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Subnational Favoritism in Development Grant Allocations: Empirical Evidence from Decentralized Indonesia

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Abstract:

Are public grant allocations biased toward the birth districts of governors, and, if so, what explains this favoritism? Using a unique panel data set of 410 Indonesian districts for the period 2005–2013, I exploit the discretionary nature of a government grant and a large amount of asynchronous local direct elections to investigate whether the birthplace of the provincial governor determines fund allocation to the district level. I show that birth districts of incumbent governors receive significantly larger shares of discretionary grants compared with the other districts within a province. I find that local favoritism is driven by governors with political history in the district office of their birth district and is limited by local electoral accountability. Classical pork-barrel politics, however, as re-election motives or formal political party ties to the district administration, do not explain local favoritism. These results illustrate the importance of non-discretionary institutional grant design and local democratization reforms in Indonesia's political system. The country is a young democracy characterized by low ideological cleavages and little party loyalty. These features characterize a number of developing countries, yet contrast sharply to the countries for which subnational favoritism has been analyzed.

Keywords:

Fiscal Decentralization; Subnational Favoritism; Southeast-Asia; Indonesia

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1. Introduction

Birthplace favoritism, or the allocation of public funds based on the origin of a politician, induces development costs for regions without such a personal connection (Hodler & Raschky 2014). Despite its negative effects on local development, this “form of rent-seeking and possibly corruption” (ibid.: 1) influences public fund allocation worldwide—from the preferential allocation of EU agricultural funds toward the home countries of EU officials (Gehring & Schneider 2018) to the biased aid money flows toward the birth regions of political leaders in Africa (Dreher et al. 2019). This misuse of public office can erode political competition, particularly in countries with a lower institutional quality (Burgess et al. 2015; Hodler & Raschky 2014), and increase the demand to investigate informal ties more closely (World Bank 2017b). Yet, the existing empirical evidence on birthplace favoritism is still limited. In particular, the motivations behind birthplace favoritism have rarely been analyzed. In one of the few studies on birthplace favoritism, Do et al. (2017: 26) conclude that “it remains an open question whether social preferences or strategic behaviors are more important in explaining favoritism across the world.” This paper contributes an answer to this question. It tests if birthplace favoritism in Indonesia exists and it investigates whether strategic re-election interests or other motivations of local governors explain this birth district favoritism.

There is conflicting evidence on the question of whether strategic re-election interests motivate birthplace favoritism. The classical pork-barrel literature attributes public spending allocation to the strategic behavior of political elites, investing in voters in order to secure re-election (Cox & McCubbins 1986; Dixit & Londregan 1996; Lindbeck & Weibull 1987). Empirical evidence shows that birthplace favoritism is also particularly strong in the run-up to elections, especially if the elections are more competitive (Dreher et al. 2019). This suggests that strategic re-election concerns of politicians also drive birthplace favoritism. On the other hand, there are studies showing the existence of birthplace favoritism when electoral concerns do not play a role. For example, Do et al. (2017) show that birthplace favoritism even exists in authoritarian Vietnam where there is no competition between political parties and thus no need to invest in votes for re-election purposes. Fiva & Halse (2016) find that politicians in Norway favor their birthplace even if they have no electoral incentive; here, formal political ties are a main driver of favoritism. Most of this empirical evidence on birthplace favoritism, however, cannot simply be transferred to other parts of the world. Formal political party ties, for example, often have a weaker influence on public fund allocation, as is the case in Indonesia (Gonschorek et al. 2018). Moreover, in many young democracies including Indonesia, local electoral competition can be fierce (Mietzner 2018), in contrast to a one-party system like Vietnam. Consequently, there is a lack of empirical evidence analyzing whether strategic re-election concerns drive favoritism in young democratic countries of the developing world.

There is little empirical evidence on other motivations for birthplace favoritism apart from re-election concerns. However, one can imagine other motivations: Politicians might allocate more funds to their home regions because of personal attachment or to support their business, their family, or other clan members in their home region. They might also want to lay the groundwork for a local political career in their birth district for the time after their employment in higher provincial government office, as Carozzi & Repetto (2016) show for

Italy. Politicians might also favor their home regions because they know the local circumstances better than those in other regions, as Fiva & Halse (2016) show for Norway. To the best of my knowledge, there is no other systematic quantitative empirical evidence testing for these alternative motivations. This is especially true of developing countries.

No empirical evidence has been gathered that focuses on birthplace favoritism of local politicians in young democracies in the developing world. In contrast to cross-country studies, within-country studies of distributive politics suffer from lower external validity (Golden & Min 2013). However, analyzing politicians within the same country, or province, allows one to compare incentives for birth district favoritism while holding the political system and other incentives constant. Moreover, most extant studies—both within-country and cross-country only analyze national level politicians and not local government officials, although favoritism is very common in subnational politics. Indeed, local officials might have an even stronger connection to their home regions in their daily political lives than national politicians. This is particularly true in young democracies, where informal practices are still often more prevalent (Keefer 2007). In fiscally decentralized countries, local government officials also often have substantial discretion in public fund allocation (Khemani 2010; Albertus 2015) and consequently crucial influence on local development (Faguet 2014; Weingast 2014). Despite this, empirical studies of birth district favoritism at the subnational level are still lacking, which can be most likely explained by data limitations, in particular for developing countries.

My data collection from Indonesia allows me to zoom in on the subnational dimension of favoritism and to narrow this gap in empirical evidence on birthplace favoritism in developing countries. Even though the informal nature of birth district favoritism makes it challenging to systematically measure all its possible motivations, the analysis presented in this paper tests or discusses a variety of prominent hypotheses in order to obtain a more informed interpretation of the motivations of birth district favoritism in Indonesia.

Indonesia, the third-largest democracy in the world,¹ successfully implemented large-scale fiscal decentralization reforms to improve its public service delivery at the local level beginning in 1999 (Schulze & Sjahrir 2014). Yet, there remain severe challenges to the country's intergovernmental fiscal transfer system—introduced as part of its fiscal decentralization reforms—such as the low quality of local spending (Sjahrir et al. 2014; World Bank 2017a; World Bank 2020), clientelist practices, and elite capture (Aspinall & Berenschot 2019, Berenschot & Mulder 2019). Moreover, the (fiscal) decentralization and democratization reforms have shifted informal deal-making downward to lower government levels (Hadiz 2010). All of this combined hampers local development (World Bank 2017b; Berenschot & Mulder 2019) across a larger amount of municipalities and cities with persistent differences in local development.² The analysis of the informal dimensions of subnational public fund allocation is thus critical to improve the effectiveness of Indonesia's intergovernmental transfer system, which finances local public service delivery for 264

¹ Despite democratic backsliding in recent years (Aspinall & Mietzner 2019).

² The differences in poverty rates across Indonesian cities and municipalities in 2004 spanned from 1.41 to 54.94. In 2018, they still spanned from 1.68 percent to 43.49 percent, with a mean of 12.24 and a standard deviation of 7.73. *Data Source:* World Bank, Indonesia Database for Policy and Economic Research (INDO-DAPOER).

million inhabitants, and ultimately local development.

This paper is the first to empirically test for subnational favoritism in public grant allocations by local government officials in Indonesia. The literature on the country's intergovernmental transfer system has to date focused exclusively on its formula-based transfers, which bar discretionary decision-making at the local level (*inter alia*, Brodjonegoro & Martinez-Vazquez 2005). Other empirical studies have focused on the political-economic motivations of the central government with regard to the allocation of central discretionary grants (Gonschorek et al. 2018) or on the variation and development consequences of political clientelism across Indonesia (Berenschot & Mulder, 2019).

This lack of empirical evidence is surprising given the anecdotal evidence indicating that personal motives of subnational government officials influence the distribution of public funds in Indonesia (Aspinall & Sukmajati 2016; Aspinall & Berenschot 2019). As Aspinall and Berenschot (2019: 31) observe, "clientelism occurs mostly through informal networks rather than through parties." Informal ties based on a governor's birthplace could be one of these informal networks that influence the allocation of grants.

Indonesia's decentralized fiscal system allows me to exploit the discretionary nature of a particular subnational funding scheme, the "Dana Dekonsentrasi" (or Dekon, DK) grant. Under this scheme, provincial governors receive grants from the central government to support public service delivery at the lower district level. DK grants are the largest source of discretionary funds allocated from the provincial to the district level. From 2005 to 2013, they accounted for approximately US\$15.5 billion allocated to the district level or, on average, approximately 5 percent of a district's revenue.

Using a Tobit model on an unbalanced panel data set, which includes 410 districts for the period 2005–2013, I investigate whether governors allocate more grants to their birth district. Additionally, I assess potential explanations for this birth district favoritism; namely, the re-election interest of the governor, lack of local electoral accountability, and the influence of ties based on the governor's former political career in a district. I also test a variety of other competing motives that may influence subnational grant allocation, for example the formal political party alignment between a district head and the provincial governor. To identify birthplace favoritism, I exploit data from direct local elections for different subnational government offices. These local elections, which were gradually introduced starting in 2005, are asynchronous to the national elections and have induced a large variety of changes in personal and political ties between different subnational government levels across Indonesia.

My results show that the birth districts of governors receive significantly larger shares of discretionary development grants than the other districts within their province. The results also show that this subnational birth district favoritism is not explained by re-election motives and limited by the local electoral accountability due to competitive local direct elections. Instead, the results indicate that having a political history as a district head in the birth district drives favoritism. This cannot be fully explained by better professional local knowledge of and more connections in this district, as I do not find the same effect among governors that also used to be district heads, but outside their birth district. Comparing discretionary and formula-based subnational grant allocation schemes (for the same set of governors and years), I also show that there is no preferential treatment of a governor's birth

district if the discretionary scope of the provincial governor is reduced. These results clearly illustrate the importance of local electoral accountability and institutional grant design to limit subnational fund manipulation in a decentralized fiscal system.

The remainder of this paper proceeds as follows: Section Two provides a brief background of Indonesia's local political system and the fiscal structure relevant for this analysis. Section Three discusses the theoretical arguments for the determinants of subnational government transfers in decentralized systems, relates them to the Indonesian context, and presents four testable hypotheses. Section Four describes the data, the empirical approach, the results, and the robustness checks. Section Five concludes the paper.

2. Institutional Background

2.1 Local Elections

In Indonesia, provincial governors, mayors (*wali kota*), and regents (*bupati*) have been directly elected by popular vote since 2005 (Law No. 32/2004).³ I will call both mayors and regents *district heads* throughout this paper. Both types of local officials have the same legal responsibilities and authority at the same administrative level below the province level. District head and provincial gubernatorial elections occur on different dates⁴ that are independent from the timing of the national executive and legislative elections. These local elections are held asynchronously at the conclusion of the five-year term, which is a legacy from the Suharto era.⁵ This asynchronous nature of local elections allows me to exploit the changes of the personal and political ties between different subnational levels of government and its effect on discretionary transfer allocations.

2.2 Fiscal Transfers

Indonesia has three major levels of government relevant for my analysis—the central, provincial, and municipal (*kabupaten*) or city (*kota*) level. The central government is responsible for law enforcement, the judiciary, monetary and macroeconomic policies, religious affairs, foreign relations, security policy, and defense. The subnational governments (provincial and municipal/city) are responsible for all remaining functions, especially for decentralized public service provision in the education, health, and infrastructure sectors. Municipality (*kabupaten*) and city (*kota*) are at the same administrative level below the province level, hence I will refer to both of these subnational administrative units as *districts* throughout this paper. To provide these public services, districts receive the majority of their revenue through transfers from the center (Lewis 2014). In 2016, central government transfers accounted for more than 80 percent of district and approximately 40 percent of

³ Before 2005, governors were appointed, and they were later indirectly elected by the local provincial legislature.

⁴ Since 2015, local elections of district heads and governors are held in a synchronized manner, on the same day, but not within my observation period.

⁵ Before 1998, local government officials were appointed at different points in time. After Suharto's demise in 1998, the incumbent local government officials were allowed to serve out their terms; then, in the following years, they were appointed, and later, they were elected by the local legislature at the time of their term end. Hence, with the implementation of local direct elections in 2005, not all districts started to elect their heads through direct popular elections. This happened at different points in time.

provincial revenue (Gonschorek & Schulze 2018). Provincial governments have limited responsibilities compared with district governments; they are mostly responsible for supervision and the management of cross-district cooperation.

Indonesia's major inter-government transfers (Dana Alokasi Umum, DAU; Dana Bagi Hasil, DBH; and Dana Alokasi Khusus, DAK) are non-discretionary. They are determined by tax revenue generated at the subnational level, by specific criteria, or by a formula.⁶ The general allocation grant (DAU) is a non-earmarked, formula-based general purpose grant and the most crucial source of subnational government revenue (Gonschorek & Schulze 2018). The DAU formula considers the fiscal capacity and fiscal needs of the district.⁷ The specific allocation grant (DAK) is earmarked for national priorities. Its allocation is determined by general criteria (*e.g.*, financial capacity of a subnational government), technical criteria (*e.g.*, guidelines established by the responsible line ministry), and special criteria (*e.g.*, specific characteristics of a region). The allocations of Indonesia's tax and natural resource revenue-sharing system (DBH) are based on revenues generated by natural resources, personal income tax, and property tax at the subnational government level (Agustina et al. 2012).

Compared with these non-discretionary transfers, Deconcentration Funds (DK) is a discretionary central government grant under the authority of the central government⁸ but co-administered by the provincial governors and spent at the district level.⁹ DK grants are the largest source of discretionary funds allocated from the provincial to the district level in Indonesia. These funds are supposed to be used for tasks of a non-physical nature,¹⁰ for example awareness-raising campaigns for health concerns, rather than for visible infrastructure. By law, DK grants should be allocated in accordance to general principals, namely a "harmonious national and regional development."¹¹ Yet specific allocation criteria have not been defined by the government. Provincial governors can therefore allocate these funds in a discretionary manner. DK grants are likely to be an even more crucial avenue to influence subnational public funding allocation for provincial governors because governors generally have limited budget allocation authority, compared with district and village heads (Aspinall & Berenschot 2019).

Descriptive statistics suggest that the birth districts of governors receive beneficial treatment in the distribution of subnational discretionary government grants. They receive on average more than four and a half times the amount of DK grants per capita than the other districts (Table 1). Birth districts of provincial governors receive an average share of 21.33

⁶ Law No. 33/2004 on fiscal decentralization, Law No. 32/2004 on subnational governance, and Law No. 25/1999 on fiscal balance between central government and regions. There are also Special Autonomy Funds (for Aceh and Papua) based on Law No. 35/2008, Law No. 11/2006, and Law No. 21/2001, Adjustment Funds for financial ad hoc assistance, a special incentive grant (DID), Hibah-transfers for assistance in the infrastructure sector, and village funds (*Dana Desa*).

⁷ For details, see Gonschorek & Schulze (2018).

⁸ Since 2001, the line ministries of the central government not responsible for the five "core" responsibilities—defense, justice, foreign affairs, fiscal/monetary policy, and religion—must delegate the implementation of their tasks to subnational governments, which act as representatives of the central government (Government Regulation No. 52/2001, Government Regulation No. 7/2008, and Government Regulation No.106/2000.)

⁹ Government Regulation 7/2008, Article 6, paragraph 2.

¹⁰ Government Regulation 7/2008.

¹¹ *Ibid.*

percent of all *DK* grants allocated within a province, compared with approximately 4.05 percent for the non-birth districts (Table 2).

Table 1

| Average DK Per Capita (in IDR), 2005–2013 | | | | | |
|--|-------|------------|------------|-----|--------------|
| | Count | mean | sd | min | max |
| Non-Birth District | 3300 | 35,718.99 | 203,597.00 | 0 | 3,197,243.00 |
| Birth District | 225 | 163,262.10 | 432,183.90 | 0 | 3,161,265.00 |
| <i>Total</i> | 3525 | 43,860.04 | 227,266.70 | 0 | 3,197,243.00 |
| <i>N</i> | 3525 | | | | |

Source: Author's calculation

Table 2

| Share of DK (in %), 2005–2013 | | | | | |
|--------------------------------------|-------|-------|-------|------|--------|
| | Count | mean | sd | min | max |
| Non-Birth District | 3300 | 4.05 | 18.45 | 0.00 | 100.00 |
| Birth District | 225 | 21.33 | 39.41 | 0.00 | 100.00 |
| <i>Total</i> | 3525 | 5.15 | 20.86 | 0.00 | 100.00 |
| <i>N</i> | 3525 | | | | |

Source: Author's calculation

3. Theoretical Considerations

In theory, various factors could explain the allocation differences between districts. Grants allocated from the provincial government to the districts allow a country to minimize the costs of decentralization—such as adverse external effects or fiscal inequity—while benefitting from the advantages of decentralization (Boadway 2007). Theoretically, decentralization is beneficial for local governance and public service delivery because the knowledge of local preferences allows for better preference matching across a geographically heterogeneous population. Local governments have informational advantages over upper government levels, and the participation of the local constituency is higher because local government actions are more transparent to the local electorate (Oates 1972). Decentralization is also a laboratory for policy solutions (Hayek 1945) and can promote competition between local governments, which increases their performance (Besely & Case 1995). Mobile individuals in a decentralized system can theoretically move to local jurisdictions offering the best mix of public services and taxes (Tiebout 1956). This mobility, however, also creates negative externalities. It can, for example, bias public expenditure composition (Keen & Marchand 1997) or lead to the erosion of local tax bases (Wilson 1999)

if local governments do not consider the effects of their policies. Oates (1999) argues that government transfers have the normative objectives of fiscal equalization and the internalization of spillovers of local public services to ensure national public service standards.¹²

Consequently, subnational grants in Indonesia should—theoretically—also account for differences in fiscal capacity and different development levels between districts. Indeed, Government Regulation 7/2008 on “Deconcentration and Co-Administration Funds” stipulates that the financial capacity of a district and its overall development level should determine DK grant allocations. I control for these normative determinants using data on the local revenue of Indonesian districts from non-discretionary sources (*e.g.*, own source revenue, formula-based transfers) and data on the socioeconomic development of the districts (based on a district’s gross domestic product [GDP] per capita, and share of poor people). Based on these data, I calculate a relative measure for the fiscal capacity of a district and its relative socioeconomic development compared with the other districts of the province because these criteria should have a significant influence on DK grant allocations within a province (section 4).

Apart from this normative explanation, transfers could also be influenced by re-election motives as subnational transfers could be regarded as a means to persuade voters to vote for the provincial incumbent (governor). This politico-economic perspective considers transfers as influenced by tactical and strategic considerations of government officials to maximize votes (Grossman 1994). Democratically elected politicians attempt to maximize the number of votes by channeling transfers to politically important regions (Cox & McCubbins 1986; Lindbeck & Weibull 1987). The electorate votes for the candidate who provides them with the highest utility, which is a combination of the voter’s ideological preference and the voter’s consumption level (Dixit & Londregan 1996). Transfers increase the utility of the voter, hence they may increase an incumbent’s voter share.

In the literature, there are two competing theories regarding the groups an incumbent may cater to: swing voters (Lindbeck & Weibull 1987) or core constituencies (Cox & McCubbins 1986). Both theories focus on different aspects of the political investment process made by incumbents. The core voter hypothesis argues that the electoral responsiveness of voters to transfers is only partly known, making them a risky political investment. Risk-averse incumbents will therefore channel their resources predominantly to their core voters, whose responsiveness to this political investment is better known (Cox & McCubbins 1986). Moreover, the preferences of core voters are better known and can therefore be targeted more effectively (Dixit & Londregan 1996). The swing voter hypothesis argues that incumbents focus on voters with only weak ideological preferences for the different candidates, and who are therefore considered easy to persuade. Groups with strong preferences, on the other hand, need not or cannot easily be persuaded. Therefore, the incumbent will focus on groups with weak party preferences, *i.e.*, the swing voters (Lindbeck & Weibull 1987). Applied to the Indonesian context, characterized by low ideological

¹² See also Boadway (2007).

differences between parties, low party loyalty of voters, the importance of money politics, and popular gubernatorial elections at the district level, the swing voter theory implies that transfers are targeted at districts that did not vote in large numbers for the incumbent but can be persuaded to do so through the allocation of funds.

Anecdotal evidence has illustrated that political considerations influence the distribution of public funds in Indonesia (Aspinall & Sukmajati 2016; Aspinall & Berenschot 2019). Gonschorek et al. (2018) also show that central discretionary grants (tugas pembantuan, TP), which are directly allocated by the central government to the district level, are significantly influenced by the political considerations of the central government. They demonstrate that the central government allocated significantly more discretionary grants to districts with low voter support in the past presidential election.

Empirical evidence shows that birth district favoritism, however, is often not driven by re-election considerations (Carozzi & Repetto 2016; Fiva & Halse 2016). Gonschorek et al. (2018) show for Indonesia that the birth district of the president receives significantly larger central discretionary grants even if the president cannot be reelected. These results provide an indication that re-election interests in Indonesia might not explain birth district favoritism. This conclusion would also be in line with empirical evidence from other countries.¹³ However, whether birth district favoritism is an issue in Indonesia and if so, whether it is driven by re-election motives, remain empirical questions for Indonesia. In Gonschorek et al. (2018), the birth district of the president was the single outlier they had to control for (same president, one birth district). Their analysis could therefore not provide empirical proof of birth district favoritism in Indonesia or whether it is explained by re-election interests. This paper answers both of these questions.

The analysis of the subnational level allows me to use a variety of birth districts of the different provincial governors. Moreover, the governors' involvement in the administration of the DK grants provides a unique institutional grant design to test for the existence of birth district favoritism. I test if a birth district bias exists by adding a dummy variable equal to one for all the years a district is overseen by a provincial governor born in the district. To test if birth district favoritism in DK allocations is motivated by re-election interests,¹⁴ I utilize the fact that the Indonesian constitution stipulates a two-term limit for governors. If governors allocate more grants to their birth district for re-election purposes, this should

¹³ In Italy, birth places of national parliament members receive significantly larger per capita transfers from the center, even if they are not part of a parliamentarian's electoral district (Carozzi & Repetto 2016). For Norway, Fiva & Halse (2016) find a hometown bias in investment funding by regional council members if they represent the political party in power, even if they have no electoral incentive.

¹⁴ As DK grants are supposed to be spent on tasks of non-physical nature (section 2), they are less visible to voters and potentially less useful for vote maximization than large visible infrastructure projects (Muraközy & Telegdy 2016). By contrast, their non-physical nature allows them to show on-ground results quickly and makes them potentially more fungible for spending purposes of any other, also physical, nature and hence a potential political tool.

only prevail in the first term of the governor when he/she can be reelected, not in his/her second and final term (section 4).

Based on the preceding theoretical reflections, I formulate the first two hypotheses:

Hypothesis 1 (“Birth Districts Favoritism”):

Discretionary grants are biased in favor of the birth districts of provincial governors.

Hypothesis 2 (“Investment in Votes”):

The birth district bias is not driven by re-election interests of the provincial governor.

Birth district favoritism could also be interpreted as a repayment to loyal supporters.¹⁵ The birth district of a governor is more likely an electoral core supporter of the governor than a stronghold of the opposition, the definition of a swing-district in Indonesian (see above). The birthplace of a politician often provides important personal networks in Indonesian electoral politics (Muhtadi 2019). Drawing on extensive ethnographic research in Indonesia, Aspinall et al. (2017: 31) observe that “most candidates viewed their home village (and, if they were running for a national or provincial seat, their home sub-district and district), along with other areas where they had strong personal connections (*e.g.*, a spouse’s home village) as their core area.”

If this repayment to loyal supporters were an investment in voters, however, we should see it in the first term, when those loyal voters can still be electorally beneficial in the next local election. If we find birth district favoritism only in the second term, this potential repayment to loyal supports cannot be an investment in voters as the governor is not running for re-election anymore. Governors in their first term might also have limited incentives to allocate transfers to their (already) loyal supports at home as they still have to maximize voters across the whole province. In this case, favors to loyal supporters in the birth district would only be delivered once a governor is not electorally accountable to the whole province any more, that is, in his/her second term.

Facing a competitive local election could reduce a governor’s incentive to allocate his/her limited public funds to the birth district. In theory, in a decentralized system, direct local elections better account for different local preferences and increase local electoral accountability (*inter alia*, Tommasi & Weinschelbaum 2007), potentially decreasing local favoritism. Direct local elections in Indonesia have induced intense competition among

¹⁵ Unfortunately, it is not possible to test if birth districts are the electoral core supporters of a governor. Election results for governors at the municipality/city (*kabupaten/kota*) level are not available, only at the provincial level. This assessment on the data availability is based on multiple personal visits (years 2017, 2018, 2019), and various data requests (years 2017, 2018, 2019, 2020) at the Indonesian Election Commission (KPU) in Jakarta. Latest correspondence about these data with KPU was in March and June 2020.

candidates (Mietzner 2018). To win the next election, provincial governors might not consider it an optimal strategy to invest in votes in their birth district because they must maximize votes in the whole province. This reasoning leads to

Hypothesis 3 (“Local Electoral Accountability”), which reads as follows:

The birth district bias is lower if the local electoral accountability of provincial governors is higher.

The sample is split into first- and second-term governors in order to test for the influence of electoral accountability. This allows me to analyze whether governors who are still accountable to all voters behave differently from those who are not (section 4). Lewis et al. (2020) show that second term district heads in Indonesia manage their budget less prudently, and suggest that the lack of electoral incentives explains this disappointing second-term performance. In contrast, electoral accountability might also not limit birth district favoritism in the case of Indonesia. At the beginning of the observation period (2005), Indonesia had been a democracy for only seven years, and direct local elections had just been introduced. Consequently, electoral accountability may not have yet been a main factor in the calculus of provincial governors, who were new to the electoral game.

In addition, incumbent governors might invest in a local-level career in their birth district for the time after their term(s) in higher level provincial office. Carozzi & Repetto (2016) find evidence for this in national congress members in Italy. The investment in a future local political career, however, is highly unlikely for governors in Indonesia. This is because Indonesian governors usually end their professional careers in the governor’s office or take up a higher political office (*e.g.* as members of the national parliament or ministers); others change to the private sector.

Governors who were born in the district where they started their political career might feel even more strongly attached to this district. This could also be the case for Indonesian governors as a substantial number of governors held district head positions before becoming governor. As the Indonesian state does not provide campaign financing support, many local candidates depend on private donors whom they might feel obliged to reward after winning an election. If a substantial share of campaign funding stems from a governor’s corporate and/or family network in his/her birth district, this could increase his/her obligations to those districts.¹⁶ This is even more likely if his/her local political career started in the birth district. From these theoretical considerations, I derive

¹⁶ There is no reliable information on campaign spending and donor composition available for Indonesian governors. For more information on Indonesia’s nontransparent donor structure, see Mietzner (2015).

Hypothesis 4 (“Local Political History”):

The birth district bias is higher if a governor has a local political history in the district head’s office.

At the same time, those governors also have a better professional knowledge of the local circumstances or a stronger professional network in their birth district. Fiva & Halse (2016) show this for regional representatives in Norway, where the birth district bias cannot be explained by future career concerns of officials but by their knowledge of local circumstances.

I test this hypothesis using a unique hand-collected data set on the career paths of governors in Indonesia. I generate a dummy variable equal to one if an incumbent governor was previously the district head of a district and interact this measure for local political history with the birth district dummy (section 4). Using this interaction term also allows me to test for the additional effects of being a governor’s birth district, while holding constant professional local knowledge and connections, solely based on former local position. Governors that were district heads outside their birth district will have at least similar professional connections to and knowledge of a district compared to governors that filled a district head position in their birth district. Consequently, if these birth districts ultimately receive larger shares of grants, this cannot *only* be based on the governor’s professional connections or his/her professional knowledge of the local situation. Instead, an additional type of personal connection or obligations to the birth district must be in play (more on this in section 4).

4. Empirical Analysis

4.1 Data

To test these four hypotheses on birth district favoritism in subnational public grant allocation, I collected a unique unbalanced panel dataset of 410 Indonesian districts for the period 2005–2013, representing approximately 90 percent of Indonesia’s population in 2013 and including 28 of its current 34 provinces. The special autonomous province Aceh Darussalam is not included.¹⁷ I also excluded the province DKI Jakarta; it has special legal status as the capital region and its districts are not autonomous. The province of Yogyakarta was excluded because it is a special autonomous region governed by a sultan; the provinces Papua, West Papua, and Kalimantan Utara were excluded based on data restrictions.

The primary data sources were the Indonesian Database for Policy and Economic Research (INDO-DAPOER) of the World Bank Indonesia, the Ministry of Home Affairs, the Ministry of Finance, and the Statistical Office (BPS) of Indonesia. The bibliographical information on governors was collected from Indonesia’s Election Commission (KPU), the online encyclopedias *TokohIndonesia* and *Merdeka*, and various newspaper archives. The sample

¹⁷ According to Law No. 35 (2008), Law No. 11 (2006), and Law No. 21 (2001), districts in these regions receive special autonomy funds.

contains sixty-six different governors from 2004 to 2013. Fifty-two of them were governors of provinces containing their birth districts. These fifty-two governors originate from forty-seven different districts, most of them do not originate from the provincial capital district (Figure 1).

4.2 Empirical Model

The dependent variable is the share of DK grants in district d at time t of all DK grants allocated to all districts ($ShareDK_{dt}$) in a province. Many districts receive a very low share or even zero of the discretionary grants allocated within a province.¹⁸ To account for this large number of zeros in the dependent variable, I use a Tobit model.¹⁹

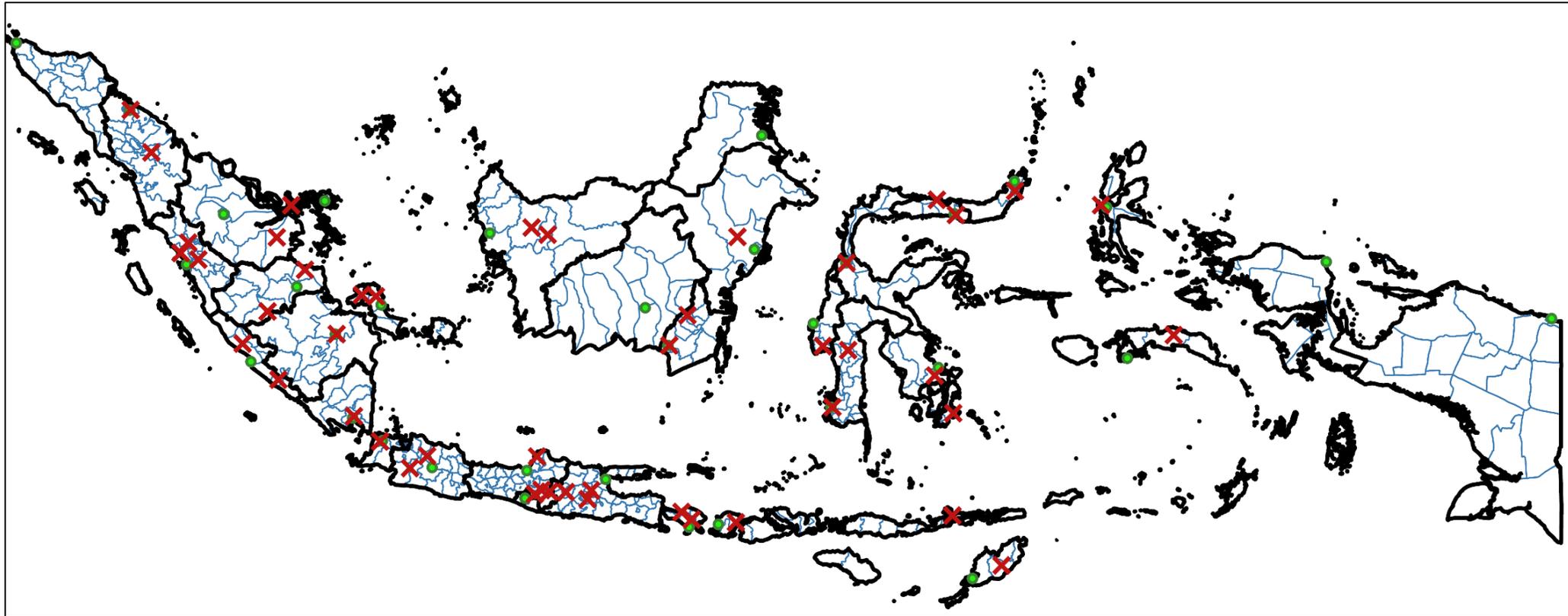
The baseline controls for the relative budgetary capacity of a district from other (non-discretionary) revenue sources and the relative overall socioeconomic development of a district within a province.²⁰ I lag time-variant variables by one year because budgetary decisions are made one year in advance. $FCAP_{it-1}$ measures the relative budgetary capacity of a district as its share of the total transfers to all districts within a province from other (non-discretionary) revenue sources (own source revenue, DAU, DBH, and DAK).

¹⁸ 67.3 percent of observations have DK shares of zero, and 32.7 percent have DK shares above zero.

¹⁹ Rescaling my dependent variable DK share to values between 0 and 1 and using a fractional logit model does not change the results.

²⁰ From a normative perspective, within provincial differences in the fiscal capacity and socioeconomic development levels of districts should determine transfer allocation (Oates 1999), see section 3.

Figure 1



Note: Black lines indicate provincial boundaries, blue lines district boundaries. Red crosses mark the birth district of provincial governors (2004–2013), if they were born in the province of which they are governor. Green dots mark the location of provincial capitals/provincial capital districts. The most eastern provinces of Papua and West Papua were excluded because of data restrictions. The most western province, Aceh, was excluded because of its special autonomous status.

Source: Author's illustration (QGIS).

DEV_{dt-1} controls for a district's relative socioeconomic development within a province. It stands for two variables: a dummy equal to one if a district's real GDP per capita (excluding oil and gas) is below the province average, and the share of the population below the poverty line a district accounts for within a province. I also control for the relative size of a district within a province measured by its share of the province's area size and its population share ($SIZE_{dt-1}$). I control for the total number of districts within a province p (ND_{pt}) in year t because this influences the possible allocation shares between all districts within a province. Year fixed effects ($DmyYear_t$) account for common macroeconomic shocks and provincial dummies ($DmyProvince_d$) for unobservable time-constant factors at the province level, the omitted category is Bali Province. I add a dummy $DmyCity_d$ equal to one if a district is a city-district (*kota*) because cities, as urban centers, are likely to differ in monetary needs from a rural regency (*kabupaten*).

Provincial governor offices are located in provincial capitals; hence, I control for this special status of provincial capital districts and add a dummy for provincial capitals ($DmyProvincialCapitalDistrict_d$). Because some districts split during the observation period, I add a dummy ($DmyAnySplit_d$) equal to one if a district lost parts of its administrative area within the observation period. I also add a dummy for coastal regions ($DmyCoastline_d$) to account for the difference between landlocked districts and those with sea access. This dummy is equal to one if districts have sea access and zero otherwise. ε_{dt} is the error term. Standard errors are clustered at the district level to account for serial correlation of unobserved variables within a district. Based on this, my main regression equation is:

$$(1) \quad ShareDK_{dt} = \alpha_1 FCAP_{dt-1} + \alpha_2 DEV_{dt-1} + \beta DmyBirth_{dt-1} + \gamma_1 DmyCity_d + \gamma_2 SIZE_{dt-1} + \gamma_3 ND_{pt} + \gamma_4 DmyCoastline_d + \gamma_5 DmyProvincialCapitalDistrict_d + \gamma_6 DmyAnySplit_d + \gamma_7 DmyYear_t + \gamma_8 DmyProvince_d + \varepsilon_{dt}$$

Next, I add the main variable of interest to test for the possible effect of being the birth district of a governor, the dummy variable $dmyBirth_{dt-1}$, which is equal to one for all years in which the governor of a province at $t-1$ was born in district d within this province, and zero otherwise.

4.3 Empirical Results

The results show that the birth districts of an incumbent governor receive approximately nine percentage points more of the DK grants allocated within a province compared to the districts that do not have this connection with an incumbent governor (Table 3). Thus, I observe a significant bias in transfer allocation, as well as in magnitude, almost twice as high as the average DK share a district receives (5.15 percent, Table 2).

The relative fiscal capacity of a district within a province, however, does not significantly determine grant allocations, nor does a district's relative socioeconomic development need. Districts with a GDP per capita below provincial average and with relatively lower fiscal

capacity from other funding sources do not receive significantly larger shares of grants. Districts with a larger share of poor people receive less. Time-variant characteristics of a district's development and fiscal capacity are not observed to influence subnational transfer allocations; their urban status does because city districts receive significantly larger shares. The results also show that districts with a larger share of the province population or provincial capital districts receive a significantly larger share of DK grants (Table 3, model 1).

Table 3: Birth District Favoritism, 2005–2013, TOBIT

| | (1) | (2) |
|---|----------------------|----------------------------------|
| Relative Fiscal Capacity (non-dis.) (%) (<i>t-1</i>) | 0.151 [0.243] | 0.101 [0.241] |
| Dummy GDP per Capita Below Province Average (<i>t-1</i>) | -2.132 [1.583] | -1.927 [1.611] |
| Share of Population (%) (<i>t-1</i>) | 1.261*** [0.369] | 1.219*** [0.332] |
| Share of Population below the poverty line (%) (<i>t-1</i>) | -0.618** [0.313] | -0.677** [0.311] |
| Share of Area Size (%) (<i>t-1</i>) | -0.010 [0.093] | 0.012 [0.088] |
| Number of Districts (<i>t</i>) | -1.334 [1.194] | -1.384 [1.119] |
| Dummy for City-District (<i>t</i>) | 5.976** [2.460] | 5.540** [2.293] |
| Dummy for District with Sea Access (<i>t</i>) | 2.577** [1.155] | 2.677** [1.152] |
| Dummy for Provincial Capital District (<i>t</i>) | 84.705*** [5.474] | 84.216*** [5.349] |
| Dummy for Any Split (<i>t</i>) | -1.697 [2.507] | -1.364 [2.341] |
| Dummy for Birth District Governor (<i>t-1</i>) | | 9.689** [4.427] |
| <i>N</i> | 3243 | 3243 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in *t* from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded

due to data restrictions. All specifications include province dummies and year fixed effects. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

These results do not necessarily demonstrate that DK grants are not at all need-oriented because, for example, an awareness-raising campaign on health concerns might be very effective and necessary in urban, highly populated, places. However, once I add the birth district dummy to this baseline specification, controlling for such urban centers and the district's relative development and need, the birth district of an incumbent governor receives a significantly larger share of the DK grants than the remainder of the districts within the province (Table 3, model 2).

This means hypothesis 1 is supported—birth districts receive significantly more grants compared to other districts in the province.

Strategic Re-election Motives

The results indicate that re-election interests of provincial governors do not motivate birth district favoritism; by contrast, they limit it. If governors invested in their birth district to gain political capital for their re-election, we would expect first-term governors to invest more in their birth district because they still face another local election. To test for this, I add a dummy for first-term governors and interact it with the home dummy. The results show that birth districts do not receive significantly more transfers in the first term of a governor; rather the contrary (Table 4, model 1). There is also no significant increase of transfers to the birth district in years of gubernatorial elections (model 2-4), as we would expect if the allocations toward the birth district were motivated by strategic re-election interests. These results are in line with Hypothesis 2—the birth district bias is not explained by the re-election interest of the governor (Table 4).

Favors to birth districts are only observed if governors are not electorally accountable to the whole province anymore, *i.e.*, in their second term. To investigate this, I split the sample into governors in their first term (re-election possible, model 3) and governors in their second term (re-election not possible, model 4).²¹ The results show that first-term governors do not allocate significantly more grants to their birth district (model 3), whereas second-term governors do so (model 4). This indicates that the electoral accountability induced by direct local elections reduces birth district favoritism. The results are in line with Hypothesis 3—local electoral accountability reduces birth district bias. Birth district favoritism in the second term might be a repayment to loyal voters,²² such a repayment to the birth district must be motivated by other, non-electoral, motives of a governor.

²¹ I use information on governors before 2005 as well in order to include governors who were already in office before 2005 and who started their second and final term at some point between 2005 and 2013.

²² No data is available on past voter support of provincial governors at the district level (see footnote 15). Yet, the birth district of a governor is more likely a loyal supporter than a stronghold of the opposition.

Investment in Local Political Career

Provincial governors might invest in a career as a district head for the time after their service as provincial governor. This investment in a future political career at the district level is highly unlikely however: the governors of my sample usually ended their professional political careers in the governor's office, assumed a higher political office, or changed to the private sector. However, a substantial number of governors in my sample held district head positions before becoming provincial governors.

Professional Local Knowledge and Connections

Hypothesis No 4 assumed that governors might allocate more funds to districts as they have more professional knowledge about or contacts within these districts. To test for this, I generate a dummy equal to one if a governor was the head of a district before entering the governor's office ($dmyDistrictHead_{dt-1}$) (Table 5), a proxy for local professional knowledge and local professional connections. Then I interact this measure for local political history with the birth district dummy. This allows me to show the additional effect of being a governor's birth district, while holding constant existing local professional knowledge and connections solely based on former local political position. The results show that having been the district head of a district before entering the governor's office does not have a significant effect on grant allocations toward this district (Table 5, model 2-3). Allocations therefore cannot be driven by the governor's local political history alone. If, however, I interact the dummy for a political history as a district head with the birth district dummy, discretionary grants to these birth district increase significantly (model 4). The results show that birth districts of governors in which governors were also previously the district head, receive approximately 41 percentage points more DK grants than the other districts in the province. In line with Hypothesis 4, these results indicate that the birth district bias is driven by governors starting their political career in their birth districts. Governors born in a district where they also were district heads before, seem to have a somewhat stronger attachment to these districts. The high campaign costs for local candidates (Mietzner 2018) could explain this, because these might raise the need to pay back campaign donors located in the birth district. The bias could also be based on a pure gratitude to the loyal supporters at home, or friends and family in the birth place, once electoral accountability is lifted.

We cannot test for family ties and/or local business interests in a birth district due to data limitations at the subnational level.²³ My results show, however, that birth district favoritism is not motivated by re-election interests, an investment in a political career as a district head, or driven by local professional knowledge or former ties alone (nor any other explanations controlled for in the robustness section, see section 4.4). Hence pure gratitude, family ties and/or business interests, sometimes also linked to a politician's donor network (Mietzner 2011), remain the likely motivations for birth district favoritism in the allocation of the local public funds I look at.

²³ I have no reliable information on firm ownership (in particular, at the subnational level) or business ties (*e.g.*, based on board member names). Moreover, Indonesian surnames are not suitable to measure family ties.

Table 4: Re-election Interests and Electoral Accountability, 2005–2013, TOBIT

| | (1) | (2) | (3) 1 st term | (4) 2 nd term |
|--|----------------|---------------|--------------------------|--------------------------|
| Dmy Birth District Governor (<i>t-1</i>) | 14.872* | 7.878* | 5.892 | 12.191* |
| | [7.722] | [4.352] | [4.683] | [6.767] |
| Dmy Birth District Governor (<i>t-1</i>) x FirstTermGovernor (<i>t</i>) | -8.029 | | | |
| | [7.756] | | | |
| Dmy Birth District Governor (<i>t-1</i>) x DirectElectionYear (<i>t</i>) | | 5.379 | 2.626 | 7.147 |
| | | [4.334] | [6.498] | [6.472] |
| <i>Baseline Controls</i> | <i>Yes</i> | <i>Yes</i> | <i>Yes</i> | <i>Yes</i> |
| <i>N</i> | 3163 | 3163 | 2193 | 970 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in *t* from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table 5: Local Political History as a District Head, 2005–2013, TOBIT

| | (1) | (2) | (3) | (4) |
|--|----------------|----------|----------------|-----------------|
| Dmy Birth District Governor ($t-1$) | 9.837** | | 8.054** | 5.088 |
| | [4.484] | | [3.584] | [3.369] |
| Dmy District Head ($t-1$) | | 18.780 | 15.282 | -7.138* |
| | | [11.974] | [11.063] | [4.227] |
| Dmy Birth District Governor($t-1$) x Dmy District Head ($t-1$) | | | | 41.286** |
| | | | | [18.987] |
| <i>Baseline Controls</i> | Yes | Yes | Yes | Yes |
| <i>N</i> | 3220 | 3220 | 3220 | 3220 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in t from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

4.4 Robustness Checks

Formal Political Party Ties

Political party ties do not explain birth district favoritism in Indonesia. Theoretically, political party alignment may play a significant role in the allocation of subnational transfers by a provincial governor to maximize the total amount of votes. If voters can attribute a transfer-financed project to the provincial government level, this could benefit the governor because the benefits derived from the project are directly attributed to him/her. Governors could also benefit indirectly through the increased popularity of a politically aligned local district incumbent under their political party banner. If provincial and district incumbents, however, belong to different parties, transfers to the district level are a less effective investment for the governor because some of the electoral benefits created through the transfer-financed project will “leak” to the opposition. Hence, for governors who aim to increase support for their re-election, optimal transfers will favor politically aligned districts if there is a strong party affiliation of local candidates.²⁴

In the Indonesian context, however, whether political party alignment has a significant influence on subnational grant allocations is questionable. Party alignment is more likely to influence transfers if the provincial incumbent and his/her party chapter profit from a strengthening of the district party chapter. The governor will not (entirely) profit from the transfers if the benefits provided are (partly) attributed to the local district head and not to the governor’s party. If the district head’s party loyalty is weak, the provincial incumbent will not be able to capitalize on the district head’s increased popularity. Transfer-financed projects will benefit the governor directly if the source can be clearly attributed to him/her.²⁵

This weak party loyalty is precisely how many scholars describe Indonesia’s local political system. Local officials often have only a tenuous institutional attachment to a political party (Mietzner 2013) or are no official party members (Qodari 2010). Moreover, candidates often switch their party affiliation to parties with stronger local networks and better financial opportunities (Ufen 2008). Political parties, in turn, tend to sell nominations to high-profile, well-endowed local candidates (Buehler 2010), who, in turn, often regard political parties only as vehicles for their nomination (Qodari 2010).

The robustness checks confirm this low political party attachment, identifying no influence on subnational grant allocation if district head and governor belong to the same political party (Table 6). To test for the effect of political ties, I add a dummy variable

²⁴ There is substantial empirical evidence for a political alignment effect in the allocation of (central government) grants, in particular for countries with a strong political party polarization and strong ideological attachment to political parties. Empirical evidence for the US shows that states with governors from the same party as the president (Larcinese et al. 2006) or districts and counties represented by members of the president’s party receive significantly more funds (Berry et al. 2010). In Italy, politically aligned municipalities are given 40 percent more grants compared with non-aligned municipalities (Bracco et al. 2015). Solé-Ollé & Sorribas-Navarro (2008) find a similar positive effect of political alignment on central grant allocation for Spain, and in Brazil, politically unaligned mayors receive approximately 30 percent lower discretionary grants than aligned ones (Brollo & Nannicini 2012).

²⁵ The DK grants I analyze are supposed to be spent on projects of non-physical nature (section 2), which might make it even more difficult for voters to attribute the transfer-financed projects to a particular government level, compared with, for example, a visible infrastructure project named after the governor.

($dmyPoliticalTies_{at-1}$), which is equal to one for all years in which the directly elected district head was formally affiliated to the political party of the incumbent governor (*i.e.*, solely nominated by the same political party in the last local district head elections) and zero otherwise.

As expected, I find no evidence that the political party background or the political alignment of the governor and a district head influences the distribution of subnational discretionary grants.²⁶ Provincial governors do not divert more funds to district heads of their political party. I also find no evidence that birth districts that are politically aligned with the governor receive larger shares of grants (model 4). Unlike informal local ties measured by a governor's birthplace or local political history (section 4.3), current formal political party ties to a district do not significantly influence subnational fund allocations (Table 6). This result is in line with the ethnographic observations of Aspinnall et al. (2017), that if political candidates in Indonesia refer to their voters, they primarily refer to their personal ties to a voter rather than to a voter's identification with a political party.

Non-Discretionary (formula-based) transfers

The results suggest that governors use their discretionary scope to manipulate grant allocations in favor of their birth districts; hence, I expected to find no significant birth district favoritism in the case of formula-based general allocation grants (DAU, section 2.1), which limit the discretionary scope of the governors. Although formula-based transfers are not a panacea against political manipulation (Banful 2011; Litschig 2012), the DAU is a grant allocation scheme with fewer entry points to influence allocation decisions. DAU grants are allocated based on a formula designed and supervised by the central government. As DAU shares to districts are only zero in a very few cases, I also run this specification as a pooled ordinary least squares (OLS) model (1). The results for both models show that formula-based transfers are not biased toward the birth region of provincial governors (Table 7). As expected, DAU allocations are correlated with the needs measures contained in the DAU formula.²⁷ Hence even while Indonesia's main equalization grant—the DAU—has its flaws, in particular its lack of equalization on a per capita basis, birth district favoritism by provincial governors is not observed to be one of them.

²⁶ This result is also in line with the findings of Gonschorek et al. (2018), showing that district heads in Indonesia do not receive more central discretionary grants if they are politically aligned with the incumbent presidential party at the central government level.

²⁷ see Gonschorek & Schulze (2018) for more information on the formula components of DAU.

Table 6: Formal Political Party Ties, 2005–2013, TOBIT

| | (1) | (2) | (3) | (4) |
|--|------------------|---------|------------------|------------------|
| Dmy Birth District Governor (<i>t-1</i>) | 17.109*** | | 17.116*** | 17.772*** |
| | [6.322] | | [6.324] | [6.687] |
| Dmy Political Ties (<i>t-1</i>) | | 0.651 | 0.818 | 1.649 |
| | | [4.714] | [4.786] | [4.852] |
| Dmy BirthDistrictGovernor (<i>t-1</i>) x Dmy Political Ties (<i>t-1</i>) | | | | -11.582 |
| | | | | 15.627] |
| <i>Baseline Controls</i> | Yes | Yes | Yes | Yes |
| <i>N</i> | 2341 | 2341 | 2341 | 2341 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in *t* from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. The first direct local district head and gubernatorial elections were held in 2005, providing the political party background of local candidates to test for the influence of political party ties between governors and district heads on subnational grant allocations for the years after 2005. As not all districts held direct elections in 2005, some held their first elections later, the amount of observations on the party background of direct elected district heads and governors is reduced. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table 7: Formula-Based Transfers (**non-discretionary, DAU**), 2005–2013, OLS and Tobit

| | (1) OLS | (2) TOBIT |
|---|----------------|----------------|
| Dummy for Birth District Governor (<i>t-1</i>) | 0.310 | 0.311 |
| | [0.512] | [0.508] |
| Relative Fiscal Capacity (no DAU) (%) (<i>t-1</i>) | -0.160*** | -0.162*** |
| | [0.047] | [0.046] |
| Dummy GDP per Capita Below Province Average (<i>t-1</i>) | -0.394** | -0.396** |
| | [0.163] | [0.162] |
| Share of Population (%) (<i>t-1</i>) | 0.283*** | 0.283*** |
| | [0.048] | [0.048] |
| Share of Population Below the Poverty Line (%) (<i>t-1</i>) | 0.107*** | 0.108*** |
| | [0.035] | [0.035] |
| Share of Area Size (%) (<i>t-1</i>) | 0.118*** | 0.118*** |
| | [0.023] | [0.023] |
| Number of District (<i>t</i>) | -0.210*** | -0.210*** |
| | [0.060] | [0.060] |
| Dummy for City-District (<i>t</i>) | -0.502** | -0.500** |
| | [0.217] | [0.216] |
| Dummy for District with Sea Access (<i>t</i>) | -0.520*** | -0.524*** |
| | [0.189] | [0.188] |
| Dummy for Provincial Capital District (<i>t</i>) | 2.279*** | 2.286*** |
| | [0.521] | [0.518] |
| Dummy for Any Split (<i>t</i>) | -0.481** | -0.482** |
| | [0.211] | [0.210] |
| <i>Province Fixed Effects</i> | Yes | Yes |
| <i>Year Fixed Effects</i> | Yes | Yes |
| N | 2320 | 2320 |

Note: Pooled OLS (1) and Tobit Model (2). Dependent Variable: Share of DAU (formula-based transfers) a district receives in *t* from the total distributed in a province (excluding the Province Level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Provincial Capitals

The importance of provincial capital districts does not explain birth district favoritism. Provincial capital districts are special because they are, for example, the location of the governor's office and often also the location of a governor's residence during his/her term. I already controlled for this by adding a dummy equal to one for capital districts to my baseline controls. The results show that provincial capital districts receive larger shares of the DK grants allocated within a province (Table 3). There is, however, also a small group of governors born in the provincial capital. I control for this group by adding an interaction term equal to one if the birth district of a provincial governor is also the provincial capital. The results show that birth district favoritism does not increase if a governor was born in the provincial capital (Table 8, model 2), it actually decreases favoritism, although not significantly. Thus, governors born outside the provincial capital seem to favor their birth district once they take over office in the province capital.

Table 8: Role of Provincial Capitals, 2005–2013, TOBIT

| | (1) | (2) |
|---|----------------|----------------|
| Dmy Birth District Governor (<i>t-1</i>) | 9.689** | 10.247* |
| | [4.427] | [5.964] |
| Dmy Province Capital District (<i>t</i>) | 84.216*** | 84.524*** |
| | [5.349] | [5.026] |
| Dmy Birth District Governor (<i>t-1</i>) x Dmy Province Capital District (<i>t</i>) | | -1.763 |
| | | [8.853] |
| <i>Baseline Controls</i> | <i>Yes</i> | <i>Yes</i> |
| N | 3243 | 3243 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in *t* from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Birth District of the President

The results are not driven by favoritism toward the birth district of the incumbent president. As the central government is involved in the initial fund allocation, the president could attempt to direct funds toward his/her home region.²⁸ The results suggests that President Yudhoyono's birth district, *Kabupaten Pacitan*, does not receive significantly more DK grants than other districts (Table 9, model 1). This finding is in stark contrast to the central discretionary grant schemes, TP, which are directly allocated to the district level by the

²⁸ As shown for other countries, see Hodler & Raschky (2014).

central government, without the involvement of provincial governors, and for which Gonschorek et al. (2018) find significant preferential treatment of the president's birth region.

Economic Importance

Next, I check if the results are robust to the economic importance of a district within a province. Economically more important districts might have more bargaining power or lobbying opportunities at the provincial government level, which might influence subnational transfer allocations. Therefore, I add a measure controlling for the share of provincial GDP of a district. The results show (Table 9, model 2) that economically stronger districts do not receive significantly larger DK shares.

Cost of Providing Services

I also examine whether DK grants differ in connection with the local price level of the districts.²⁹ If districts with higher price levels received more grants in nominal terms, and a greater number of provincial governors originate from these districts than from other districts, the results could be biased. To investigate this, I include the consumer price index (CPI) at the district level. The results show (Table 9, model 3) that the CPI is insignificant, its inclusion does not alter the results.

District Head Election Timing

District heads facing imminent local elections could lobby for more funds at the provincial level to increase their chances of re-election because the timing of district head elections is independent of provincial gubernatorial elections. To test this, I include a dummy equal to one for the year of a district head election or the following year ($t+1$). The results demonstrate that the share of DK grants does not significantly increase in election years of district heads (Table 10). I observe no significant evidence for local political cycles in DK allocations at the district level, and the results remain unchanged.

Table 9: President's Birth District (2005–2013), Share of Provincial GRDP (2005–2013), Local

²⁹ Price changes over time are captured by the full set of time FE.

Price Level (2007–2012), TOBIT

| | (1) | (2) | (3) |
|--|----------------|----------------|-----------------|
| Dmy Birth District Governor (t-1) | 9.691** | 9.770** | 13.604** |
| | [4.427] | [4.419] | [6.095] |
| Dmy Birth District President (t-1) | -3.471 | | |
| | [2.884] | | |
| Share of Provincial GDP (t-1) | | 0.006 | |
| | | [0.007] | |
| Consumer Price Index (t-1) | | | -0.046 |
| | | | [0.153] |
| <i>Baseline Controls</i> | <i>Yes</i> | <i>Yes</i> | <i>Yes</i> |
| N | 3243 | 3243 | 2639 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in t from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Table 10: Local District Head Elections (2005–2013), TOBIT

| | (1) | (2) | (3) |
|--|----------------|----------------|----------------|
| Dmy Birth District Governor (t-1) | 9.740** | 9.800** | 9.782** |
| | [4.527] | [4.526] | [4.528] |
| Dmy Direct Election District Head (t) | -0.271 | | -0.594 |
| | [1.009] | | [1.044] |
| Dmy Direct Election District Head (t+1) | | -1.342 | -1.491 |
| | | [1.290] | [1.331] |
| <i>Baseline Controls</i> | <i>Yes</i> | <i>Yes</i> | <i>Yes</i> |
| N | 3212 | 3212 | 3212 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in t from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

District Proliferation

Next, I analyze whether district splits explain birth district favoritism (Table 11) because approximately 120 new districts were established through splits during the 2005-2013 sample period. The new districts often experience a construction boom because national economic policy focuses on the development of new infrastructure in these areas (Fitriani et al. 2005). To control for this, I include a dummy for district splits in the base line specification. This dummy equals one for all years after a district experienced a split (Table 3). As additional robustness checks, I now also include dummies equal to one for all the years after a district lost a part of its administrative area (“parent district”) or was separated from an area (“child district”). The results show that “child districts” receive significantly smaller shares than the other districts (model 1) after a split. I find no significant difference for the parent districts (model 2). Although these splits must be endorsed at the national level by the president or the central parliament (Fitriani et al. 2005), governors could have an interest in splitting districts, for example, to target their birth area more accurately with discretionary grants.³⁰ To control for this, I interact the birth district dummy with a dummy for child districts and for parent districts. The results show that newly established districts that are also the incumbent governor’s birth district receive significantly higher shares than other districts (model 4). Birth districts that lost parts of their administrative area receive significantly lower shares (model 5).

Unfortunately, I can only identify the birth district, not the exact birth location within the district, for most governors. For one of the provinces that split during the observation period, I could not identify whether the governor was born in the subsequent parent or child district. To account for this, I exclude this province (Province Kalimantan Barat) from the sample. The exclusion of all observations from this province, however, does not change the results (model 7). Birth districts of provincial governors still receive an 8.5 percent larger share of DK grants allocated within a province.³¹

³⁰ Because split districts may be more homogenous after the split (Fitriani et al., 2005; Burgess et al., 2012; Alesina et al., 2019).

³¹ In three other provinces, the birth district of the governor split within the observation period. For these provinces, however, I have ascertained the exact birth location of the governor and can check in which current district the birth location belongs; thus, these provinces remain included.

Table 11: District Proliferation, 2005–2013, TOBIT

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) no birth splits |
|---|----------------|----------------|----------------|----------------|-----------------|-----------------|---------------------|
| Dmy Birth District Governor (<i>t-1</i>) | 9.350** | 9.546** | 9.555** | 9.670** | 11.682** | 12.148** | 8.525** |
| | [4.240] | [4.424] | [4.254] | [4.417] | [5.274] | [5.325] | [4.230] |
| Dmy Child District (<i>t</i>) | -8.146*** | | -15.148** | -7.937*** | | -14.653** | |
| | [2.642] | | [6.415] | [2.582] | | [6.159] | |
| Dmy Parent District (<i>t</i>) | | 2.474 | -8.615 | | 3.518 | -7.438 | |
| | | [2.229] | [5.769] | | [2.166] | [5.414] | |
| Dmy Birth District Governor (<i>t-1</i>) x Dmy Child District (<i>t</i>) | | | | -6.753 | | -9.358 | |
| | | | | [6.867] | | [7.656] | |
| Dmy Birth District Governor (<i>t-1</i>) x Dmy Parent District (<i>t</i>) | | | | | -11.047** | -10.992** | |
| | | | | | [5.147] | [5.151] | |
| <i>Baseline Controls</i> | Yes | Yes | Yes | Yes | Yes | Yes | |
| <i>N</i> | 3243 | 3243 | 3243 | 3243 | 3243 | 3243 | 2758 |

Note: TOBIT MODEL. Dependent variable: Share of DK a district receives in *t* from the total DK distributed in a province (excluding the province level). The special regions DKI Jakarta and Yogyakarta and the special autonomous region Aceh are excluded from the analysis. Papua, West Papua, and Kalimantan Utara are excluded due to data restrictions. All specifications include province dummies and year fixed effects. All baseline controls are included. All time-variant baseline controls are lagged by one year. Robust standard errors clustered at the district level are reported in brackets. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

5. Conclusion

This analysis is the first to test for birth district favoritism in the allocation of subnational discretionary public grants in Indonesia. Using a Tobit model on a panel data set of 410 Indonesian districts for the period 2005–2013, I demonstrate that the birthplace of directly elected provincial governors significantly determines the subnational allocation of grants, *i.e.* birth district favoritism is prevalent in Indonesia.

The analysis investigates whether this birth district bias is explained by strategic re-election interests—an open and highly contested question in the literature. Analyzing electoral motivations for birth district favoritism, my results show that the bias in the allocation of funds in Indonesia cannot be explained by re-election interest (investment in core or swing voters) or other classical pork-barrel politics, such as the formal political party alignment of the governor with the district head. The results also show that electoral accountability, induced by local direct elections, reduces birth district favoritism in Indonesia. Governors in their first term, who can be reelected, do not allocate significantly more funds to their birth district, whereas governors in their second and final term do.

This analysis adds to the limited amount of empirical evidence analyzing non-electoral motives for birthplace favoritism. The results show that the governor's local political history, *i.e.* having been the district head in his/her birth district, is a driver of birth district favoritism. Governors that used to be district heads outside their birth district do not allocate more grant toward these districts. These results indicate that this bias cannot be entirely explained by better professional knowledge of the district or a more comprehensive professional network based on their political history in these districts, but require an additional connection to birth districts. This can be accounted for in higher donor obligations or a repayment to loyal voters in the birth districts where governors started their political career. Unfortunately, there is no reliable available data to investigate the influence of donor networks further. Testing for other types of connections to a birthplace also proves very difficult because of the lack of subnational data and the informality of birth district favoritism. Despite these challenges, my analysis is the first that tests and discusses a variety of prominent hypotheses to obtain a more informed interpretation of the motivations of birth district favoritism in Indonesia. The results show that prominent explanatory factors such, as re-election interests, investment in a local political career, former professional ties, or formal political party ties, do not fully explain birth district favoritism. Hence a repayment to loyal supporters (once electoral competition is lifted) and/or local family ties or business interests are (likely) alternative explanations of birth district favoritism in Indonesia.

These results are indicative of the role informal ties play in Indonesia's political system and provide lessons not only for Indonesia, but also for countries with similar characteristics. Indonesia is a very young democracy and characterized by low ideological cleavages, little party loyalty, and the prevalence of money politics in its highly decentralized fiscal system. These features characterize a number of developing countries with decentralized fiscal systems, particularly in Southeast Asia, *e.g.* Cambodia, Myanmar, the Philippines, and Thailand. All these countries have embarked on a form of fiscal decentralization and admit large degrees of discretion in public fund allocations. Moreover, informal ties are often critical factors in their countries. However, they have not implemented democratization

reforms as far-reaching as Indonesia. Therefore, it is particularly important that fiscal decentralization reforms are accompanied by local democratization reforms if a country is to benefit from the advantages of fiscal decentralization and impede favoritism.

Compared with discretionary grants, no favoritism is observed toward the birth district of a governor with regard to the allocation of formula-based transfers. Formal-based transfers seem to successfully limit the discretionary scope of the provincial governor. Although formula-based grant designs are no panacea against political manipulation (Banful 2011; Litschig 2012), they seem to impose effective restrictions on the preferential treatment of birth regions by local incumbents in Indonesia. This provides support for Indonesia's formula-based intergovernmental fiscal transfers (DAU) in particular and supports the general notion that formula-based allocations can reduce the risk of favoritism in subnational transfer allocations, especially if local democratization, hence local electoral accountability, is (still) lacking.

The analysis has limitations. To test for favoritism, I exploit the institutional design of a comparably small transfer within the whole of Indonesia's intergovernmental transfer system, the DK grant. The developmental consequences of an identified bias in this one type of transfer are not very large for the country as a whole. However, when we consider the results as just one measurable dimension of the general importance of informal ties—a notion that anecdotal evidence seems to support—the long-term costs of such behavior for Indonesia's development are likely to be substantial. Another limitation is the low within-district variation of birthplaces, which does not allow me to control for district-fixed effects. The analysis attempts to engage this limitation by adding a variety of district controls as well as year and province-fixed effects. It also controls for a variety of competing hypotheses at the district level that could potentially explain subnational transfer allocations.

Testing for ethnic favoritism in Indonesia could be follow-up to my analysis. Empirical evidence shows that not only the birthplace of politicians, but also the larger network of ethnic ties to certain regions can lead to favoritism (*inter alia*, DeLuca et al. 2018). It would be interesting to test whether the ethnic alignment between a governor and a district/district head in Indonesia also leads to favoritism, and whether it is particularly strong in the birth district. There are, however, no public records in Indonesia that provide reliable information on the ethnicity of governors. I considered to incorporate ethnic linkages between district heads and governors through an analysis of their surnames. This approach was abandoned because experts raised concerns about its accuracy. It is questionable, however, whether the degree of variation in ethnicity at the subnational level would be large enough for a meaningful analysis. Consequently, finding another way to measure and test for ethnic favoritism in Indonesia—preferably at the national government level, with a higher variation in ethnicities across districts—remains a fruitful area for further research.

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List of Abbreviations

| | |
|-------------|---|
| BPS | <i>Badan Pusat Statistik</i> , National Statistics Office |
| CPI | Construction Price Index |
| DAU | <i>Dana Alokasi Umum</i> , General-Purpose Equalization Fund |
| DAK | <i>Dana Alokasi Khusus</i> , Specific Allocation Fund |
| DBH | <i>Dana Bagi Hasil</i> , Tax/Natural Resource Revenue-Sharing Fund |
| DID | <i>Dana Insentif Daerah</i> , Regional Incentive Fund |
| DK | <i>Dana Dekonsentrasi</i> , Deconcentration Fund |
| DKI Jakarta | <i>Daerah Khusus Ibukota Jakarta Raya</i> , Special Capital Region of Greater Jakarta |
| EU | European Union |
| GDP | Gross Domestic Product |
| IDR | Indonesian Rupiah |
| INDO-DAPOER | Indonesia Database For Policy And Economic Research |
| KPU | <i>Komisi Pemilihan Umum</i> , General Election Commission |
| TP | <i>Tugas Pembantuan</i> , Assistance Task Fund |
| US\$ | United States Dollar |



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