

## Public Spending Inefficiency in Denpasar City

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### Abstract

Researchers want to know how the response of SME entrepreneurs in Denpasar on inefficient expenditures occur in the community. We adopted a qualitative research stance in which we interviewed with entrepreneurs and Officials from the public and private sectors, in Denpasar City. We selected 'face-to-face semi-structured interviews and triangulation of the data made possible through the participation of all parties. Inefficiencies in public expenditure in Denpasar are the result of informal charges in Denpasar which is done by all Government Rural and Indigenous Village to SME entrepreneurs. We found that SME entrepreneurs feel disappointed that the Government Rural and Indigenous Village can not provide security and protection of areas of progress that was promised in the levies. We found that the financial management of the results of informal charges made by the board and the Village Government Village People are not reported in a transparent and accountable to the employer as a purveyor of money.

**Keywords** : Inefficiency, Entrepreneur, Government

### 1. Introduction

Economic decentralization imposed by the Government of Indonesia to the Government in each district / city across Indonesia provide flexibility reGENCY / city governments to regulate the area based on the potential that exists in the area. The implementation of economic decentralization stakeholders would be better to follow all laws and regulations in force in order not to cause economic inefficiency. Denpasar City is a city on the island of Bali with high economic activity as a result of the growth of tourism. With the economic growth rate is quite high in the last 10 years with an average of about 5-6% per year, then a lot of micro, small and medium growing. High economic activity for the city of Denpasar chance to increase tax revenues used for regional development and public welfare

Each SME entrepreneurs are required to provide support to governments and communities obtained from the results of their business activities. Support entrepreneurs in the form of tax payments to the government, while support entrepreneurs to the community in the form of Corporate Social Responsibility are both set by the government. Cooperation to the government and public employers are expected to create a welfare society. Akorsu & Agyapong (2012) found that SMEs contribute to labor, economic growth, innovation, human resource development, and reduce poverty. Sudha & Krishnaveni (2012) found that SMEs play an important role in the economic structure of the country of India with a significant contribution to output, exports and trade (Sudha & Krishnaveni, 2012). Javed, et al (2011) found that successful SMEs can contribute significantly in the development of the country. Jasra, et al, (2011) found that the success of small and medium enterprises can contribute significantly in the development of the country. Akingunola (2011) found that There is a significant positive relationship between SMEs financing and economic growth in Nigeria via investment levels.

Unofficial charges are often carried out by village government officials and indigenous villages in nearly every area in the city of Denpasar to all micro, small and medium enterprises. Funds from this unofficial charges are not included but are managed by the government revenues from local government and traditional village. This unauthorized charges made with the main reasons in order to maintain security in the area. Every effort is subject to at least two unofficial charges vary depending on the size of the business. Officer who made unofficial charges stemming from government officials that the village clerk and village customs Hansip is Pecalang. Unofficial charges is done usually every day, especially at night openly by providing proof of charges even though the law does not have a solid foundation and is not considered as government revenue.

Olken & Singhal (2009) found that informal taxation is prevalent, with 20% or more of households participating in informal taxation schemes in all but one surveyed country, and more than 50% of households participating in several countries. Johnson, et al, (1998) found that a high level of regulatory discretion helps create the potential for corruption and drive firms into the unofficial economy. Lee (2005) found that countries with larger GDP per capita, more competent bureaucrats, less corrupt governments, and lower unemployment rates tend to have a smaller unofficial economy. Chittithaworn (2011) found that the most significant factors affecting business success of SMEs in Thailand were SMEs characteristics, customer and market, the way of doing business, resources and finance, and external environment.

Unofficial charges that occurred in the city of Denpasar will have an impact on the greater expense for

employers. For the researcher is interested in revealing the following 1) How do entrepreneurs receive treatment response unofficial charges against his efforts? 2) How does the system of fund management charges unofficial results?

## 2. Literature Review

Externality is any benefit or cost borne by an individual economic unit that is a direct consequence of another's behavior (Todaro & Smith, 2012). Markets, operate most efficiently when externalities are minimized (Stone, 2008). The government can do two things to prevent the negative impact of externalities that legislation and specific taxes (McConnell & Brue, 2008). Market economies need institutions to enforce property rights so individuals can own and control scarce resources (Mankiw, 2008). The issue of Whether a government ought to Intervene in any situation could be settled by weighing up the costs and benefits of that intervention. Such costs and benefits, however, even if they could be-identified, are extremely difficult, if not impossible, to measure, especially when the costs are borne by different people from those who receive the benefits and externalities are when involved (Sloman & Wride, 2009).

An economy is efficient if it takes all opportunities to make some people better off without making other people worse off (Krugman & Wells, 2009). The administrative costs of a tax are the resources used by the government to collect the tax, and by Taxpayers to pay it, over and above the amount of the tax, as well as to Evade it (Krugman & Wells, 2009). Included in the administrative costs that incur Taxpayers resources are used to Evade the tax, both legally and illegally (Krugman & Wells, 2009). If a firm is inefficient-if it is producing at a higher-than-necessary costs-the market will drive it out of business (Case, et al, 2012). If the object of the firm is to Maximise profits, it will necessarily choose the least costly, or cost-minimizing, production plans for every level of output (Jehle and Reny, 2011). The negative effect of inefficiency is larger if the level of public spending is lower and / or the degree of fiscal autonomy is higher (Barone & Moceti, 2009).

Adisasmita (2013) say that the economic system is organized based on economic democracy that apply : (1) the stability of policies implemented in the determination of macroeconomic stabilization, stabilization of prices in a market rival, (2) berkeseimbangan undertaken to implement the allocation of resources to improve economic efficiency, (3) the creation of programs that will affect the distribution of income. Governments in many of the world 's poorest nations place tremendous obstacles in the way of entrepreneurs interested in owning capital goods and directing them to profitable opportunities Miller, 2012). The danger is that the Governments' regulations growing niche up to become entrenched when those with vested interests seek 'institutional rents' or excess profits from regulations (Hayami & Godo, 2005). Kuncoro (2010) says is supporting institutional welfare if used for productive activities. The most effective institutions also encourage a person to be more innovative , or productive of a long-term perspective resulting in economic growth. Yeager (1999) in Kuncoro (2010) says that as the institutional rules (rules of the games) in the community. Arsyad (2010) says that the rules are composed of formal rules (eg, rules, laws, constitutions), informal rules (eg, social norms, conventions, customs, value systems), and the enforcement process (enforcement).

Adisasmita (2013) says that the principal task of the local government in implementing regional autonomy (1) held a government bureaucracy smoothly, effectively, and efficiently, (2) implementing local development to all parts of the region, and ( 3 ) provide public services appropriately, fast, cheap and good quality. Challen (2000) in Yustika (2008) reveals some common characteristics of the institution, namely : (1) Institutional socially organized and supported, which usually distinguish any institutional obstacles over human behavior, (2) Institutions are formal rules and informal conventions , and codes of conduct, (3) Institutional slowly changed over the activities that have guided or hindered, (4) Institutional also set restrictions (prohibitions) and conditions (conditional permissions).

Rodrik (2003) in Arsyad (2010), there are four functions of the institution in relation to supporting the economic performance, namely : (1) Creating markets : institutions to protect property rights and ensure the execution of the contract, (2) Set up the market : institusiyang charge of addressing market failures which institutions governing the problem of externalities, economies of scale, and imperfection of information to lower transaction costs , (3) maintain stability : institusiyang keep inflation low, minimizing macroeconomic instability, and controlling the financial crisis, (4) legitimates market : institutions that provide social protection and insurance, including arranging and managing conflict redistribution .

## 3. Methodology

We adopted a qualitative research stance in which we interviewed with entrepreneur and officials from public and private sectors, in Denpasar City. We selected face-to-face semi-structured interviews because individual interviews usually help the researches to investigate personal experiences of individuals in more depth (3). Face-to-face interviews are also considered the most suitable approach when aiming to gain an understanding of what respondents mean. Moreover, this made triangulation of the data possible through the participation of all parties (i.e. entrepreneur and officials).

#### 4. Result and Discussion

Unofficial charges to micro, small and medium becomes a habit that is often done by the village government and village customs. Unofficial charges was done every day and there is also a big money every month with a different . The village government did levy money to go to the MSME entrepreneurs conducted by Hansip, whereas traditional village came SME entrepreneurs conducted by Pecalang. SME entrepreneurs receive proof of payment if they already make the payment. SME entrepreneurs have never received a report on the use of the money they have paid to the Government of the Village and Village People. SME entrepreneurs do not dare question the report of the charges because there was concern in the minds of entrepreneurs over the behavior of sympathy and Village Government Village People when asked report the results of the use of levies that they have received. Attitude is no transparency in the use levy into a forced thing received by the SME entrepreneurs. Entrepreneurs of Micro, Small and Medium Enterprises feel that the money given to the Government Rural and Indigenous Village can not guarantee the security and progress of the local area. Many incidents of crime that often occurs around the place of business, but the deal was a crime instead of a traditional village and the village government but the police handle the crime scene. At the time of the crime incident occurs, the security officer of the Government of the Village and Village People are often not in place so that SME entrepreneurs feel threatened and unprotected against those crimes . SME entrepreneurs who are victims of crime feel that the Government of the Village and Village People can not help to catch and punish the perpetrators. SME entrepreneurs who are victims of crime events always report the crime at the police station. Village Government and the Village People do not have equal ability in dealing with police crime scene, and they do not have the legal authority to act as police. This is one of the disappointments of the entrepreneur Micro, Small and Medium Enterprises that Government Rural and Village People are not able to protect them from crime.

Entrepreneurs of Micro, Small and Medium feel disappointed the lack of progress from the local village, but they had to spend money every month to the Village Government and the Village People. Lots of environmental damage caused by activities of community activities also did not get a response and repair of Village Government Village People. Environmental damage such as damage to roads, damage to public facilities do not immediately get a repair of the Village Government and the Village People. Village Government and not still rely on traditional village Denpasar City Government to repair environmental damage and other public facilities. This situation is not favorable for SME entrepreneurs because they do expenditures for the Village Government and Traditional Village does not provide the benefits that they feel the presence of inefficiency in cost.

Charges are made for this by the village government and customary village is based solely on the results of consultation with the local community. Community invited to present at the Government Office and the village of Banjar Village People to talk about how to organize people's lives, including how much the fee should be charged to the micro, small and medium enterprises that are in the area . The results of the talks at the Government Office and the village of Banjar Village People will be binding for all people residing in the region . In terms of normative law, the result of a joint decision on the level of village government and traditional village can not be regarded as legal regulations if the Denpasar Government has not ratified it with the legislature so that the levies made by the village government and traditional village can be considered unofficial charges because there was no basis law. This levy is mandatory for all employers who are in the region to maintain security reasons and to support local progress.

Government Rural and Village People who have received money from businessman Micro , Small and Medium independently perform financial management and the board are carried along in the Village Government and the Traditional Village. Village Government and Rural Indigenous never formally report and provide the income they receive to the Government of Denpasar. There is no strong legal basis for the financial management system as practiced by the village government and the Village People. Financial transparency only among government officials and village traditional village, but transparency is not up to the SME entrepreneurs. Denpasar Government so far has been paying attention to the Government Rural and Indigenous Village through the provision of development funds through the regular budget each year. Denpasar Government can not act decisively against the action taken by the Government levies Village and Village People are no strong legal basis over the levies to the SME entrepreneurs.

In the law already stipulates that every Indonesian citizen must pay taxes to the state through the Office of Government Tax. Deviation rule through unofficial charges are often carried out by the village government and the Village People make employers Micro, Small and Medium Enterprises become inefficient in reducing costs. Deviation of this rule may give an indication of corruption in the absence of transparency in the use of funds reported to employers Micro, Small and Medium Enterprises, as well as the absence of a financial examination of the government's official auditor. Support for employers Micro, Small and Medium Enterprises should be given to the Government of Denpasar to eliminate unofficial payments to employers that had been done by the village government and the city of Denpasar. Law enforcement must be done in the area of Denpasar where everything must be based on the legal action, including in the levy to employers should only be done through tax payments where employers will deposit tax payments through the Office of Government Tax.

## 5. Conclusion

From the discussion that has been done can be concluded

1. Entrepreneurs of Micro, Small and Medium disappointed to Government Rural and Village People who already receive money on a regular basis but can not provide benefits for security protection and promote local businesses. SME entrepreneurs are not able to stop the deposit money regularly to the Government and Indigenous Village because they are worried about business interruption which they will receive from the Government of the Village and Village People
2. Unofficial charges made by the village government and village based on the results of consultation with Indigenous communities that applied to employers on a regular basis. Management is not transparent because SME entrepreneurs do not receive physical evidence of the financial statements and the Village Government Village Peopl.

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