Why are the Other Non-Tax State Revenue Budget Variances in Ministries and Agencies in Indonesia Large? Any Dysfunctional Behaviour?

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Abstract: This study investigated the cause of significant variance in the revenue budget realization of Other Non-Tax State Revenues (NTSRs) in ministries and agencies in Indonesia. This study employed a qualitative research approach by conducting in-depth interviews with 13 informants from relevant authorities, followed by some document analyses. The results discovered that the causes of the variance in revenue budget from Other NTSR of State Ministries and Agencies could be divided into three: 1) uncontrolled factors, covering difficulty predicting certain NTSR types, external factors, unexpected service requests, and political factors; 2) controlled factors, including mapping of potential revenue, the tendency of dysfunctional behavior (budgetary slack, cherry-picking, myopia, ratchet), expenditure resource dilemma, lack of human resources capacity and capability, and poor supervision of NTSR planning; and 3) regulation/policy changes from upper-level authority. This study fills a gap in identifying factors that trigger government budget variance problems on other NTSRs that often occur in developing countries such as Indonesia. This study also adds insight into how agency problem patterns occur at the ministry and agency level in budgeting practices.

Keywords: Non-Tax State Revenues, Budgeting, Ministries, Agencies, Variance, Dysfunctional Behaviour

Abstrak—Penelitian ini mengkaji penyebab terjadinya varians yang besar pada realisasi anggaran Penerimaan Negara Bukan Pajak (PNBP) Lainnya di Kementerian dan Lembaga di Indonesia. Penelitian ini menggunakan pendekatan penelitian kualitatif dengan melakukan wawancara mendalam kepada 13 informan dari instansi terkait, dilanjutkan dengan beberapa analisis dokumen. Hasil penelitian menemukan bahwa penyebab terjadinya varians anggaran pendapatan dari PNBP lainnya Kementerian Negara dan Lembaga Lain dapat dibagi menjadi tiga: 1) faktor yang tidak terkendali, meliputi sulitnya memprediksi jenis PNBP tertentu, faktor eksternal, permintaan layanan yang tidak terduga, dan faktor politik; 2) faktor-faktor yang dapat dikendalikan, antara lain pemetaan potensi penerimaan, kecenderungan perilaku

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The government budget is one of the most crucial financial information in the public sector (Halim & Kusufi, 2014). In specific, government budget management is vital for three reasons: 1) it implies Government accountability principle implementation; 2) it represents performance engagement between the public and government; and 3) the budget serves a variety of purposes, namely as a tool for planning, controlling, assessing performance, and inspiring employees to perform well (Ritonga, 2020; Mardiasmo, 2018). Given the significance of the budget functions, they must be accurately formulated (Otley, 1978). An accurate budget relates to creating a budget for revenues that are not understated or overstated and a budget for expenses that are not exaggerated under forecasting. However, accurate budgeting is still a big challenge in the Indonesian government, which can be indicated by the high budget variance (Abdullah & Nazry, 2015), that is, the difference between the target and the actual budget (Mayper et al., 1991).

In government budgeting, the desire for favorable outcomes can serve as both a catalyst and a red flag for dysfunctional behavior (Fatah, 2017). Dysfunctional behavior could be identified as unaligned or inconsistent behavior with organizational goals performed by a management organization; thus, management attempts to impair established controls (Jaworski & Young 1992; Hansen & Mowen 2007). Marlowe (2009) contends that variance and slack in the budgeting process need to be viewed in terms of preferences for dysfunctional budgetary behavior, which can take the form of
ratchet effects, cherry-picking, sub-optimization, myopia, and budget gaming (Misra, 2019; Shin, 2013; Susanto & Halim, 2018; Marlowe, 2009; Bart, 1988). Although there is an opinion that dysfunctional behavior with reason does not harm the organization (Otley, 1978), many scholars argue that budgetary slack and other dysfunctional behaviors can cause unfavorable impacts on public sector organizations, such as non-optimal performance measurement evaluation, decreased motivation, and a tendency to reduce performance (Fisher et al., 2002; Bouwens & Kroos, 2011).

Theoretically, budgetary slack can be seen from the perspective of agency relations (principal-agent) (Halim & Abdullah, 2006; Abdullah & Nazry, 2015), which can impact an organization's optimal allocation of resources. Non-optimal resource allocation in an organization indicates loss for stakeholders (Putra et al., 2019). In the public sector, the stakeholders could be seen as people in the country, and the resources are allocated in annual budgeting. As Ritonga (2020) stated, the willingness to give people economic, natural resources, and human resources to be part of a country is the funding source in the concept of state.

In developing countries such as Indonesia, budget variance is still the primary reference in performing management control in public sector organizations (Mardiasmo, 2018). However, today, the literature discussing how and why the budget variance in government is significant is still lacking, especially in developing countries with a constitutional pattern in the form of a centralized republic, such as Indonesia. Recent studies on budgetary slack in the last five years have focused on behavioral accounting issues. For instance, Lucyanda and Shohihin (2023) revealed that women judge fiscal slack as more unethical than males, which shows that gender impacts ethical judgments. The findings also show that people view financial slack as more unethical when a code of ethics is present than when it is not. Nevertheless, their study did not detail how slack can occur in public sector budgets. So, even though the practical implications are presented based on the experimental studies they conducted, they are not contextual to answer fundamental problems in the field.

In Indonesia's annual budgeting context or Indonesia State Revenue and Expenditure Budget (SREB) structure, there are three major components, namely
revenue, expenditure, and financing (Kementerian Keuangan 2020a). One of the revenues is other Non-tax state revenue (NTSR). The budgeting for other NTSR should be accurately formulated at least for two reasons: 1) As a type of revenue that is earmarked with certain expenditures at the managing ministries/agencies, the preparation of other NTSR targets will influence the preparation of related expenditure allocations, and 2) non-optimal revenue target could impact overbudgeting in the financing section. Unoptimal conditions in the financing section of SREB, especially from debt, have an unfavorable impact on the future because the obligations attached burden the SREB (Tholhah & Halim, 2018).

In recent years, there has been an anomaly in the budgeting of other NTSRs, which can be a symptom of the inaccurate formulation. This anomaly can be seen from a relatively large percentage of over-realization of the NTSR target or the significant budget variance. The total realization of NTSR in the 2016-2020 fiscal year period was able to meet, or even exceed, the target in the SREB (Ministry of Finance 2020a). Nevertheless, little is known about why the budget realization variance from NTSR is so high yearly. Such a situation indicates no improvement in budget management and governance in the Indonesian government. For example, when the NTSR budget realization is high, this may not mean performance but rather that the budget target has been set too low by the relevant authority or that budgetary slack has occurred.

Furthermore, the relevant authorities will have the opportunity to get performance recognition and bonuses, even though they are not actual performance. If this behavior is intentional, then it leads to dysfunctional behavior. However, the assumptions and examples presented are still conjecture since related studies are still difficult to find. To address such a gap, this study investigates and explores the causes of budgetary variances in the revenue budget from NTSR in ministries and agencies (M/As). At the same time, this study determines whether there is any budgetary slack and dysfunctional behavior in preparing the NTSR budget. Specifically, this study aims to answer the research question, "Why does the budget variance anomaly occur in the revenue budget from Other NTSRs in M/As in Indonesia?"
A descriptive qualitative research approach was used to achieve the study objectives. Data for the study were collected through in-depth interviews of 13 informants who related to other NTSR target-making and document reviews. The data analysis technique used in this research is an interactive technique based on a model (Miles et al., 2014) followed by source triangulation and member checking for validation techniques.

For this study's result, uncontrolled, controlled, and policy factors become the causes of variance in revenue budgets from other NTSRs. The study also found a principal-agent relationship from other non-tax revenues in the revenue budgeting process. The existence of an agency relationship raises the potential for asymmetric information and dysfunctional behavior of agents in the preparation of revenue budgets at the central government level.

This study proposes contributions both practically and theoretically. Practically, this study reveals the factors triggering significant variance in the NTSR budget as proxies for budgetary slack practices. By so doing, this study provides valuable input for determining steps to overcome the related problem so that the associated authorities can promote more accurate NTSR budgeting. The results of this study may provide valuable insights for other developing countries that also apply NTSR as one of their state revenues. Theoretically, this study presents a fresh discussion related to agency theory, which explores in detail how agency problems occur in the context of the public sector, in this case in the government at the central government level (ministries and agencies) in the budgeting process, which involves several levels of agencies. The limitations of this study are related to data collection methods, which are limited to interviews and documentation, and the limited documents that are reviewed in the documentation technique. The limitation of this study can be an addition to be developed in the following research.

1.1. Study Background

In the Indonesia State Revenue and Expenditure Budget structure, other NTSRs are classified into four groups (the Republic of Indonesia, 2020): natural resource revenue, revenue from segregated state assets, other NTSR revenue, and public service
agency revenue. Several types of NTSR have high externality factors (macro assumptions) and low government control in terms of realization. The realization of NTSR originating from natural resources depends a lot on the volatility of commodity prices, such as the price of Indonesian crude oil (ICP) for NTSR from oil and gas and the reference coal price for NTSR from general mining (Oley & Adi 2018). Meanwhile, NTSR from state wealth management is separated, the majority of which comes from state-owned companies' dividends, which is greatly influenced by the financial health of business entities. On the other hand, the realization of other NTSRs should be more controlled.

According to the progress of NTSR realization targets over the last five years, 2016-2020 (Figure 1), an anomaly was identified in the NTSR budget realization. This anomaly can be seen from the significant percentage realization that the NTSR exceeds the budget, resulting in a substantial budget variance. The realization of the total NTSR in 2016-2020 is 107%-149% of the target Ministry of Finance, 2020).

Figure 1.
NTSR Target-Realization Trend, 2016–2020 (in trillion rupiahs)

In the other NTSR category, the budget anomaly has a more significant percentage. The other NTSR originates from services (providing services according to the duties and functions of K/L), management of state property (utilization, use, and transfer of state property), management of funds, and other state rights (Riyadi 2010; Republic of
Government control is substantial in this type of budget, so budget variances with significant value should not occur.

Table 1
The trend of other NTSR targets (Ministries/Agencies) for the 2016–2020 budget period (in trillions of rupiah)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Other NTR</th>
<th>% of budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Realization</td>
</tr>
<tr>
<td>2016</td>
<td>84,123</td>
<td>117,995</td>
</tr>
<tr>
<td>2017</td>
<td>85,057</td>
<td>108,635</td>
</tr>
<tr>
<td>2018</td>
<td>83,753</td>
<td>128,282</td>
</tr>
<tr>
<td>2019</td>
<td>94,069</td>
<td>124,503</td>
</tr>
<tr>
<td>2020</td>
<td>100,945</td>
<td>111,200</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of the Republic of Indonesia Based on Supreme Audit Agency Report, 2020 (Processed data)

From Table 1, the budget variance in other NTSRs is huge for five periods. In 2018, the excess realization was 50% above the target. The anomaly in the form of a significant budget variance can indicate inaccuracies in budgeting and forecasting and a loss of symmetrical information in budgeting (Susanto & Halim, 2018). These conditions might also signal dysfunctional budgeting behavior (Abdullah & Nazry, 2015). From the phenomenon highlighted, empirical research becomes a crucial need. That way, policies can be formulated to suppress dysfunctional budgeting behavior appropriately.

2. Literature Review

2.1. Budget Preparation Procedure in Indonesia Government

The budget preparation process includes monetization of the formulation and strategic planning of the organization in the form of income and expenditure (Bastian, 2016). To achieve strategic planning objectives and fulfill functions, budgets must be prepared honestly, challengingly, realistically, and accurately according to reliable information (Republic of Indonesia 2003). In preparing the state budget, three concepts form the basis: performance-based budgeting, integrated budgeting, and the medium-term spending framework (President of RI 2010). In performance-based budgeting, performance indicators are created to measure the achievement of plans monetized in
the budget. Integrated budgeting integrates the preparation of annual plans for all types of spending. Meanwhile, the medium-term spending framework allows for advanced forecasting and long-term budgeting dimensions for one year plus the next three years (President RI 2010; Republic of Indonesia 2003).

The Directorate General of Budget of the Republic of Indonesia (2022) describes the stages in preparing the state budget. It starts with setting policy directions and national development priorities stages. The next step is preparing projections for the state's capacity to finance spending. This stage is also called the preparation of this fiscal capacity. During this time, the government estimates state revenues. Next in succession is the preparation of spending ceilings, starting with preparing indicative ceilings, discussing macro policies and the central fiscal policies with the legislature, setting budget ceilings, and drafting the State Revenue and Expenditure Budget Bill. The State Revenue and Expenditure Budget that has been prepared is then submitted for discussion with the Parliament. Furthermore, the draft bill will be enacted into law and become the basis for determining budget allocations and a checklist of budget allocations. Theoretically, the state budget becomes a legitimate tool for government in carrying out governmental tasks and a performance indicator in measuring government work performance.

2.2. Non-Tax State Revenue Planning in Indonesia Government

Apart from tax revenues and grants, state revenues budgeted for in the Indonesian Government Budget also originate from NTSR. Law Number 9 of 2018 concerning Non-Tax State Revenue defines NTSR as follows:

"levies paid by individuals or entities by obtaining direct or indirect benefits for services or utilization of resources and rights obtained by the state, based on laws and regulations, which become central government revenue outside of tax revenues and grants and are managed in a budget mechanism state revenue and spending."

In public finance terminology, NTSR is another state revenue outside of taxation whose variations depend heavily on state resources and the condition of government in seeking state resources to become revenue (OECD, 2020). NTSR is also obtained from
tariffs/charges imposed on something provided or served by the government (Mohanty & Patra 2016). Following the division of objects by Law Number 9 of 2018, NTSR can originate from utilizing natural resources and services, managing state-owned goods and funds, and separating state assets and other state rights.

Government Regulation Number 58 of 2020 (the Republic of Indonesia) concerning the Management of NTSR regulates the stages of NTSR management, which include planning, implementation, accountability, and monitoring. The NTSR planning includes revenue targets and the amount of usage earmarked with NTSR according to the approval given to each ministry/agency. The determination of the NTSR target follows the object and type of NTSR, and it needs to be calculated and justified optimally and realistically (Dinarjito, 2017). The optimal target indicates that the target must be estimated based on the best conditions that may be achieved by projecting influential external and internal factors. Meanwhile, realistic targets describe targets following conditions that can be achieved while still complying with laws and regulations.

Even though today, the budgeting problem is not one of the findings obtained repeatedly in Audit Report of Compliance to Laws and Regulations conducted by the Supreme Audit Agency, which are unpaid NTSR, under-invoiced/not collected NTSR, NTSR levied without legal basis, and disbursement of NTSR immediately without being deposited first (Dinarjito, 2017). Thus, referring to the background described above, where the NTSR budget variance is vast, there is a high probability that the NTSR targeting practice was not run optimally and realistically and could become a problem in managing NTSR.

2.3. Theoretical View: The Agency Theory in the Public Sector

This research explicitly employs agency theory to explore the phenomenon being studied. Agency theory elaborates on the relationship between the party having the foremost authority, which is then called the principal, and the party has given control over the management, then called the agent (Jensen & Meckling, 1976). The principal and agent relationship is bound by contract/agreement. The existence of a contract/agreement between the principal and the agent creates a connection between
the two parties in the form of the influence of the actions taken by one party on the activities of the other party (Stiglitz, 1989). Eisenhardt (1989) describes that in this relationship, problems can arise, such as conflict or agency loss, if interests are not aligned (goal incongruence) between the two parties. This is due to the need for each principal agent to optimize its utility.

Agency theory can explain the relationships among certain parties in public sector organizations. The principal-agent relationship can be created from the engagement between the public (represented by the legislature) and government, the legislature and government, and within government, namely between top-level and lower-level bureaucrats (Moe, 1984). The agency condition that arises when both parties bind themselves in a contract, either explicitly or implicitly, is evident in preparing budgets in public sector organizations (Halim & Abdullah, 2006; Abdullah & Nazry, 2015). The agency theory can explain behavior in preparing revenue budgets with a clear relationship between principals and agents in the budgeting process in the public sector. In addition, the assumptions that underlie agent behavior, such as agents will, tend to stay away from risk and make more effort (Jensen & Meckling, 1976).

In Indonesia's context, asymmetric information between agents (government), legislature, and people (principals) can promote the dysfunctional behavior of agents in preparing budgets, mainly revenue budgets from other NTSRs. This can be done by setting other NTSR budget targets that are lower and then more straightforward to achieve. Thus, agent accountability will seem reasonable regarding reporting, even though it is not. However, due to the lack of literature investigating whether this assumption is valid or not, an empirical study was carried out. In this way, the assumptions stated will be answered, and the formulation of improvement policies must be justified.

3. Research Method

To answer the research questions, this study used a qualitative approach. By doing so, the researchers can explore and understand experiences from an individual's point of view regarding a social condition in detail (Hennink et al., 2011). The qualitative
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research approach is fit to understand behavior and motivation, the complexity of a process, complex situation issues, evaluate and examine a phenomenon in depth and detail, and discuss a background (Moleong, 2014). This study explores perceptions and views based on the experience of informants who prepare revenue budgets from other NTSRs in their duties and functions. Thus, qualitative methods will be able to look deeper into conditions from the perspective of the sample (Hennink et al., 2011).

The object of this study is the budget preparation for other NTSRs in the government. This study's analysis unit is the government consisting of Ministries and Agencies (M/As) that prepare revenue budgets from other NTSRs, and the Ministry of Finance as a fiscal manager and reviewer of revenue budgets from other NTSRs. Thus, 87 M/As meet the definition of the unit of analysis in this research. Based on the research object, this study's target population for data sources is parties related to preparing revenue budgets from other NTSRs. They are grouped into "budget preparers" at M/As as NTSR management agencies and "budget reviewers" at the Ministry of Finance as partners and supervisors for NTSR management agencies. In this study, the researchers combined several purposive sampling strategies, including selecting samples based on criteria, group characteristics (similar variations), extreme cases (comparison-based sampling), and snowball/rolling samples (Patton, 2006). Adopting some of these strategies cannot be separated from the environmental conditions of the research object and the accompanying conditions, as well as efforts to increase the possibility of obtaining potential informants. In detail, based on this sample selection strategy, four M/As were selected as sample areas: M/A-T and M/A-BM, which is in charge of welfare, and M/A-F and M/A-R, which is in charge of public services.

This study uses primary and secondary data. Primary data were taken using in-depth interviews using semi-structured techniques. It aims to explore a broader perspective of informants (Hennink et al., 2011; Sekaran & Bougie, 2019). Meanwhile, the secondary data in this study were collected by document review. The use of secondary data assists researchers in understanding the phenomenon's natural conditions and the information in the document.
In the four M/As sample areas, the researcher asked the gatekeepers to help select informants as research sources. A gatekeeper is a party that has a vital role in a unit related to research and understands the characteristics of the sample needed in the unit (Hennink et al., 2011). In this study, the gatekeepers at the K/L in the sample areas were the echelon II unit heads at the bureaus that made the NTSR targets. Based on the direction and disposition of the gatekeepers in each M/A, the budget preparation informants who contributed to this study are identified and invited. In summary, 13 relevant informants were successfully involved in this research (Table 2). Furthermore, Table 3 shows the documents reviewed in this research.

The data analysis technique used in this research is an interactive technique based on the model (Miles et al., 2014), consisting of three data analysis stages: data reduction, data presentation, and conclusion. Data from field notes, transcripts, recordings, and other material documents are selected and simplified at the data reduction stage. Data reduction also includes summarising the data, grouping it into
codes, and building themes. Data is organized, described, and presented in various forms in the presentation stage, such as narrative text, tables, matrices, charts, and other displays. The data presented at this stage can assist the reader in understanding the research discussion. Lastly, the conclusion, where in this stage, researchers conclude the regularity of the data that have been obtained and analyzed in the discussion.

Furthermore, to maintain the validity of the data, this research uses source triangulation techniques and member checking as instruments. Reliability assessment is another aspect of maintaining the quality of qualitative research data, analysis, and conclusions. Data reliability is related to the integrity of researchers in conducting research with reliable caution (Miles et al., 2014). Several things were done to maintain the reliability of the study, including 1) documenting the entire research process carefully, 2) double-checking the transcription with the recording interview so there are no recording errors, and 3) ensuring no bias in describing the code/theme obtained from data collection.

Table 3.
List of Document Data

<table>
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<tr>
<th>Code</th>
<th>Document Name</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>D-1</td>
<td>The NTSR of M/A X Plan Proposal in 2020</td>
<td>1</td>
</tr>
<tr>
<td>D-4</td>
<td>The Regulation of the Minister of Finance Number 155/PMK.02/2021 concerning NTSR Management Procedures</td>
<td>1</td>
</tr>
<tr>
<td>D-5</td>
<td>The Regulation of the Minister of Finance Number 152/PMK.02/2014 concerning Guidelines for Preparing NTSR Plans in State Ministries/Institutions</td>
<td>1</td>
</tr>
<tr>
<td>D-6</td>
<td>Indonesia's Medium-Term Development Plan 2014–2019 and 2020–2024</td>
<td>2</td>
</tr>
</tbody>
</table>

4. Results and Discussion

Based on the analysis of research findings data, the factors that cause a high NTSR variance are divided into three: uncontrollable, controllable, and regulations/policy changes.
4.1. Uncontrolled Factors

Uncontrolled factors are the cause of the NTSR variance originating from external factors, so the NTSR planners do not have or have low control over these factors; they include:

**Difficulty Predicting Certain NTSR Types.** It has caused several types of NTSR not to be targeted in the NTSR plan (budget). They include the kind of return on expenditure for the past fiscal year, interest on deposits, fines, and NTSR from court decisions. The realization of those types is highly dependent on implementing other government institutions' duties and functions. The following is one of the interview excerpts that support this finding:

"… In M/A-T, the variance is mostly because of return on expenditure for the past fiscal year and interest of deposits. Indeed, it is not targeted anyway." (I-4.25)

**External Factors.** Several external factors are things beyond anticipation. As such, the planned target of NTSR is not sufficiently organized, and subsequently, the NTSR realization exceeds the estimated target. Several external factors that influence these conditions include national and global economic and incidental activity factors. Some of these NTSR sources are, for example, premium income on state bonds, gain on bond redemption income, income from currency exchange differences, and income from the sale of mining natural resources. The following is an interview excerpt that supports this finding:

"There is also an NTSR originating from global or economic effects, such as from selling state bonds, namely premium bonds ... Now when we sell debt securities, there is a premium income as we are highly rated by buyers [investors]." (I-1.19)
"… the sale of mining products goes to other NTSRs... so when mining prices rise because national conditions improve, revenues will be far from the target or budget plan" (I-6.61)
Unexpected Service Requests. In some M/As, types of NTSR originate from cooperation contracts in which service prices and volumes are contained in the agreement. Several M/A received excess realization from service collaborations that were requested suddenly in the current year's budget, which has not been budgeted before, especially at the end of the year. This sudden customer demand was beyond anticipation, so the NTSR realization exceeded the budget.

"... there is something we cannot predict. For example, there is a sudden collaboration we got from third parties. Specifically, we had estimated a certain budget for this type NTSR, but suddenly the government asked for service..." (I-3.57)

Political Factors. In the State Budget negotiation between M/As and Parliament before ratifying it to be regulation, the Parliament tends to increase the NTSR target, especially for M/A with significant revenues, such as the Ministry of Finance, the Ministry of Law and Human Rights, and the ministry of energy and mineral resources. To anticipate this, some M/As target NTSR lower than its potential to make it easier to realize.

"... in my opinion, the NTSR budget is political; sometimes, during discussions in the Parliament, it was increased. Because the budget preparers in M/As already know very well about this condition from previous years, the first time the NTSR proposal was targeted definitely under the existing potential, so when asked to increase it Parliament, the increase is still on the verge of being easy to realize...." (I-6.21)

4.2. Controlled Factors

Controlled factors cause variance within the management/planning unit (Ansari, 1976). In other words, the variance of NTSR is actually under the control of the preparer and reviewers of other NTSR budgets.

Mapping of Potential Revenue. The mapping of potential revenue becomes the basis for the proposed budget amount, which is set out in the state budget plan for
discussion with Parliament. An optimal NTSR mapping and planning process can create a minimum budget variance. However, there are still obstacles in preparing the NTSR for 2018-2020. It is caused by the absence of a complete database to develop the optimal potential of NTSR, the lack of the obligation to calculate the potential, the methodology for preparing the potential that has not been standardized, and the non-optimal review process.

"In the past, before this law, we had no obligation to calculate the potential. Although some colleagues calculate based on potential data and so on, it is not used as a standardization of potential data..." (1-1.8)

*The Tendency of Dysfunctional Behaviour.* Budget variance at *ex-post* can indicate dysfunctional behavior in preparing the revenue budget. The results of this study found that they are related to the following four categories:

a. *Budgetary slack.* There is a tendency for budgetary slack in preparing the budget for other NTSRs. This condition was conveyed by the informant as follows.

"I think it is because the nature of NTSR looks like it … no matter what the conditions for the past few years, NTSR has always been achieved ... But the NTSR tends to, according to our leader, the target underestimated. (I-2.50)

Another clue to budget preparation that is not optimal and unrealistic is where M/As are reluctant to raise targets, even though the realization of the related budget in the previous year has far exceeded the target. This is because, in the revenue budget preparation of other NTSRs, there is asymmetric information between different levels of management, especially related to detailed information on business processes and field conditions. In detail, the data owned by the lower level (working unit) of each M/A is not entirely channeled to a higher level, especially to set budget targets. Finally, asymmetric information reinforces the tendency for budgetary slack.

b. *Priority of Certain NTSR (Cherry-Picking).* In preparing the NTSR budget, cherry-picking occurs when choosing the main types of income. As such, it neglects certain kinds of NTSR.
"... in previous years, we did not focus on that (certain NTSR types). We focus on M/A, which has tariff regulation... for the main service, yes, we go to them." (I-5.56)

c. Short-term target orientation (Myopia). Behavioural myopia is focused on short-term conditions. It can be seen in preparing forward forecasts (Y+3 target). Forward forecasts can be a reference and basis for projecting future budgets. However, the forward forecast number was not a predictor or initial indicator for the following year's revenue budgeting.

"... well (long-term oriented budgeting) is also not our main concern in preparing the NTSR budget forecast... we are still focusing on one year, which is the target that will be prepared." (I -8.44)

d. Increase by percentage (Ratchet). Ratchet was identified in preparing other NTSR budgets by adjusting several types of NTSR targets based on historical data and adding a specific rate. We also identified this finding in the NTSR budget documents. In addition, the results of the interview also confirmed this.

"There are some adjustments, for example, increasing a few per cent. It's made like a weighted average (historical data), a weighted average like that (laughs)." (I-3.45)

Expenditure Resource Dilemma. In the Indonesian financial system, NTSR can be used as expenditure budget funds by related M/As who got permission from the finance ministry. When the portion of the NTSR is small, the funds allocated from the NTSR to finance M/A expenditures are also small. On the other hand, the Ministry of Finance will provide more cash expenditure. It was found that cash funds were felt to be more flexible in being used to finance M/A expenditures than using NTSR allocations, so they were preferred. Thus, one opportunistic way to get favorable conditions for M/As is that M/As will tend to propose a lower NTSR target so that M/A will get two benefits, namely a low budget target that is easy to realize, and a higher allocation of cash funds amount allocated by the Ministry of Finance.
"…NTSR is uncertain, while the cash is more certain (for expenditure funds). NTSR is considered an uncertain source of funds and is different from cash, which is certain…. The cash (for expenditure) must be absorbed, while if NTSR is not received, it will be a minus (M/A does not get funding for expenditure)…."

(I-3.63)

_Lack of Human Resources Capacity and Capability._ Human resources are the actors who prepare and review the budget. The existence of problems in the capacity and capability of human resources causes some potentials not to be adequately targeted and mostly underestimated. Therefore, the realization will far exceed the budget. Problems from the human resources aspect were found in the non-optimal process of analyzing NTSR targets and poor judgment by budget reviewers in reviewing NTSR planning proposals. Due to limited human resource capacity and the main task of M/A being focused on providing services, budget targets are set as long as they are completed or merely to meet regulations.

"…. we have never tried to explore the potential of professional judgment. Thus, we do it (NTSR budgeting) as usual (refer to previous experience)." (I-3.73)

"We still cannot (make optimal NTSR planning)... that is because our M/A has very many work units and are focused on services..." (I-8.27)

_Poor Supervision of NTSR Planning._ While preparing the NTSR plan for the 2018-2020 fiscal year, supervision for NTSR has not been institutionalized. Thus, the monitoring process follows the policies of each M/A and technical advisor. This condition causes weaknesses in NTSR budget planning, so the budget has not been prepared optimally and realistically.

"… There is a lack of supervision, that is no evaluation from NTSR draft…" (I-5.38)

"... there used to be no supervision... during the planning process, right? In the past, you could say there was no (supervision)." (I-5.70)
"In particular, supervision for the NTSR is rarely carried out because planning focuses more on the budget… I would say it is rare (supervision)." (I-4.77)

4.3. Regulation/Policy Changes

Moreover, several regulation changes in the middle of the current year could result in higher NTSR realization, which exceeds its target. Usually, it is related to the ratification of new types and rates of NTSR, for example, the new service of the electronic passport process and the increase in service rates of issuance/renewal of a driving license.

"...[the high NTSR budget variance is...] because of new government regulation of tariffs in a current year. At the time of setting NTSR targets, it was not included. We did not know if the new regulation would be issued when setting the target. The related new government regulation was issued after the Indonesian Budget was ratified and implemented." (I-6.103)

4.4. Discussions

This study found that the high variance of NTSR budget realization can be divided into three factors: uncontrolled, controlled, and regulation changes. In detail, uncontrolled factors include difficulty predicting certain NTSR types, external factors, unexpected service requests, and political factors, and controlled factors cover mapping of potential revenue, the tendency of dysfunctional behavior (budgetary slack, cherry-picking, myopia, ratchet), expenditure resource dilemma, lack of human resources capacity and capability, and poor supervision of NTSR planning. At the same time, the regulation changes are related to changes in NTSR tariffs and the emergence of new types of NTSR. The results of this study provide new insights related to budgeting issues in the public sector in developing countries, especially regarding the NTSR, considering that this discussion is relatively unexplored. Specifically, this study opens a closed curtain on NTSR management practices, which still have many shortcomings. This deficiency leads to inefficiency, poor management, and even dysfunctional behavior. These findings can be lessons for state finance managers and Parliament to make relevant improvements.
Furthermore, from the results, this study initiates some suggestions, at least from two things: how to optimize NTSR budgeting practices so that the variance in realization is not too large and how efforts for potential dysfunctional behavior in budgeting are being minimized. Firstly, regulatory reform that contained substances for strengthening the management of NTSR should be executed. It can be done by enhancing related regulations, optimizing potential revenue mapping, developing relevant information technology to help, detailing the NTSR review process, and supervising NTSR planning. Secondly, as agency problems occur during the NTSR management process, supervision by external and internal auditors should be conducted appropriately. It ensures the agent carries out the authority according to the principal's goals. Monitoring costs as part of agency costs (Jensen & Meckling, 1976) are incurred so that agents do not behave defiantly, including activities to monitor, measure, and control agents.

4.5. Theoretical Implications

From the theoretical point of view, it was identified that there is a principal-agent relationship in preparing the income budget from other NTSRs. This confirms that agency theory is still a relevant lens in explaining governance phenomena in the public sector. The preparation of the State Budget is a form of social contract between the public and government to manage state resources for the most significant benefit of the people. Thus, there is a relationship between the public and the Parliament as the principal and the government as the agent. When detailed further, a tiered relationship creates a principal-agent relationship at the lower level, namely between the Ministry of Finance as the fiscal manager and M/A as the NTSR management agency. Then, within the internal M/A, namely in the relationship of budget preparation, which is tiered from the work unit (agent) to the M/A (principal) level.

In an agency relationship, agency conflict can arise because the agent and the principal want to maximize their utility (Band, 1992; Anwar, 2016). In this context, the agent wants to get the maximum performance score. From the findings of this research, the M/A wants to be scored as a good performance, as shown by the realization of other NTSRs that exceed the target. Unfortunately, it turns out that the NTSR budget
realization variance anomaly is caused by factors that lead to dysfunctional behavior; as detailed above, they include budgetary slack, cherry-picking, myopia, and ratchet. This finding implies that the measurement of M/As performance by referring only to the NTSR realization rate cannot be assumed, considering that it has been problematic since its formulation. The problem is that the budget preparer cannot determine a nearly accurate figure for the NTSR potential. Thus, the NTSR performance assessment in Indonesia needs to be evaluated in more depth.

However, the reason for the variance of the income budget from other NTSRs is not entirely derived from dysfunctional behavior. Yet, it was triggered by controlled and uncontrolled factors that are not related to dysfunctional behavior, such as difficulty in predicting certain types of NTSR, national and international economic factors, unpredictable implementation due to urgent demand for certain services, lack of human resources capacity and capability, political factors, and expenditure resource dilemma. Thus, this study opens opportunities for further studies on how NTSR should be managed and governed so that the related problems can be resolved. Results and discussion present the result of data analysis (descriptive statistics, correlation matrix, primary regression results (if present)), hypothesis testing, answer to the research question, and findings and their interpretation.

5. **Conclusion, Implication, and Limitations**

5.1. **Conclusion**

It was found that the causes of the significant budget variance consist of uncontrolled factors, controlled factors, and policy factors. Uncontrolled factors were identified, for example, certain types of non-tax revenues that were difficult to predict, external factors, and unanticipated services at the current year. Meanwhile, the identified controlled factors include the non-optimal mapping of potential, dilemmas related to the source of spending, lack of capacity and quality of human resources, and poor supervision of NTSR planning. In addition, the tendency of dysfunctional behavior in budgeting has also been identified. These factors make several potential types of NTSR not or less targeted. As the third factor, changes in some regulations/policies,
such as the new NTSR rates and types, also cause the significant NTSR budget realization variance.

5.2. Implication and Limitation

From the highlighted findings, several practical implications are proposed. Given the potential for dysfunctional behavior in the preparation of the revenue budget, efforts need to be made to minimize the possibility. In the planning process, the identified steps include mapping potential revenue, strengthening the planning process, and optimizing human resources and system information technology. Meanwhile, in the process of education and supervision, there are supporting regulations, intensive and sustainable education, optimization of NTSR supervision, and strengthening of budget person commitments. Moreover, the finding of the principal-agent relationship in other NTSR budgeting shows that the agency theory approach is relevant for analyzing government policies related to commitment to the public, such as budgeting. This finding implies that policymakers and implementers must consider the assumptions, conditions, and conflicts that may be created from the agency relationship in every drafted or implemented policy. By doing so, efforts to improve the management and governance of the NTSR can be made.

This study has some limitations. Firstly, using data collection methods, still limited to interviews and documentation, is one of the study's limitations that can be improved by further research. Secondly, the limited documents used in the documentation technique in this research can be an addition to be developed in the following research. Apart from the limitations above, further studies are recommended to explore other issues to mitigate risks and deficiencies in NTSR management and governance practices. For example, future studies can explore what factors can improve the accuracy of other NTSR planning and mitigate the potential for dysfunctional behavior.
Reference


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