampong*, and with the City Government, and other factors both internally and externally. external factors that cause agency problems in the budgeting process in *Gampong* in Banda Aceh City from a scientific perspective. The effect of the enactment of Law Number 6 of 2014 concerning *Gampongs* makes Villages/*Gampongs* have the right to prepare and manage their own budgets. The budgeting process starts from the process of preparing the RPJMG, then the RKPG, and the APBG which are discussed together between the *Keuchik* (executive) and the TPG (legislative), and the *gampong* community through *gampong* deliberation as the basis for preparing the RPJMG and RKPG. The agency relationship that occurs between the principal, namely the legislature and the agent in the form of the executive, certainly creates agency problems that have an impact on the budgeting process and the management of the APBG. The following section highlights literature review of this study followed by research method, and finally presents the result and conclusion.

2. Literature Review

Agency theory is a tool for analyzing the relationship between two or more parties in a contractual perspective that explains delegation and accountability (Halim & Abdullah, 2006; Moe, 1984). The contractual perspective was born because there was an agreement between the party that gave the task (principal) and the party that carried it out (agent), in accordance with the wishes of the assignor (Zeckhauser & Pratt, 1985). Agency theory applies in all aspects, including in the realm of government, because democratic politics can be seen through agency theory in the form of a relationship between principals and agents, so the agency concept is universal (Halim & Abdullah, 2006; Moe, 1984; Ross, 1973). Contractualism that occurs between principals and agents in Indonesia is based on the principle of democracy and the separation of functions between the legislature and the executive in accordance with applicable regulations, so that the separation of the functions of the two parties can be seen in an agency perspective (Halim & Abdullah, 2006). In the case of regional governments, the Regional People's Representative Council or DPRD as legislative council becomes an agent in relation to the community as a constituent, while the Regional Government (executive) becomes an Agent for the DPRD (Halim & Abdullah, 2006). However, in relation to voters or the public, DPRD members and regional heads are agents and the community is the principal.

The contractual relationship in the regional government is the same as in the village administration. This is based on the similarity of the budgeting process between

the two, especially for matters of financial planning and management, such as the preparation of the Village Mid-Term Years Development Plan, the Village Government Activity Plan, and the Village Revenue and Expenditure Budget (Peraturan Kementerian Dalam Negeri Nomor 113 Tahun 2014 Tentang Pedoman Pengelolaan Keuangan Desa; Undang-Undang Republik Indonesia Nomor 6 Tahun 2014 Tentang Desa). The principal in this connection is the *Gampong's* People Representative Body or TPG (stand for *Tuha Peut Gampong*) as legislative with the agent being the *Gampong* Head (executive). On the other hand, TPG is an agent and the community is the principal because TPG members are elected directly by the community, and the *Gampong* Head as an agent and the community as the principal because the *Gampong* Head is also directly elected by the community. In addition, the *gampong* also has an agency relationship with the regency or city government, where the local government is the supervisor and supervisor of the implementation of village government functions.

The identification of agency relationships that occur between City Government as Regional Government and *Gampong* is based on City's authority over the *Gampong*, classifying City as the principal governing the implementation of the authority and operations of the *Gampong* as an agent. This means that what is carried out by the *Gampong* must be in accordance with the provisions set by the City Government, including in the budgeting process. The authority of City Government is in the evaluation process of the Village Revenue and Expenditure Budget Plan, supervision (carried out by the Regional Inspectorate), coaching (carried out by the Village Community Empowerment Office) and the Head of Sub-district (Peraturan Kementerian Dalam Negeri Nomor 20 Tahun 2018 Tentang Pengelolaan Keuangan Desa; Peraturan Kementerian Dalam Negeri Nomor 7 Tahun 2008 Tentang Pedoman Tata Cara Pengawasan Atas Penyelenggaraan Pemerintahan Desa; Peraturan Walikota Banda Aceh Nomor 52 Tahun 2016 Tentang Susunan, Kedudukan, Tugas, Fungsi, Kewenangan Dan Tata Kerja Dinas Pemberdayaan Masyarakat Dan *Gampong* Kota Banda Aceh).

Based on existing laws and regulations, the Camat (local term for Head of District, a third-level administrative subdivision below Regencies and Cities) as an extension of the Mayor's task is to conduct an evaluation of the Village Revenue and Expenditure Budget Plan, while the Inspectorate conducts an audit of the Village Revenue and Expenditure Budget 's accountability report, so that it has the role of an "external auditor". Regional inspectorates are not part of the village and are accountable to City Government to supervise the activities of the village management and as a part of proving that the performance of the village is in accordance with the interests of the City Government (Freidank et al., 2009). The contractual relationship resulting from the laws and regulations between the principal (City Government) and the *Gampong* Government (as agent) can cause agency problems, if the City Government suppresses and implements discretion in the form of inconsistency over regulations and policies in the *gampong*, which causes confusion in the *Gampong* Government in implementing policies issued by City Government (Satriajaya, et. Al, 2018). This agency problem will be explored in this study in a scientific perspective.

3. Research Method

This study uses qualitative research methods to uncover and understand a phenomena that exist through direct or indirect involvement of researchers (Yusuf, 2014). This study uses interview data for *Gampongs* Apparatus and members of the TPG at 5 *Gampong* in the area of Banda Aceh City, Camat (Head of Sub-District), Inspectorate, and Representatives from *Gampong* Community Empowerment Office or DPMG. Questionnaires were distributed by researchers throughout the *gampong* with a total of 363 respondents. The selection of speakers from the *Gampong* apparatus and TPG members was based on recommendations issued by DPMG.

Data analysis method used in this study is the Miles and Hubberman method through three stages of research carried out simultaneously as: (1) data reduction of information collected by simplifying, sorting, and transforming data in accordance with existing coding, (2) displaying collection of information to make it easier to draw

conclusions and take further action, and (3) draw the conclusions (Neuman, 2004; Yusuf, 2014). Interview media used in the form of Verbatim of Interview work papers contain audio transcripts of interviews with informants, data reduction in the form of marking important points in the conversation, then conclusions are drawn.

4. Results and Discussions

The agency relationship between City and the *Gampong* in the aspects of administration, guidance, and supervision in accordance with statutory provisions, places the City as a legislative and the *Gampong* as an executive because both parties are bound by contractual relations based on existing laws and regulations (Halim & Abdullah, 2006; Moe, 1984), with the position of *Gampong* being a double principal agent (Jensen & Vestergaard, 2001) between City, and with the *Gampong* community. This relationship makes City Government has discretion and intervention to the *Gampong* through existing regulations and policies, which is confusing to be implemented by the *Gampong*, and *Gampong* has limitations to fight the policy (Satriaajaya et al., 2018). These interventions can disrupt the budgeting process in the village.

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Based on the results of interviews using the Miles and Hubberman methods succeeded in uncovering the fact that the discretion or intervention of the City Government to the budgeting process in the *gampong* occurred in the city of Banda Aceh. City Government intervention on the budgeting process in the *Gampong* proved that the *Gampong* Apparatus and TPG knew and confirmed that the City Government gave, even required some activities to be carried out in the *gampong*. The required activities are considered by some *gampong* s not to be in accordance with the needs of the village, but the *gampong* government lacks the power to reject the policy. Activities that are required in *Gampong* such as construction of educational and sports facilities, facilities related to preventing stunting babies in the form of Rumoh Nutrition, and procurement of waste transport vehicles.

Regulations in the form of Mayor Regulations issued by City also have a very big impact in the budgeting process. In general, various regulation have been issued by City Government to accommodate the needs of *Gampong* regarding village management, including in terms of *gampong* financial management. Based on the results of the interview it was revealed that there was a misinterpretation of the *Gampong* Government towards this regulation due to the low socialization carried out by City to the *Gampong* Apparatus, and the delay in the issuance of the regulation relating to the budgeting process compared to the time of preparing the APBG. Misinterpretation and delay The Mayor's/City regulations were issued making delays in the budgeting process that occurred in the *Gampong*, and some *Gampong* Apparatus endured shame or discomfort with the TPG because the TPG considered their work unprofessional, and errors in the budget preparation process so that the Camat did a lot of revisions and eliminations activities in the *gampong*.

The Camat as the party who has the authority in the *Gampong* Revenue and Expenditure Budget Plan or RAPBG evaluation process, also has a large role in the agency problem. The Camat uses his discretion to intervene in the budgeting process in the *gampong* by removing or revising budgeted activities in the RAPBG, where the RAPBG was previously agreed upon between *Keuchik* (local terms of Head of *Gampong*) and TPG. Furthermore, some Camat's also used their authority to propose ac-

tivities based on their personal submission to the *Gampong*, such like “Official Trip” budget plans that made the *Gampong* have to delete some of the activities proposed by the community to accommodate the Camat's proposal. In some cases, such as asset valuation activities, the Sub-District Party proposes to the *Gampong* to use certain accountant service offices in the process of asset valuation services. The same intervention was also carried out by the Inspectorate through the results of its examination to the *gampong*. Armed with the results of these inspections, the *gampong* eliminated one of the problematic activities in the budgeting process the following year. The impact of the discussion carried out by Pemko on the *gampong* made some activities that were actually needed by the *gampong* were reduced and even eliminated from the RAPBG list, so that the *gampong* community was severely disadvantaged by the City's intervention.

The results of interviews with the Camat and the Inspectorate concluded that there were a number of interventions they had carried out in the context of supervision and guidance so that the *gampong* was more focused in budgeting an activity. The Camat gave their criteria in evaluating, revising, and eliminating activities proposed by the *Gampong* if the proposed activity violated the rules, budget rationality, and how much potential the proposed activity could be realized and accounted for in the form of the ability of the Village in realizing the activity, and the Village could make an accountability report on the use of the budget.

The agency problem in the form of City Government intervention to the *Gampong* turned out that not all *Gampong* experienced the agency problem, because there was a preogative right for the *gampong* to consider and reject the activities proposed by the Camat, and activities which should be eliminated based on the results of the Inspectorate's examination. The *Keuchik* together with TPG discussed the proposal and results of the Inspectorate's inspection based on consideration of the needs and suitability of the *gampong* 's needs. If the proposed activity does not meet the needs and capabilities of the *gampong*, the *gampong* has the right to reject and not include the proposed activity in their RAPBG.

Based on the results of interviews, in general, the process of preparing the RKPG in *gampongs* in the Banda Aceh City area is only carried out in the context of mere formalities, thus ignoring the role of the community. The exclusion of the community occurs due to a lack of community knowledge about the budgeting process in the *gampong* and its role. In addition, a shift in the moral of gotong royong makes the Executive and Legislature take their own actions without considering the role of the community.

5. Conclusions

The enactment of Law Number 6 of 2014 concerning Villages which gives authority to the Village to design its own budget and expenditure, opens up opportunities for scientific studies related to theory and agency relations that occur in the Village, in this case in Gampong. Identification of legal problems related to financial management in Gampong caused by the interest factor makes the relationship between institutions in the budgeting process interesting to study from an agency perspective.

The results of factor analysis and interviews revealed that there were agency problems in the budgeting process in the village as follows: (1) The source of the agency problem comes from the position and political power in Gampong which is divided into the dominance of the *Keuchik* (executive), the dominance of the TPG (legislative), and the dominance of the political elite (a combination of *Keuchik* and TPG); (2) Sources of agency problems caused the emergence of factors causing agency problems, namely the neglect of participation and aspirations of the *gampong* community by the political elite or political domination that occurred in the *gampong*, personal interests and egos carried out by the *Keuchik* and TPG, the Gampong Apparatus was not transparent in providing information to the TPG, misunderstanding *Keuchik* and TPG on the main tasks and functions of each institution in accordance with the laws and regulations, and personal conflicts (interpersonal) between *Keuchik* and TPG; and (3) The agency problem that occurs between the Gampong Government and the City Govern-

ment is due to the intervention of the City Government in the budgeting process in the village as a result of the City Government's function as a supervisor and supervisor of the Gampong government in accordance with the provisions of the legislation.

The agency relationship between the City Government and the *Gampong* Government in the aspects of administration, guidance, and supervision in accordance with the provisions of the legislation, places the position of the City Government as the legislature and the *Gampong* Government as the executive because both parties are bound by a contractual relationship based on the existing laws and regulations, with the position of the *gampong* as a double principal agent between the City Government and the *gampong* community. This relationship makes the City Government have discretion and intervention to the *Gampong* through existing regulations and policies, which are confusing for the *Gampong* government to implement, and *Gampong* has limitations to fight these policies.

The Banda Aceh City Government intervened in the budgeting process in the five *gampong* s that were studied. This is a result of the function of City as the executor and supervisor who oversees the *Gampong*. Interventions conducted in the form of proposing activities in accordance with the personal interests of elite officials in Pemko, removing and revising activities in the *Gampong* Revenue and Expenditure Budget Plan that had been agreed previously between the *Gampong* Head and *Gampong* People's Representative Body, delays in issuing legal products, lack of socialization of regulations and policies related to managing *gampong* funds to the *gampong*, and the results of the inspectorate's examination were very influential for the *gampong* in the following budgeting year. The impact of the intervention carried out by City has an impact on the reduction and elimination of activities that are actually needed by the *Gampong* community.

This research is limited in terms of literature review and previous research on agency problems that occur in *gampongs*. Development of the concept of agency relationships is needed in budgeting in *gampongs*, as in regional government (Halim & Abdullah, 2006). The researcher suggests to academics or further researchers to explore agency problems that occur in the *gampong*, especially the relationship between the *gampong* and the Regional Government in depth.

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