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## Rent-seeking Practices in The Budget Policymaking Processes at Local Government: Case Studies in Indonesia

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### ABSTRACT

*This paper tries to analyze and utilizes qualitative document content analysis as a means of understanding rent-seeking practices in fiscal policymaking processes. This study revealed that rent-seeking practices in fiscal policymaking in Malang City, Malang Regency, and Batu City, Indonesia, involved the practices of bribery, corruption, collusion, lobbying, negotiation, and transactional politics between regional leaders, bureaucrats, private actors, and political brokers. Rent-seeking practices through informal policymaking have a strong positive correlation to corruption. It shows that corruption resulted from rent-seeking practices in fiscal policymaking in Malang City, Malang Regency, and Batu City. Transactional politics, negotiations, bribery, collusive relations, and lobbying were also involved in rent-seeking, ultimately resulting in corruption. Therefore, the new thesis of this research is that transactional relations, negotiation, collusion, bribery, and political lobbies between regional heads, bureaucracy, parliamentary politicians, brokers, and businessmen trigger corruption in the formulation of regional budget policies. This research confirms that the practices of rent-seeking take place through informal budget policy formulation, such as transactional relations, negotiation, collusion, bribery, and political lobbies that result in acts of corruption in budget policies.*

**Keywords:** *Informal policymaking, fiscal politics, local government, corruption, budget policy*

### ABSTRAK

Artikel ini mencoba menganalisis dan menggunakan analisis konten dokumen kualitatif sebagai sarana untuk memahami praktik rent-seeking dalam proses pembuatan kebijakan anggaran. Studi ini mengungkapkan bahwa praktik rent-seeking dalam pembuatan kebijakan anggaran di Kota Malang, Kabupaten Malang, dan Kota Batu, Indonesia, melibatkan praktik penyuapan, korupsi, kolusi, lobi, negosiasi, dan politik transaksional antara pemimpin daerah, birokrat, aktor swasta, dan pialang politik. Praktik rent-seeking melalui pembuatan kebijakan informal memiliki korelasi positif yang kuat dengan korupsi. Hal ini menunjukkan bahwa korupsi dihasilkan dari praktik rent-seeking dalam pembuatan kebijakan anggaran di Kota Malang, Kabupaten Malang, dan Kota Batu. Politik transaksional, negosiasi, penyuapan, hubungan kolusi, dan lobi juga terlibat dalam rent-seeking, yang pada akhirnya mengakibatkan korupsi. Oleh karena itu, tesis baru dari penelitian ini adalah bahwa hubungan transaksional, negosiasi, kolusi, penyuapan, dan lobi-lobi politik antara kepala daerah, birokrasi, politisi parlemen, pialang, dan pengusaha memicu korupsi dalam perumusan kebijakan anggaran daerah. Penelitian ini menegaskan bahwa praktik rent-seeking terjadi melalui

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perumusan kebijakan anggaran informal yaitu hubungan transaksional, negosiasi, kolusi, penyuapan, dan lobi-lobi politik yang mengakibatkan tindakan korupsi dalam kebijakan anggaran.

**Kata kunci:** Pembuatan kebijakan informal, politik anggaran, pemerintah daerah, korupsi, kebijakan anggaran

## INTRODUCTION

Studies of rent-seeking practices have been conducted throughout the world, including in Indonesia. Such studies have found that the implementation of democracy at the local level in Indonesia has promoted rent-seeking practices in all government affairs, including administration, development, and public services (Fan et al., 2009). This can be attributed in the shift from centralized to decentralized governance, which has provided local elites with the opportunity to mobilize and monopolize resources to advance their individual and collective interests (Adi, 2018). Decentralization has also enabled local elites to gain control of fiscal policymaking processes; as such, elites have competed heavily to gain executive, parliamentary, and bureaucratic power, through which they can obtain the ability and authority to enrich themselves and their allies (Hadiz, 2004).

Political decentralization is intended to reinforce democracy at the local level by providing local politicians with the opportunity to become involved in executive and legislative elections. Unfortunately, however, such elections require significant political and financial capital, and as such political opportunities have not been distributed equally (Lambsdorff, 2002). Elections are generally won by politicians who have significant personal capital, already hold office, or receive the financial support of private-sector actors. The financial burden of electoral politics has also promoted rent-seeking behavior in local fiscal policy (Arifin & Purnomowati, 2017).

Politicians who win elections tend to use their power and authority to advance their personal and collective interests. As such, cases of corruption have become increasingly common in Indonesia. Since direct local elections were first implemented, a number of budget corruption cases have occurred throughout Indonesia (Berenschot & Mulder, 2019). These have not only involved regional executives, legislators, and bureaucrats, but also private-sector actors (KPK, 2019). This not only indicates that rent-seeking practices are occurring in local fiscal policy (Adi, 2018), but also shows that local executives and legislators necessarily collude with private-sector actors in their budget activities (Butt, 2014).

Previous studies of rent-seeking practices in local fiscal policy have relied primarily on audits and economic development reports (Adi, 2018), and as such have drawn minimally from observations. Studies of rent-seeking practices have also drawn from surveys of social perceptions of these practices in Indonesia. Jaya (2005), for example, found that the public perceives decentralization as having granted executives and legislators too

much power and authority, thereby motivating them to monopolize fiscal policy. Most studies have examined rent-seeking practices within the context of public service, development, and budget realization (Macintyre et al., 2000). As such studies of rent-seeking behavior have used conventional techniques, their analysis and description have lacked depth.

Few studies have investigated rent-seeking through practices of corruption by regional executives, legislators, bureaucrats, and private-sector actors. As such, this paper investigates the practice of rent-seeking in fiscal policy in Malang City, Malang City, and Batu City, whose executives have been implicated in the practice of budget corruption. In their corrupt activities, these executives have involved bureaucrats, legislators, private-sector actors, and brokers. The research questions for this study are as follows: How does the rent-seeking practice process take place in the preparation of budget policies? How has rent-seeking been practiced in Policymaking Processes in Malang City, Malang Regency, and Batu City? How do different forms of rent-seeking intersect the practice of rent-seeking in budget policy making processes in Malang City, Malang Regency, and Batu City?

## LITERATURE REVIEW

### Rent-Seeking as a Concept and Practice

Rent-seeking is a concept used in political science and economics to explain how individuals/groups use power, authority, and access to government institutions to mobilize state resources in advancement of their interests (Hillman, 2013). Rent-seeking refers to the individual/collective abuse of power and authority to manipulate fiscal policy in a manner that advances specific interests (Jamie S. Davidson, 2015). As such, the practice results in fiscal policies that fail to support productive sectors such as education and healthcare. Such policies do not improve the quality of public services, but rather advance the individual/collective interests of politicians and bureaucrats (Adi, 2018). Rent-seeking practices occur most commonly during budget implementation. For example, politicians and bureaucrats may offer public projects only to private-sector actors who are willing to provide them with bribes and remunerations.

Legislators and bureaucrats have the opportunity to practice rent-seeking because they have the authority to plan, revise, and implement budget policies (Jaya, 2005). Politicians can thus create fiscal policy that advances their political interests, such as development projects that benefit their clients (be they constituents or private-sector allies) (Yusri, 2019). At the same time, legislators and bureaucrats can pressure private-sector actors to provide them with bribes and other remunerations, which they then use to advance their individual and collective interests. Simply put, politicians can utilize and optimize their power and authority to control fiscal policy and advance their interests (Asriyadi, 2019).

Rent-seeking does not only involve legislators and bureaucrats, but also private-sector actors such as contractors. According to Asriyadi (2019), contractors may become involved in two ways. *First*, they may donate funds to politicians during their local, provincial, or national electoral campaigns, thereby helping said politicians gain office. In such situations, there exists an unwritten agreement that, in return for these funds, politicians will create fiscal policies that facilitate their donors' business activities, provide donors with access to profitable government projects, and ensure donors have a monopoly on such projects. *Second*, contractors may provide legislators and bureaucrats with bribes and remunerations. In this manner, private-sector actors become involved in rent-seeking by lobbying and negotiating with bureaucrats and legislators, thereby establishing good political relationships and creating coalitions of bureaucrats, legislators, and private-sector actors that promote collusion and transactional politics. This, in turn, leads to budget corruption and bribery.

Rent-seeking practices increase development expenditures, but fail to accelerate economic growth or improve public services such as education and health (Macintyre et al., 2000). During their rent-seeking practices, legislators and bureaucrats tend to emphasize physical development, particularly infrastructure (roads, buildings, and irrigation canals). It is commonly argued that physical development projects have a positive effect on national/regional development, with increased expenditures promoting increased economic growth. However, this emphasis on physical development also facilitates rent-seeking practices, as the availability of funding correlates positively with the number of development projects; with more funding, more projects can be initiated and offered to private-sector actors (Hillman, 2013). In such a situation, legislators and bureaucrats offer public projects to private-sector actors, with the expectation that these actors will provide them with bribes and remunerations. This has a detrimental effect on the quality of the finished project, and ultimately proves deleterious to economic growth (Angelopoulos & Economides, 2008).

The above discussion of rent-seeking has shown that it is closely linked to the practices of bribery, lobbying, negotiation, transactional politics, collusion, and corruption. Actors involved in rent-seeking include legislators, bureaucrats, and private-sector actors with access to government (executive and legislative) institutions (Widanarto 2017). These actors are involved in rent-seeking in their own individual capacities. Legislators and bureaucrats discuss and enact fiscal policies that provide them with political and economic benefits, which they use to advance their individual and collective interests. These political actors also increase expenditures for development projects (particularly physical development projects) and offer contracts to private-sector actors in exchange for bribes and remunerations (Katz & Rosenberg 1989).

Meanwhile, private-sector actors are involved in rent-seeking practices in several capacities (Hayakawa & Venieris, 2017). *First*, they donate money to candidates during elections, with the expectation that politicians will create and implement policies that facilitate their business activities, increase their revenues, and create profit. Transactional relationships are established between private-sector actors and politicians, which influence the practice of corruption in fiscal policy. *Second*, private-sector actors lobby and conduct political negotiations with bureaucrats and legislators in order to ensure that they retain access to public projects. To further facilitate their activities, private-sector actors often provide bribes to legislators and bureaucrats. As such, collusive relations are created between entrepreneurs, legislators, and bureaucrats.

### The Formal and Rent-seeking Practices in Budgeting Process Works in Indonesia

The mechanism for formulating regional budget policies in Indonesia adopts a bottom-up approach, which is the preparation of the budget that starts from the village, sub-district level, to the district / city level (figure 1) (Salahudin et al., 2017).

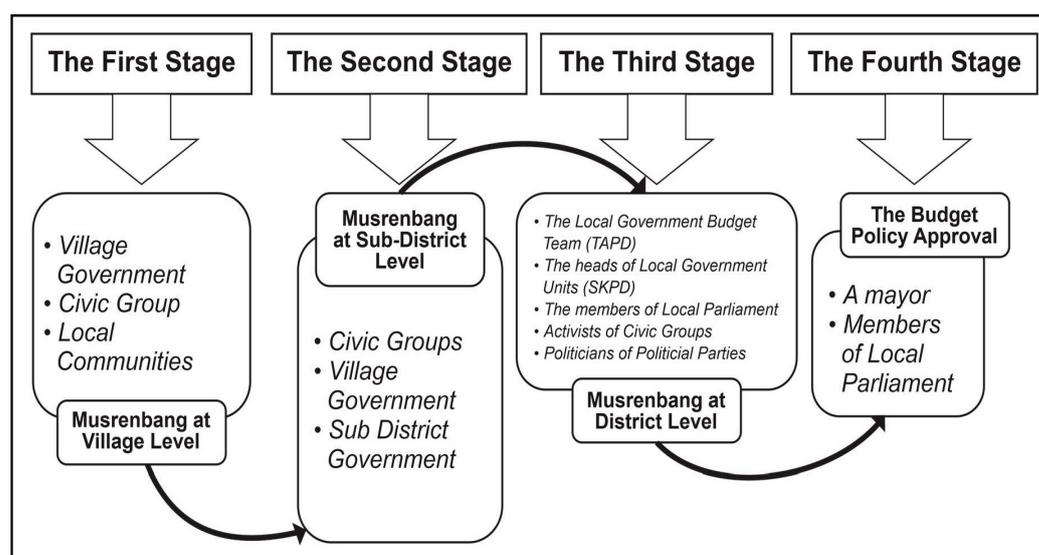


Figure 1. The Formal Budgeting Process Works at the Local Level in Indonesia

The bottom-up approach to the formulation of regional budget policies in Indonesia aims to produce regional budget policies that favor the interests of the community, avoid the domination and co-optation of political and government elites, and avoid corrupt practices. However, based on previous research, these goals have not been well achieved, on the contrary, namely the co-optation and domination of government and political elites at each stage of budget policy making activities, especially at the budget discussion and determination stage at the district / city level. Co-optation and elite domination at

the stage of formulating and establishing budget policies have an impact on the practice of bribery, corruption, and project buying and selling (transactional politics) (Rebecca Rumbul et al., 2018). A number of studies reveal that elite co-optation and dominance in budget policy formulation and budget implementation are part of the rent-seeking politics of government elites who seek to mobilize state resources for political and business interests (Jamie S. Davidson, 2015).

Davidson (2015) explains and expresses well about the practice of rent-seeking in policy formulation in Indonesia. He revealed that the practice of rent-seeking in Indonesia takes place through interaction, communication, and informal relations between state institutions and big businessmen who have influence in the political and governance processes in Indonesia. The informal relationship aims to determine policies that support the mobilization of state resources (budget and mega projects) that benefit large groups from the executive (ministers), legislative bodies (parliamentary politicians), and big entrepreneurs. In Indonesia, policy making especially regarding mega projects such as toll roads is not always based on formal procedures and mechanisms. Actors and policy makers more often use informal mechanisms than formal mechanisms. Lobbying and negotiation between actors is a political and business activity that is usually carried out in the formulation of policies that govern mega projects in Indonesia. Lobbies and negotiations of entrepreneur on state institutions are carried out individually and collectively. Individually, entrepreneurs communicate directly with decision makers both government officials and parliament politicians to design and issue mega-project policies that benefit them. Collectively, entrepreneurs form business associations such as the Toll-road operators association (ATI) which are then used as a means of communication, negotiation, and lobbying government officials and parliamentary politicians in policy making (Jamie S. Davidson, 2015).

The latest studies of rent-seeking in Indonesia have shown that democratization, political decentralization, and fiscal decentralization have not produced good and clean governance. Rather, democratization and decentralization have led to poor governance, with rent-seeking occurring in all government sectors (Asriyadi 2019). It has occurred on a massive scale, with party elites, politicians, bureaucrats, and private-sector actors acting in conjunction to win elections (Arifin & Purnomowati, 2017). This, in turn, has promoted rent-seeking behavior in the bureaucratic sector, with local legislators and executives using their power and authority to 'sell' offices (appoint officeholders in return for bribes) or give offices to their greatest contributors/closest allies (Widanarto, 2017).

Studies of rent-seeking in Indonesia have also shown that the practice inexorably involves legislators' and bureaucrats' efforts to mobilize state resources for their individual/collective interests. Collusion thus occurs as legislators and bureaucrats work together to create fiscal policy that supports their electoral aspirations. Fiscal policy is designed to

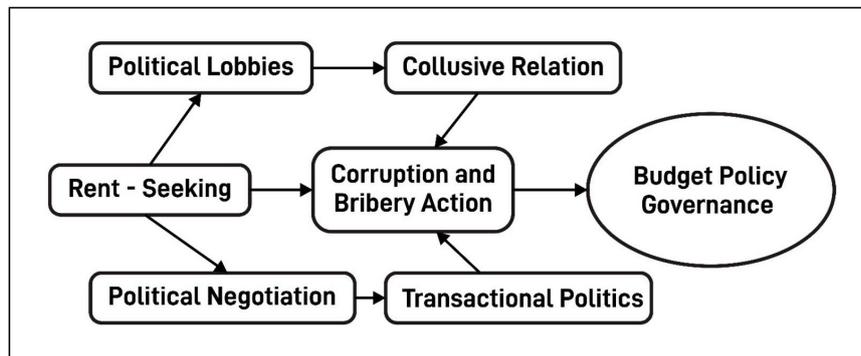
advance the interests of constituents, donors (private-sector actors who provide financial support), parties (which provide organizational support), campaign staff, and brokers (who connect politicians with other groups) (Adi, 2018). In this case, legislators and bureaucrats use government funds as political resources in their electoral contestations.

Also important in rent-seeking practices in Indonesia is the private sector (Hayakawa & Venieris, 2017). Several studies have argued that private-sector actors, particularly entrepreneurs, have been major drivers of rent-seeking in Indonesia; several entrepreneurs have established and controlled political parties, thereby determining the selection of candidates in local elections. Entrepreneurs also exert significant influence on political parties by donating funds to cover their operational costs, thereby ensuring that these parties rely on their continued support (Hayakawa & Venieris, 2017). Owing to their ability to influence political parties during elections, entrepreneurs are able to produce legislators and bureaucrats with the power and authority to advance their business interests (Lambsdorff 2002).

### **Conceptual Framework of Rent-seeking in Fiscal Policymaking Processes**

The practice of rent-seeking in fiscal policy is integrally linked with the practices of corruption, collusion, lobbying, negotiation, and transactional politics in local budget management. Corruption refers to legislators' and bureaucrats' use of their power and authority to manage and mobilize local budgets to advance their individual and collective interests. Bribery refers to private-sector actors' provision of money or other material benefits (i.e. bribes) to legislators and bureaucrats to facilitate their business activities and gain access to public projects; through these projects, entrepreneurs hope to increase their profits and revenue. Within the context of local budget management, collusion refers to joint efforts of bureaucrats, legislators, and entrepreneurs to create, control, and implement fiscal policies that benefit all involved.

Lobbying refers to practice of establishing communications between private-sector actors, legislators, bureaucrats, and budget brokers. Political negotiation builds upon lobbying, being the process through which private-sector actors, legislators, bureaucrats, and budget brokers reach a consensus regarding which fiscal policies would benefit all involved. At this stage, private-sector actors generally agree to legislators' and bureaucrats' demands that they provide bribes and remunerations in return for special facilities. Transactional politics refers to the exchange of resources between private-sector actors, legislators, and bureaucrats. Private-sector actors may provide politicians with bribes, remunerations, or donations, while legislators and bureaucrats may use their power and authority to create fiscal policy that advances their interests and the interests of their (private-sector) allies.

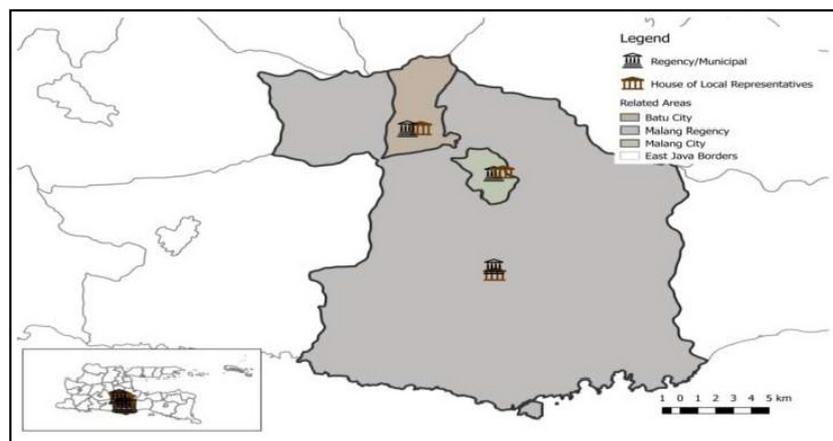


**Figure 2. Conceptual Framework for Rent-Seeking in Fiscal Policymaking Processes**

This paper uses the above concepts to explain the practice of rent-seeking in the fiscal policymaking processes of Malang City, Malang Regency, and Batu City. In all three municipalities, executives were involved in rent-seeking practices and charged with the crime of budget corruption. In Malang City, the practice of rent-seeking did not only involve the mayor, but also legislators and bureaucrats; in Malang Regency, the practice involved the regent, private-sector actors, brokers, and bureaucrats; in Batu City, the practice involved the mayor, bureaucrats, and private-sector actors. In its examination of rent-seeking, this paper focuses on exposing the different types of rent-seeking involved and exploring how they were linked in the budget policy governance of Malang City, Malang Regency, and Batu City, Indonesia.

## RESEARCH METHOD

Research was conducted in Batu City, Malang City, and Malang Regency. These three autonomous municipalities are located in East Java, Indonesia (Figure 3).



**Figure 3. Map of Batu City, Malang City, and Malang Regency**

Together, these three municipalities are known as Malang areas, with Malang City (previously the administrative center of Malang Regency) gaining autonomy in 1999 and Batu City having been produced through the administrative division of Malang Regency in 2001. This research is a comparative analysis of corruption cases between the three regions (*phenomenon comparison research*). The reasons for choosing these corruption cases of three regions as the unit analysis of this study are as follows.

*First*, the three regions are autonomous regions that are domiciled and have the same rights and authority in the management of regional finances policy. As an autonomous region, the government in these three regions has the right and authority to develop budget policies independently through the same mechanism and procedure, namely the bottom-up mechanism and approach. *Second*, corruption cases in the three regions are corruption related to budget policies involving regional heads, political elites, and the private sector. However, based on legal evidence at the trial of corruption in Indonesia, there are differences in the number and profession of actors involved in corruption cases in the three regions.

This study employs qualitative document content analysis, analyzing the district court decisions of Surabaya, East Java, Indonesia through scientific processes and procedures. Document analysis requires the capability and skill to interpret and translate data as a means of answering the research question (Flick, 2009). To facilitate the collection, management, and qualitative analysis of data, thereby improving the credibility of the data and subsequent findings, qualitative data analysis software has been developed (Wallmeier et al., 2019). In this case, such software has been employed to analyze the district court decisions and produce an understanding of rent-seeking in Malang areas.

The selected documents fulfilled the criteria of authenticity, credibility, representativeness, and meaningfulness (Flick, 2009). The authenticity criterion is fulfilled by these documents' having been produced by the district court decisions of Surabaya, East Java, Indonesia through a process of investigation and advocacy. These documents also fulfill the credibility criterion, having been produced in accordance with applicable procedures and processes. They were identified as representative, and thereby able to provide the data necessary to answer the research question. Finally, the decisions used for this analysis were meaningful, as they are capable of describing the practice of budget corruption in Malang areas. In Indonesia, the Supreme Court through the Surabaya District Court has the highest authority to decide specific criminal acts of corruption. Therefore, the Surabaya District Court's decision document on corruption in Malang City, Malang Regency, and Batu City is the right document as this research data to explain rent-seeking practices in the formulation of budget policies in the three regions.

Analysis was conducted using NVivo 12 Plus, a qualitative data analysis software that facilitates the collection, categorization, mapping, analysis, and visualization of qualitative data, including that collected from documents (memos, reports, legislations, and photographic documents) and through interviews (Bazely & Richards, 2013). The use of qualitative data analysis software (NVivo 12 plus) in this study is an innovative form of content analysis qualitative method that aims to facilitate researchers in analyzing text / content of the District Court decision of Surabaya on acts of corruption in Malang City, Malang Regency, and Batu City whose thickness - a document between 300 pages - 500 pages, to make it easier for researchers to categorize texts based on the theories used and based on the data obtained, and to visualize data in graphical and numerical form so that it is easy to understand. Therefore, the advantages of using the innovation method compared to the traditional method in this study, namely the innovation method accelerates and facilitates the analysis of document content (such as the Supreme Court decision document) (Flick, 2009).

## **RESULTS RESEARCH**

### **Rent-seeking Processes in the Three Indonesian Regions**

#### *Rent-seeking Processes in Malang City*

Acts of regional financial management corruption in Malang took place in the form of bribery practices in the discussion of the 2015 Revenue and Expenditure Budget (*APBD-Indonesian term*) changes in the 2015 fiscal year. In this case, the Mayor, through the regional secretary and head of the Public Works Office, gave the parliament politicians a bribe, which aims to facilitate the discussion and determination of the 2015 amended regional budget. Giving bribe money stems from the demands of a number of parliamentary politicians, who want the Mayor to prepare and give parliamentary politicians the main points of the thoughts "Pokir". The demands of parliament politicians were responded well by the mayor, who agreed to prepare and give parliament politicians "Pokir" money. In this case, the Mayor instructs the Regional Secretary to prepare a "Pokir" money as the request of parliament politicians. Then, the Regional Secretary asks the Head of Public Works Office to collect and prepare money "Pokir" as the mayor's request. Furthermore, the Head of the Public Works Department ordered the head of sub-unit of the department to collect funds from the work partners of the Malang City. The Head of sub-the department carried out the order well so that the money was Rp. 900,000,000 were collected, which were then handed over to the head of the Public Works Office.

Before the money was handed over, the chair of the local parliamentary (*DPRD-Indonesian term*) asked the regional secretary whether "pokir" money had been prepared. The regional secretary told the chairman of the DPRD, that the pokir money had been prepared. Then, the regional secretary ordered the head of the Public Works Office to

immediately hand over “pokir” money to the chairman of the DPRD. Subsequently, the head of the Public Works Office phoned the chair of the DPRD to ask where the money was to be handed over, then it was agreed that the handover of the money would be done at the DPRD chairman’s house. Furthermore, the head of the Public Works Department ordered the head of sub-the department to deliver Rp. 700,000,000 (seven hundred million rupiah) to the chairman of the DPRD at the DPRD chairman’s house, which is received directly by the chair of the DPRD, and delivers the remaining Rp. 200,000,000 (two hundred million rupiahs) to the regional secretary in the regional secretary’s official residence.

#### *Rent-seeking Processes in Malang District*

The corruption of regional financial management in Malang district took the form of giving project fees from Ali Murtopo, who acted as a broker and project broker, to Rendra Kresna who was positioned as a regent. The corruption act originated from the regional head election in Malang district in 2010. At that time, Ali Murtopo played a part as a successful team to win the elections for the pair of candidates for regent, Rendra Kresna and Ahmad Subhan. As part of the success team, Ali Murtopo played the role of winning Rendra Kresna-Ahmad Subhan in the 2010 elections. One of the obstacles faced by success team for the Rendra Kresna-Ahmad Subhan was the lack of operational funds and campaign activities. Because of this, Ali Murtopo with Rendra Kresna and Ahmad Subhan and other members of the success team, such as Eryk Armando Talla and Chairul Anam, held a meeting at the Amsterdam restaurant in Malang.

The meeting above aims to discuss how to raise funds for the Rendra Kresna and Ahmad Subhan for campaigns in the regional election. The meeting agreed that the fundraising was carried out by way of entrepreneurs who joined the success team giving loans to Rendra Kresna and Ahmad Subhan, whose repayments would be taken from fees for projects in the Malang district government if Rendra Kresna and Ahmad Subhan were elected to become regents and the Deputy Regent of Malang. In its implementation, Iwan Kurniawan as Director of PT. Anugerah Citra Abadi provided a loan of Rp. 11,900,000,000.00 (*eleven billion nine hundred million rupiah*) and a total of Rp. 20,000,000,000.00 (twenty billion rupiah) is loans from other entrepreneurs.

After successfully winning the elections, Rendra Kresna held a meeting to discuss strategies to return capital to win the region election (*Pilkada*-Indonesian term), including the repayment of loan money from entrepreneurs. The meeting which took place in November 2010 in the Malang Regent’s office was attended by Ali Murtopo, Rendra Kresna, Eryk Armando Talla, Henry Tanjung, Suwandi as head of the education service, Anwar as Head of the Public Works Office, Sujono as head of the Animal Husbandry office, Willem as head of the department asset management and revenue and several,

and other SKPD heads. During the meeting, it was agreed that an auction would be arranged *e-procurement* so that the winner is the Rendra Kresna success team, as well as the obligation of the auction winner to provide a fee to Rendra Kresna, the amount of which has been determined, namely for projects in the irrigation service by 17.5% - 20%, the fee for projects in the Public Works service is 15 % - 17.5% and fees for projects in the education service are 17.5% - 20%.

Acts of corruption in Malang regency revealed by the Corruption Eradication Commission (KPK) and the Supreme Court of the Republic of Indonesia, is corruption in granting project fees within the education service environment worth Rp. 3,026,000,000.00 (*three billion twenty six million rupiah*) from Ali Murtopo to Rendra Kresna. It is part of the project fee obtained by Ali Murtopo from a number of companies that previously won the project package at the Malang district government education office. After deducting 2.5% of each project value, the company that won the project submitted the project money, which is Rp. 29,526,349,300 to Ali Murtopo. Furthermore, Ali Murtopo paid part of the money to Bagus Trisakti as payment for books and teaching aids that had been ordered by Ali Murtopo in the amount of Rp 23,936,870,000.00 (*twenty three billion nine hundred thirty six million eight hundred seven tens of thousands of rupiah*). While the remainder was given to Rendra Kresna as a payment of 7.5% fee because Rendra Kresna gave the projects to Ali Murtopo.

#### *Rent-seeking Processes in Batu city*

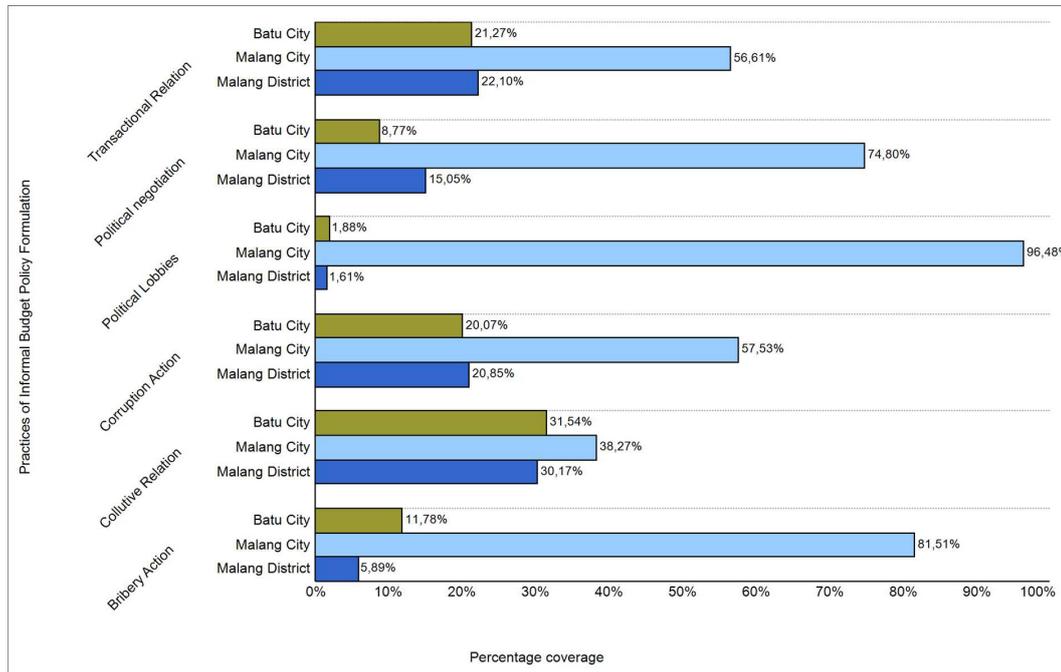
Corruption in Batu City is related to the provision of goods in the form of Toyota New Alphard cars and project fees from businessman Philipus Djap to the Mayor (Eddy Rumpoko) and the Head of Procurement Services (Edi Setiawan). Provision of car and project fees aims to facilitate the Filpus Djap won a number of projects in Batu city government. The corruption act originated from the request of Batu mayor to Philip Djap to buy a Toyota New Alphard for Rp. 1,600,000,000 (*one billion six hundred million rupiah*), which will be used to serve the mayor's guests visiting Batu City. The mayor's request was fulfilled by Philip Djap. Filipus Djap bought a Toyota New Alphard for Rp. 1,600,000,000, which is a cash advance payment of Rp. 300,000,000 (*three hundred million rupiah*) and the payment of the transfer payment of Rp. 1,300,000,000 (*one billion three hundred million rupiah*). Then, the car was given to Eddy Rumpoko. Because of this, Eddy Rumpoko gave Filipus Djap access to a number of project packages within the Batu City government.

After getting a Toyota New Alphard, Eddy Rumpoko held a meeting with Filipus Djap and Edi Setiawan in the mayor's office. The meeting discussed a number of project packages that would be won and implemented by companies under the control of Philip Djap. During the meeting, Eddy Rumpoko instructed Edi Setiawan to secure the project procurement process within the education office and the Procurement Services Department so that the projects were won and implemented by companies controlled by Filipus Djap, namely CV Amarta and PT Dailbana Prima. After the meeting, Filipus Djap intensively communicated with Edi Setiawan until Filipus Djap won six project packages in the education office in the 2017 budget policy of the local government.

Furthermore, based on the Supreme Court's ruling, it was revealed that Eddy Rumpoko and Edi Setiawan asked Filipus Djap to provide project fees, namely Eddy Rumpoko 10% and Edi Setiawan 3% of the Meubelair Block Office project procurement package. The request was approved by Philip Djap, but Filipus Djap objected to the 3% fee request for Edi Setiawan. Filipus Djap offered a 2% fee to Edi Setiawan, which was then agreed upon between Philip Djap and Edi Setiawan. After the realization of the Meubelair Block Office fund, Filipus Djap set aside the project money from the search fund, which is Rp. 500,000,000 for Eddy Rumpoko and Rp. 95,000,000 for Edi Setiawan. Then, Filipus Djap handed over the money to Eddy Rumpoko at the Mayor's Office of Batu and to Edi Setiawan at the Amarta Hills Hotel in Batu.

### **Practices of Rent-seeking in Fiscal Policymaking Processes**

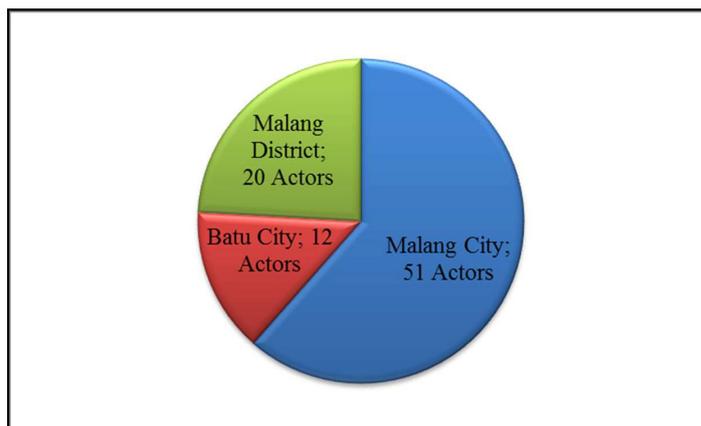
An examination of District Court decisions involving the criminal practice of budget corruption in Batu City, Malang City, and Malang Regency reveals that rent seeking practices were facilitated by informal political activities that influenced fiscal policy decisions. These included instances of corruption, lobbying, and collusive relationships between actors who possessed power, access, and authority within local government agencies (Figure 4).



**Figure 4. Informal Fiscal Policymaking Practices in Malang City, Malang Regency, and Batu City**

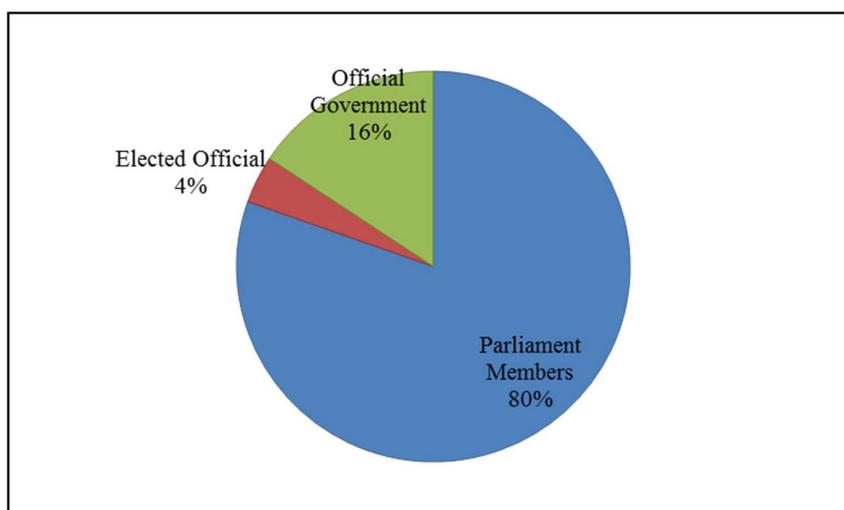
Malang City (81.51 percent ) had the highest value of informal fiscal policymaking, followed by Batu City (11.78 percent ) and Malang Regency (5.89 percent ). Malang City had the highest rate of collusive relationships between actors (38.27 percent), followed by Batu City (31.54 percent) and Malang Regency (30.17 percent ). Malang City had the highest rate of corruption (57.53 percent), followed by Malang Regency (20.58 percent) and Batu City (20.07 percent ). Lobbying was most prevalent in Malang City (96.48 percent), Batu City (1.88 percent), and Malang Regency (1.88 percent) (1.61 percent ). Malang City (74.80 percent) had the most political negotiations, followed by Malang Regency (15.05 percent) and Batu City (8.77 percent). Finally, Malang City (56.61 percent), Malang Regency (22.10 percent), and Batu City (21.27 percent ) had the highest prevalence of transactional political practices (Figure 4).

The data indicate that rent-seeking practices are more prevalent in Malang than in Malang Regency or Batu City, which is inextricably linked to the number and intensity of rent-seeking actors in the three regions. Additionally, the percentage of bribes in Malang is influenced by the number of actors involved and the high intensity of actors' involvement in Malang's bribery practices. Additionally, the corruption case in Malang stems from the practice of bribery when discussing Malang's budget policies. As a result, Malang has a higher rate of bribery than Malang Regency and Batu City (Figure 5).



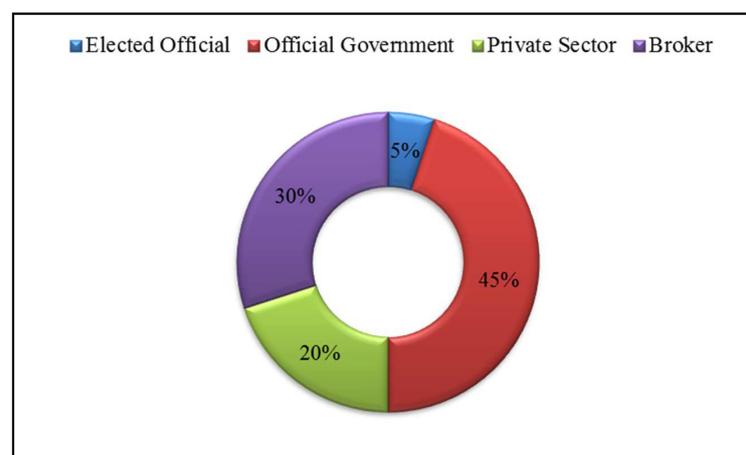
**Figure 5. Actors in Rent-Seeking in Fiscal Policymaking**

Figure 5 above shows that the number of actors in Malang City is greater than Malang Regency and Batu City. The fifty-one (51) actors involved in rent-seeking during fiscal policymaking in Malang City consisted of legislators (80%), the Mayor (4%), and bureaucrats (16%) (Figure 6). Local legislators thus played an important role in rent-seeking practices in Malang City, influencing and pressuring the Mayor and bureaucrats to accept and/or give bribes. Furthermore, legislators were actively involved in political lobbying, negotiations, collusion, and transactional politics. At the same time, the Mayor responded to these demands and aspirations by instructing bureaucrats to make bribes available to legislators.



**Figure 6. Actors in Rent-seeking in Fiscal Policymaking (Malang City)**

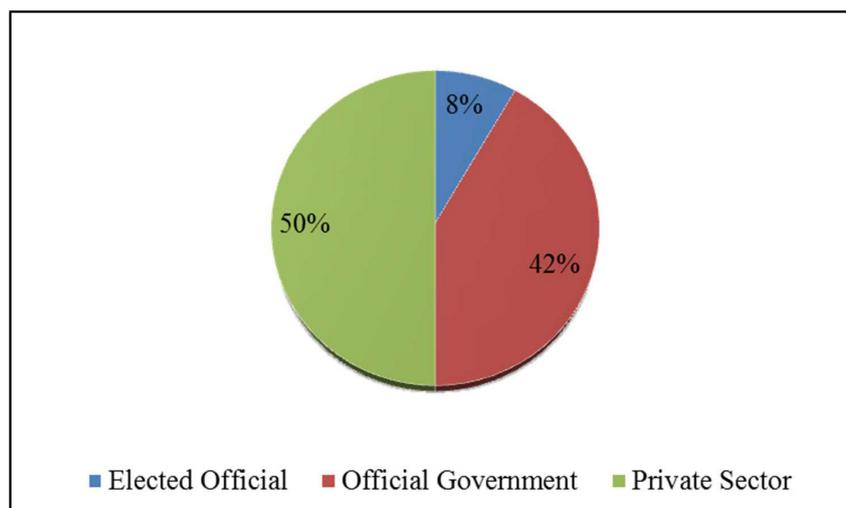
Meanwhile, in Malang Regency twenty-one (21) actors participated in rent-seeking practices, consisting of bureaucrats (45%), brokers (30%), private-sector actors (20%), and the Regent (5%) (Figure 7). Bureaucrats organized and controlled government projects, which they made available to private-sector actors who were allied with the Regent. Brokers served as project coordinators, facilitating communications and establishing relationships between private-sector actors, bureaucrats, and the Regent. Creating collusive relations, conducting negotiations, practicing transactional politics, and stimulating budget corruption, these brokers were prominent and dominant in rent-seeking practices in Malang Regency. Nonetheless, they remained under the control and power of the Regent.



**Figure 7. Actors in Rent-seeking in Fiscal Policymaking (Malang Regency)**

In Malang Regency, private-sector actors became involved in rent-seeking by giving bribes and remunerations to the Regent, brokers, and bureaucrats. Private-sector actors, bureaucrats, brokers, and the Regent established relations through negotiations, lobbying, and transactional politics, thereby causing bribery and corruption in fiscal policymaking.

Unlike in Malang City and Malang Regency, in Batu City rent-seeking practices did not involve many actors. Only twelve (12) actors were involved, consisting of the Mayor (8%), bureaucrats (42%), and private-sector actors (50%) (Figure 8). Rent-seeking practices were dominated by private-sector actors, who actively established collusive relations, conducted lobbying, and practiced transactional politics. It was these actors who drove the practices of bribery and corruption in Batu City.

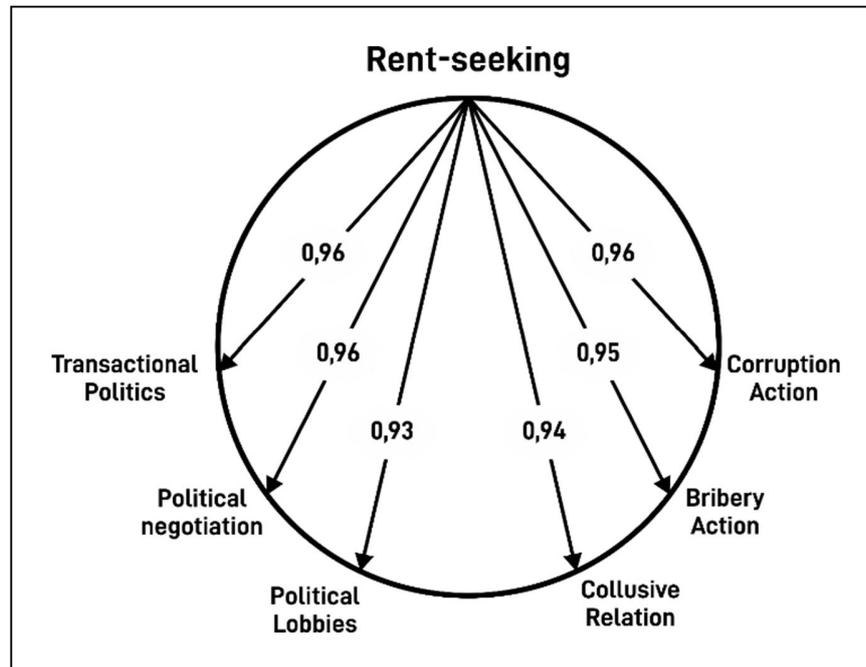


**Figure 8. Actors in Rent-seeking in Fiscal Policymaking (Batu City)**

These rent-seeking practices were supported by the Mayor of Batu, who required private-sector actors to provide him with financial remunerations and gratuities. Ultimately, the Mayor pressured local bureaucrats to provide his private-sector allies with access to government projects, and in return his allies bought him an automobile worth Rp. 500 million. For their part, bureaucrats followed these instructions, establishing communications and collusive relations with private-sector actors. Ultimately, these relationships fostered bribery and corruption.

#### The Correlation between Rent-Seeking Practices and Informal Fiscal Policymaking

As explained above, in Malang City, Malang Regency, and Batu City rent-seeking took the form of bribery, corruption, political lobbying, collusion, negotiations, and transactional politics. Consequently, these rent-seeking activities and practices influenced the informal fiscal policymaking. Using NVivo 12 Plus, cluster analysis was conducted using the Pearson correlation and coefficient. It found a strong positive correlation between rent-seeking and practices of corruption (0.99), as well as transactional politics (0.97), negotiation (0.96), bribery (0.95), collusive relations (0.94), and political lobbying (0.93) (figure 9).



**Figure 9. Cluster Analysis of Rent-Seeking Practices and Fiscal Policy using NVivo 12 Plus**

The strong positive correlation between rent-seeking and corruption shows that corruption resulted from rent-seeking practices in fiscal policymaking in Malang City, Malang Regency, and Batu City. Transactional politics, negotiations, bribery, collusive relations, and lobbying were also involved in rent-seeking, ultimately resulting in corruption. Corruption was also correlated with transactional politics (0.96), bribery (0.95), negotiation (0.95), collusive relations (0.93), and lobbying (0.91) (Table 1).

**Table 1. Cluster Analysis of Budget Corruption Practices using the Pearson Correlation Coefficient**

Cluster A	Cluster B	Pearson Correlation Coefficient
Corruption Action	Transactional Politics	0.965714
Corruption Action	Bribery	0.953801
Corruption Action	Political Negotiation	0.950422
Corruption Action	Collusive Relations	0.937422
Corruption Action	Political Lobbying	0.910554

Such a strong correlation indicates that transactional politics played a central role in budget corruption in Malang City, Malang Regency, and Batu City. As such, corruption stemmed directly from the transactionalism and political negotiation that was created through lobbying and bribery. This promoted rent-seeking behavior in local budget policy. Collusive relations, meanwhile, facilitated the passage of fiscal policies that advanced the interests of the elected officials, bureaucrats, private-sector actors, and brokers Malang City, Malang Regency, and Batu City.

## DISCUSSION

The rent-seeking practice in budget policymaking of Malang City, Malang Regency, and Batu City show that corruption action made possible by collusive relations between elected officials, bureaucrats, brokers, and private-sector actors, which were established through lobbying, negotiation, and transactionalism (Adi, 2018). In other words, the practices of corruption and bribery in Malang City, Malang Regency, and Batu City resulted from the processes of collusion, lobbying, negotiation, and transactional politics (Jaya, 2005). This shows that rent-seeking is not limited to fiscal activities such as bribery and corruption, but may also include such practices as collusion, lobbying, negotiation, and transactional politics (Heydemann 2004; Lambsdorff 2002; Ma'arif 2011).

In Malang City, Malang Regency, and Batu City, collusive relations were established by rent-seeking actors to mobilize, monopolize, and dominate local budget management. In Malang City, collusive relations were established between legislators, bureaucrats, and the Mayor through lobbying, negotiation, and transactionalism (Widanarto, 2017). Legislators lobbied the Mayor and asked him to prepare and provide them with bribes to ensure that his proposals would be approved. In response, the Mayor instructed local bureaucrats to prepare financial incentives and provide them to legislators (Lambsdorff, 2007). To raise money for these bribes, the regional secretary—in his official capacity as the coordinator of local bureaucrats—negotiated with the leaders of municipal government offices and raised funds from private-sector donors. After these fiscal incentives were provided, legislators approved the budget proposed by the Mayor (Berenschot & Mulder, 2019). The collusive relations between the Mayor, legislators, and bureaucrats promoted transactionalism, thereby creating an environment in which bribery and corruption could occur (Hillman, 2013).

In Malang Regency, collusive relations between the Regent, brokers, bureaucrats, and private-sector actors were used to control the provision of goods and services. More specifically, these collusive relations were used to manipulate the goods and services procurement process in order to benefit the Regent and the brokers, bureaucrats, and private-sector actors allied with him (Arifin & Purnomowati, 2017). These collusive relations were established through the practices of lobbying and negotiation. Brokers

served to link the Regent with private-sector allies, to coordinate government projects (Jaya, 2005), and to direct bureaucrats in their procurement of goods and services. Meanwhile, private-sector actors in Malang Regency provided financial incentives to brokers, bureaucrats, and the Regent, hoping to gain access to government projects. These transactional processes created fertile ground for bribery and corruption (Adi, 2018).

Meanwhile, in Batu City, collusive relations were established between the Mayor, bureaucrats, and entrepreneurs, being intended to help rent-seeking actors mobilize and monopolize the procurement of goods and services. This process involved lobbying and political negotiation between the Mayor and local entrepreneurs (Lambsdorff, 2002). In Batu City, the Mayor invited private-sector actors to become the government's partners in implementing its development projects; in return for access to these projects, these private-sector actors bought the Mayor a car worth Rp. 500 million, and provided bribes directly to bureaucrats and other government officials (Widanarto, 2017). Private-sector actors conducted lobbying and political negotiations with the people responsible for public procurements and for implementing government projects. This transactionalism promoted bribery and corruption in Batu City (Asriyadi 2019).

Rent-seeking practices in the fiscal policymaking processes of Malang City, Malang Regency, and Batu City involved activities such as corruption, bribery, collusion, lobbying, negotiation, and transactionalism. These practices had a particularly strong correlation with corruption, which underscores that corruption results from rent-seeking practices (lobbying, negotiation, and bribery) in local budget management, especially in the planning, implementation, and procurement stages (Jaya 2005; Lambsdorff 2002).

Rent-seeking practices are also strongly correlated with transactionalism, as manifested through the lobbying and negotiation activities of elected officials, legislators, bureaucrats, private-sector actors, and brokers (Lambsdorff 2002). Such transactional relations were marked by the exchange of political resources between actors, wherein private-sector actors prepared bribes, remunerations, and gratuities and provided them to elected officials, bureaucrats, and brokers. At the same time, elected officials instructed bureaucrats and brokers to ensure that government projects were tendered to their private-sector allies (Hayakawa & Venieris, 2017).

The exchange of resources between rent-seeking actors primarily occurred through the practice of bribery, i.e. private-sector actors' provision of bribes to elected officials, bureaucrats, and brokers in exchange for access to government projects (Heydemann, 2004). As such, rent-seeking practices were also strongly correlated with bribery, which in turn promoted the establishment of collusive relations between rent-seeking actors (Adi, 2018). Because lobbying also influenced the practices of bribery and corruption, rent-seeking was also strongly correlated with lobbying activities in Malang City, Malang Regency, and Batu City.

This discussion shows that the practices of corruption, bribery, collusion, lobbying, negotiation, and transactional politics were strongly interrelated in local budget management and fiscal policymaking in Malang City, Malang Regency, and Batu City (Lambsdorff 2002). In other words, the practice of corruption in these municipalities was one of a number of ways that elected official and bureaucrats abused their power and authority to enrich themselves and their allies (Arifin & Purnomowati, 2017). This also shows that the practices of bribery and corruption in these three municipalities cannot be separated from lobbying, negotiation, transactional politics, and collusive relations between elected officials, bureaucrats, and brokers (Adi 2018; Lambsdorff 2002).

## CONCLUSION

This study found that rent-seeking practices have been run by informal policymaking activities involved the practices of bribery, corruption, collusion, lobbying, negotiation, and transactional politics. Such activities were more prominent in Malang City than in Batu City and Malang Regency. In Malang City, the informal fiscal policymaking process was dominated by political organizations, as represented by members of parliament. Meanwhile, in Malang Regency, the process was dominated by government organizations, as seen by the active involvement of the regent and local bureaucrats. Finally, in Batu City, the informal fiscal policymaking process was dominated by private-sector actors, though the practice itself was rooted in the mayor's promotion of informal approaches to fiscal policymaking amongst the municipality's bureaucrats.

Rent-seeking correlated strongly with the practice of corruption, as well as transactional politics, negotiation, bribery, collusion, and lobbying. This indicates that the practice of corruption was an important part of rent-seeking activities during the fiscal policymaking of Malang City, Malang Regency, and Batu City. It also shows that corruption resulted from rent-seeking practices in fiscal policymaking in Malang City, Malang Regency, and Batu City. Transactional politics, negotiations, bribery, collusive relations, and lobbying were also involved in rent-seeking, ultimately resulting in corruption. Transactional relations, negotiation, collusion, bribery, and political lobbies between regional heads, bureaucracy, parliamentary politicians, brokers, and businessmen trigger corruption in the formulation of regional budget policies. It confirms that the practices of rent-seeking take place through informal budget policy formulation are, namely transactional relations, negotiation, collusion, bribery, and political lobbies that result in acts of corruption in budget policies.

Nonetheless, corruption was inexorably linked to other rent-seeking practices, which represent an abuse of power and authority by politicians, bureaucrats, and private-sector actors to advance their individual and collective interests. For a more comprehensive understanding of rent-seeking in fiscal policy, future studies should triangulate data from

Supreme Court documents with data from other sources (interviews, observations, and reviews of other documents).

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