

THE EFFECT OF CORRUPTION ON POVERTY IN INDONESIA

Sri Nawatmi^{1*}, Mulyo Budi Setiawan², Ali Maskur³, Agung Nusantara⁴

Vocational Faculty, Universitas Stikubank, Semarang^{1,2,3}

Faculty of Economics and Business, Universitas Muhammadiyah, Semarang⁴

E-mail: nawatmi@edu.unisbank.ac.id¹ mulyobudisetiawan@edu.unisbank.ac.id² maskur@edu.unisbank.ac.id³
agungnusantara@unimus.ac.id⁴

Abstract: A The purpose of this study is to determine the impact of corruption on poverty in Indonesia. The type of data taken is secondary data, time series 2007 - 2022. Corruption data, namely CPI, is sourced from Transparency International, while poverty data, HDI and TPT are sourced from BPS. The analysis technique used is multiple linear regression analysis using the classical OLS method. The results showed that corruption has a negative effect on poverty. This result is in accordance with the proposed hypothesis that increasing corruption (CPI declines) causes poverty to increase. The second variable, HDI, also has a negative effect on poverty, while TPT has a positive effect on poverty in Indonesia. The three variables have the ability to explain poverty by 94.4%.

Keywords: *Corruption, poverty, HDI, TPT*

Submitted: 2024-11-19; Revised: 2024-12-19; Accepted: 2024-12-26

1. Introduction

Many nations, particularly developing nations, struggle with poverty. A nation's government implements a variety of programs to combat poverty, including those related to economic growth. Together with rapid economic expansion, the primary goals of development are to eradicate or lessen poverty, reduce income disparity, and create jobs in an expanding economy (Todaro & Smith, 2006). Long-term poverty reduction and long-lasting welfare gains can be achieved by economic growth that is continuously balanced with income equality (Adam, 2004).

According to Galor (Galor, 2000), poverty, on the other hand, will slow down economic growth. In addition to causing individual tragedies like hunger, bad health, and malnutrition, poverty can also cause societal instability and uncertainty. The sustainability of current governments and macroeconomic conditions would be impacted if this trend persists.

One of the top goals of economic development in Indonesia is reducing poverty. By establishing the industrial sector as the engine of economic growth and bolstering it with productive mining, agricultural, and service sectors, economic development aims to fortify the economy's structure. It is anticipated that a higher pace of economic growth will raise the community's per capita income and reducing poverty.

The number of persons living in poverty decreased between 2019 and 2023, according to BPS data. Nonetheless, Indonesia continues to have a comparatively high poverty rate. In March 2019, there were 25.14 million (9.41%) poor people in Indonesia; in March 2020, there were 26.42 million (9.78%) poor people; and in March 2021, there were 27.54 million

(10.14%) poor people. The number of persons living in poverty fell to 26.16 million (9.54%) in March 2022 and then to 25.9 million (9.36%) in March 2023.

In measuring poverty, BPS uses the concept of the ability to fulfill basic needs. This approach is seen as an economic inability to fulfill basic food and non-food needs as measured by expenditure. Nationally, in 2023, a household is said to be poor if the income is Rp 2,592,657/poor household/month with an average family size of 4.71 people. A person is said to be at the poverty line if the per capita income is IDR 550,458 per capita per month. Indonesia still uses the standard of USD 1.9/capita/day while the World Bank has used USD 3.2/capita/day. So, if measured by the World Bank version, poverty in Indonesia can be more than double the BPS version.

Poverty is not only a concern for the government of a country but also for the world. Poverty is a multidimensional problem because it relates to the inability to access economically, socially, culturally, politically and participation from the community. Poverty is not just a low level of income or low consumption of a person; however, poverty has a broad meaning because it is related to the inability to achieve aspects beyond income.

Corruption is one element that is believed to have a significant impact on poverty in Indonesia. According to the World Bank, corruption is the misuse of authority for one's own benefit. Corruption is a widespread issue that has an impact on practically every facet of life. USAID claims that corruption impedes economic growth. Corruption in the private sector raises transaction costs, can cause trade disruptions, lowers the standard of government facilities and services, and puts more strain on government budgets, all of which limit the government's capacity to combat poverty.

Corruption and poverty are often associated with developing countries. Corruption affects poverty by reducing economic growth as well as domestic and foreign investment, distorting markets, weakening competition and increasing income inequality (Chetwynd, Chetwynd, & Spector, 2003).

The World Bank categorizes poverty into four dimensions: lack of opportunity, lack of ability, lack of security, and lack of capacity. Poverty is also associated with limited social, economic and political rights, leading to vulnerability, disadvantage and powerlessness.

There are three primary traits of developing nations that are both causes and consequences of poverty, according to Jhingan (Jhingan, 1983). First, a high prevalence of illiteracy and a lack of knowledge and skills are caused by poor educational infrastructure. Second, inadequate health care and consuming habits that prevent many people from becoming productive workers. Third, the majority of the population works in mining and agriculture, which use antiquated production techniques.

Nurkse in Kuncoro (Kuncoro, 2000) argues that poverty is not only due to the absence of development in the past but also obstacles to development in the future. Thus, a country is poor because it is a poor country. At the heart of the poverty cycle are circumstances that create barriers to high levels of capital formation.

Corruption has a variety of effects on society, but in the worst situations, it raises living expenses. In summary, people lose their money, freedom, or health when corruption is present. Political, economic, social, and environmental costs are the four primary areas into which corruption costs fall. Corruption reduces the state's economic resources. Corrupt politicians prioritize high-profile projects like dams, power plants, pipelines, and refineries over less spectacular but more urgent infrastructure projects like schools, hospitals, and roads. They also spend limited public resources on projects that will enrich themselves rather than benefit

society. Additionally, corruption distorts competition and prevents the growth of just market systems, both of which deter investment.

In the literature study, there are different studies on the effect of corruption on poverty. Researchers who show that corruption has a negative effect on poverty are: Chetwynd, Chetwynd & Spector (Chetwynd, Chetwynd, & Spector, 2003), serious corruption threatens democracy and governance by weakening political institutions and mass participation, and increased corruption jeopardizes competition, raises business costs, and reduces the state's ability to provide quality public services. It leads to one of the worst consequences of corruption which is the escalation of poverty. These results are supported by Gupta, Davoodi, and Alonso-Terme who state that once corrupted, institutions begin to operate in the interests of the powerful and those with privileged networks, exacerbating income inequality and ultimately leading to poverty (Gupta, Davoodi, H, & Alonso-Terme, 2002).

Mbiza (Mbiza, 2019) that corruption plays a major role in preventing the world from achieving sustainable development goals. Although the global poverty rate has halved since 2000, intensive efforts are needed to increase incomes, alleviate suffering, and build the resilience of individuals still living in extreme poverty, especially in Sub-Saharan Africa.

Rahayu and Widodo (Rahayu & Widodo, 2012) also show that corruption causes poverty. Corruption affects poverty by reducing economic growth as well as domestic and foreign investment, distorting markets, weakening competition and increasing income inequality (Chetwynd, Chetwynd, & Spector, 2003). Likewise, Iskandar (Iskandar, 2018), (Negin, Rashid, & Nikopour, 2010), (Tanzi, 1998), and (Tebaldi & Mohan, 2010).

The research of Aidelokhai et al. (Aidelokhai, Usman, M., Idris, A., & Sulaiman, 2021) concluded that government intervention schemes to address poverty in Nigeria have not achieved the desired results due to endemic political corruption. Likewise, Momoh and Attah (Momoh & Attah, 2018) stated that 69 percent of the Nigerian population lives in varying degrees of poverty caused by corruption. Prihatmanto et al (Prihatmanto, Artha, & Joyonegoro, 2022) stated that corruption prevention policies so far have not targeted villages with certain characteristics. The results of their research show that the villages most affected by corruption cases in Indonesia are villages with developing status and located in Java.

Maryono (Maryono, 2012) shows that corruption has a negative impact on welfare. The impact of corruption in poor countries is worse than in rich countries. Yunan and Andini (Yunan & Andini, 2018) conducted research in 4 ASEAN countries (Malaysia, Indonesia, Thailand, Philippines) between 2002 and 2015. The result is that corruption does not affect poverty but poverty affects corrupt behavior in these 4 ASEAN countries.

Brempong (Brempong, 2002) examined African countries using a dynamic panel estimator. The results show that corruption reduces economic growth directly and indirectly through a decrease in physical capital investment. Corruption is also positively correlated with income inequality. The combined effect of reduced income growth and increased inequality makes corruption more detrimental to the poor than the rich in African countries.

Research from Da Silva et al (Da Silva, Riberio, Ferreira, Costa, & Castelar, 2022) in Brazil and seven South American countries (Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay) from 20002-2018 states that corruption not only impacts poverty proportionally but also on its intensity and severity. In other words, corruption affects the gap between the income of the poorest and those at the poverty line.

Different results were shown by Castro (Castro, 2019) when the sample taken was 83 poor and middle-income countries, corruption had a negative effect on poverty, but when the sample taken was 17 low-income countries, the results showed that corruption was not significant in

explaining poverty. Different results were also obtained from Ünver and Koyuncu (Unver & Koyuncu, 2016) showing that poverty has a positive effect on corruption in Turkey.

Poverty and corruption are two of the biggest issues facing developing nations like Indonesia. Although there has been a decrease in poverty in Indonesia, there are still a lot of people living in poverty and close to it, so if there is economic unrest, the number of poor people could rise. Furthermore, with an index score of 34 in 2023, Indonesia's corruption perception index remained unchanged from 2022, although its position dropped from 110 to 115 out of 180 nations. Indonesia remains in a state of emergency due to corruption. Thus, the goal of this research is to ascertain how corruption affects poverty in Indonesia as well as how the HDI and open unemployment rate affect poverty in Indonesia. It is anticipated that by understanding how corruption, HDI, and unemployment rate affect poverty, the best approach for eradicating poverty in Indonesia will be identified.

2. Research Method

2.1. Type and Source of Data

Time-series data from 2007 to 2022 is the sort of secondary data that is employed. Transparency International (2023) provided the corruption perception index (CPI), while the Central Bureau of Statistics (BPS) provided the poverty, human development index (HDI), and open unemployment rate (TPT) data from a variety of publications.

2.2. Analysis Method

This research uses classical OLS (Ordinary Least Square) regression analysis. Classic OLS regression analysis is used because of the limited data owned and also the goal that only wants to know the effect of the independent variable on the dependent variable in the long term without distinguishing between short-term and long-term effects. Regression analysis is an analytical tool that tries to understand the relationship between two or more variables. What is analyzed in regression is sample data, which is considered to represent all objects to be analyzed.

To be able to achieve optimal results, the existing assumptions must be met (Gujarati & Porter, 2011). For this reason, it is necessary to detect classical assumptions to determine whether there are deviations from classical assumptions or not. Classical assumption detection includes: detection of autocorrelation, multicollinearity and heteroscedasticity. After the detection of classical assumptions, the t test is carried out. Assuming that the other independent variables are fixed, the t test's objective is to ascertain how the independent variable affects the dependent variable. The influence of the independent factors taken together on the dependent variable is then ascertained using the F test. Lastly, the model's capacity to explain the dependent variable's overall variance is demonstrated by the goodness of fit (R^2).

3. Results and Discussion

3.1. Results

Before estimating the relationship between corruption and poverty in Indonesia, classical assumption detection is carried out so that a BLUE (Best Linear Unbiased Estimator) estimator is obtained. The validity of regression results is highly dependent on the fulfillment of these classical assumptions. Without the classical assumption test, the regression model built may give misleading conclusions, especially in data-based decision making.

1. Autocorrelation

To detect the presence or absence of autocorrelation, the Durbin Watson test is used. The DW value is 2.461, the value of $du = 0.86$ and $dl = 1.73$. Based on table 1, there is no autocorrelation.

Table 1. Autocorrelation

Model	R	R ²	Adj. R ²	SEE	DW
1	.971	.944	.930	.89385	2.461

2. Multicollinearity

To detect the presence or absence of multicollinearity, the Tolerance test and VIF test are used. Based on table 2, it shows that VIF is far below 10 and Tolerance is below 1, meaning that there is no multicollinearity (see table 2).

Table 2. Multicollinearity

Model	Collinearity Statistic	
	Tolerance	VIF
(Constant)		
CPI	.238	4.210
HDI	.977	1.023
TPT	.239	4.179

3. Heteroscedasticity

The Gletzer test tool is used to determine whether heteroscedasticity symptoms are present or absent. Since there are no significant variables in Table 3, it can be said that heteroscedasticity is not present.

Table 3. Heteroscedasticity

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	B		
(Const.)	-2.697	6.987		-.386	.706
CPI	.061	.047	.723	1.309	.215
HDI	-.004	.084	-.012	-.044	.966
TPT	.243	.200	.668	1.213	.248

4. Regression Analysis

The regression results are shown in table 4:

Table 4. Regression Analysis

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	B		
(Const.)	65.467	14.335		4.567	.001
CPI	-.409	.096	-.602	-4.280	.001
HDI	-.427	.173	-.171	-2.469	.030
TPT	1.164	.411	.397	2.833	.015

Based on the results of the t-test using a confidence level of $\alpha = 5\%$, it can be concluded that the corruption variable (CPI) is significantly negative. It means that if the CPI increases by one index point, poverty will decrease by 0.409 million people and vice versa. If the government wants poverty to decrease, the government must make policies to reduce

corruption so that the CPI index increases. The cleaner the corruption, the lower the poverty in Indonesia.

The t-test result of the HDI variable also shows a significant negative result with a coefficient value of - 0.427. This means that if the HDI increases by one index point, the number of poor people in Indonesia will decrease by 0.427 million people and vice versa. Thus, if the government wants poverty to decline, government spending on the quality of human life must be improved, both in terms of education, health and purchasing power.

The third independent variable, namely TPT (open unemployment rate), shows a significant positive result with a value of 1.164. This means that if the open unemployment rate increases by 1 percent, the number of poor people will increase by 1.164 million people. Therefore, if the government wants poverty to decline, it must try to reduce open unemployment, for example by making it easier for both domestic and foreign investors to invest in Indonesia.

The F test results show significant with an F test value of 67.035 with sig. 0,000. Thus, the CPI, HDI and TPT variables affect poverty in Indonesia together.

The estimation results show that the goodness of fit (R^2) value is high at 94.4%. This means that the ability of the model to explain poverty in Indonesia is 94.4%, the remaining 5.6% is explained by other variables outside the model.

3.2. Discussion

The Corruption Perception Index, or CPI, is known to have a number between 0 and 100. A nation is more corrupt the closer it is to zero, and vice versa; the closer it is to 100, the less corrupt it is. According to the estimation results, poverty in Indonesia is significantly impacted negatively by the CPI. In other words, poverty will decline more in Indonesia the higher the CPI score or the less corrupt the country is, and vice versa, the lower the CPI or the more corrupt the country is. The results of the estimation are consistent with the theory.

The abuse of power for personal or group interests is corruption. Economic progress is hampered by corruption since, in the private sector, it raises expenses because of illicit payments and the possibility of contract cancellation or investigation. Trade is also disrupted by corruption. Businesses near authorities are ineffective because they are shielded from competition. By redirecting public funds to initiatives where bribes and rewards are more readily available, corruption further skews the public sector. Additionally, corruption puts more strain on government funds and lowers the quality of government facilities and services.

The existence of corruption complicates economic development, as in the private sector, corruption increases costs due to illegal payments and the risk of canceling agreements or being investigated. Corruption also disrupts trade. Companies close to officials are protected from competition, making them inefficient. Corruption also distorts the public sector by diverting public investment to projects where bribes and rewards are more available. Corruption also causes a decline in the quality of government services and infrastructure and increases pressure on government budgets.

Countries with high levels of corruption make private companies, both domestic and foreign, feel pressure to bribe. Companies provide two justifications for their actions. First, companies often find it difficult to win government projects without paying large amounts of bribes. Second, while bribery is legally wrong, it generally happens “because everyone does it”.

The results of the study support the phenomenon of corruption and poverty in Indonesia. Unfortunately, even though Indonesia has a Corruption Eradication Commission (KPK), the

level of corruption is not getting better but getting worse. More and more public officials are involved in corruption, even ministers who are still in power are involved with corruption, not just one minister. Although a large amount of funds have been disbursed to underdeveloped regions, because the funds are corrupted, it is very difficult for underdeveloped regions to catch up. The perpetrators of corruption are not only the executive, but also the legislature and judiciary, from the top to the bottom. It is very difficult to eradicate corruption in Indonesia because corruption is congregated. Actually, corruption can be eradicated if the corruptors are punished very severely, for example the death penalty and indiscriminately like China where ministers who are still in power, corruption “only” worth Rp 5 billion are still sentenced to death. Evidently, corruption can be suppressed in China, the corruption perception index can increase. China is now a very developed country and China is one of the countries that can be emulated in eradicating corruption. The problem is, do Indonesian leaders have the courage to eradicate corruption? Until now, many people are still skeptical about the eradication of corruption in Indonesia.

The second variable is HDI (human development index). The quality of human resources can be seen from the HDI. The quality of human resources will affect the poverty rate in a country. The low quality of human resources or low HDI will make people's productivity also low. Low productivity will reduce income. Low income will increase poverty. Thus, an increase in HDI in Indonesia causes poverty to decrease and vice versa, a decrease in HDI causes poverty to increase. If the government wants to reduce poverty, then government spending to improve the quality of human resources must be increased in terms of education, health and purchasing power.

As is well known, the Human Development Index (HDI) is a composite measure that combines the three primary aspects of human development that are thought to be able to represent the fundamental capacities of society: livability, knowledge and skills, and longevity and health. Productivity, equity, sustainability, and empowerment are the four primary factors that human development must take into account (UNDP, 1995). Indonesia's national development is centered on the idea of developing the full person in order to enhance one's physical, mental, and spiritual well-being. As a result, the HDI is a wellbeing indicator. Consequently, there is continuity and equity if Indonesia can boost production, promote equity, or reduce the wealth disparity.

TPT (open unemployment rate) is the third factor that influences poverty in Indonesia, and there is a positive correlation between the two. This implies that poverty will rise in tandem with a growth in the TPT. One population issue that is closely linked to poverty is unemployment. The BPS defines TPT as the proportion of the labor force that is unemployed to the total number of workers. The more labor force that is not absorbed in the labor market, the greater the TPT. Natural disasters, industries going bankrupt and having to lay off workers, or an increase in the number of new workers but no increase in the absorption of labor are some of the reasons why unemployment may arise. Even if one's basic requirements must be satisfied, unemployment equates to a lack of money. Poverty ultimately results, thus if the unemployment rate rises, poverty will rise as well. Therefore, in order to minimize poverty, the government should implement a number of policies aimed at lowering unemployment. One of the policies that the government can do to reduce unemployment is to encourage investors to invest in Indonesia, both domestic and foreign investors. Investors will be interested in investing if the government simplifies procedures in conducting business licenses, there is no bribery in conducting licenses or business activities, infrastructure is available, and legal certainty must be maintained so that investors feel safe in investing.

4. Conclusion

The results showed that corruption and HDI (Human Development Index) negatively affect poverty in Indonesia. While the TPT variable (Open Unemployment Rate) has a positive effect on poverty. The three variables have the ability to explain poverty in Indonesia with a very high value of 94.4%. Thus, the model can be a reference for policy makers in alleviating poverty in Indonesia. If policy makers in alleviating poverty in Indonesia have limitations (time, funds or other limitations) then, the government can start alleviating poverty by eradicating corruption because the standardized coefficient value for corruption is the highest. If the death penalty for corruptors is enforced as the Chinese government has done, then corruptors will be deterred so that Indonesia can become a country clean from corruption. If corruption can be eradicated immediately, then the enormous funds from corruption can enter the state treasury and these funds can be used to reduce unemployment and increase the human development index. Thus, the welfare of the people will soon be achieved and poverty will soon decrease.

References

- Adam, R. (2004). Economic Growth, Inequality, and Poverty: Estimating The Growth Elasticity of Poverty. *World Development*, 32(12), 1989-2014.
- Aidelokhai, I., Usman, M., Idris, A., & Sulaiman, F. Z. (2021, Juni). Political Corruption and Poverty in Nigeria. *International Journal of Intellectual Discourse*, 4(2), 356-371.
- Brempong, K. G. (2002). Corruption, Economic Growth and Income Inequality in Africa. *Economics of Governance*, 3, 183-209.
- Castro, C. (2019). *How Corruption Impact Poverty in Developing Countries? The Role of Education*. Dissertation Faculdade De Economia.
- Chetwynd, E., Chetwynd, F., & Spector, B. (2003). Corruption and Poverty: A Review of Recent Literature. *Management Systems International Retrieved*.
- Da Silva, D., Riberio, L. L., Ferreira, R. T., Costa, E. M., & Castelar, P. (2022). Causalita Between Corruption and Poverty: AN Analysis for South American Countries. *Estudios Economicos*, 39(79), 195-218.
- Galor, O. (2000). Income Distribution and The Process of Development. *European Economics Review*, 44, 706-712.
- Gujarati, D., & Porter, D. (2011). *Econometria Basica*. Sao Paulo: AMGH.
- Gupta, S., Davoodi, H., & Alonso-Terme, R. (2002). Does Corruption Affect Income in Inequality and Poverty? *Economics of Governance*, 3(1), 23-45.
- Iskandar, A. (2018, Juli-Desember). Does Less Corruption Reduce Income Inequality in Indonesia? *Jurnal Tata Kelola & Akuntabilitas Keuangan Negara*, 4(2), 167-186.
- Jhingan, M. (1983). *The Economics of Development and Planning*. New Delhi: Vices Publishing House, Ltd.
- Kuncoro, M. (2000). *Ekonomi Pembangunan: Teori, Masalah dan Kebijakan*. Yogyakarta: UPP AMP YKPN.
- Maryono, J. (2012). Corruption and Welfare: A Simple Econometric Across Countries Analysis. *Economic Journal of Emerging Markets*, 4(1), 63-75.
- Mbiza, M. (2019). Corruption on Poverty: Literatur Review. *Research Gate*.
- Momoh, Z., & Attah, P. J. (2018). Corruption and The Paradox of Poverty in Nigeria. *Global Journal of Applied, Management and Social Sciences*, 15, 140-148.
- Negin, V., Rashid, Z., & Nikopour, H. (2010). The Causal Relationship Between Corruption and Poverty: A Panel Data Analysis. *MPRA Paper No. 24871*.

- Prihatmanto, H. N., Artha, A. D., & Joyonegoro, M. R. (2022). Mengenali dan Mendeteksi Pola Korupsi Pada Desa Di Indonesia. *Integritas: Jurnal Antikorupsi*, 8(2), 205-220.
- Rahayu, I. P., & Widodo, T. (2012). The Causal Relationship Between Corruption and Poverty in ASEAN: A General Method of Moments Dynamic Panel Analysis. *Journal of Economics, Business and Accountancy Venture*, 15(3), 527-536.
- Tanzi, V. (1998). Corruption Around The World: Causes, Consequences, Scope and Cures. *IMF Staff Paper*, 454.
- Tebaldi, E., & Mohan, R. (2010). Institution and Poverty. *Journal of Development Studies*, 4(6), 1047-1066.
- Todaro, M., & S.C., S. (2006). *Pembangunan Ekonomi* (9 ed., Vol. Jilid 1). Jakarta: Erlangga.
- UNDP. (1995). *Human Development Report*. UNDP.
- Unver, M., & Koyuncu, J. Y. (2016). The Impact of Poverty on Corruption. *Journal Economics Library*, 3(4), 632-642.
- Yunan, Z., & Andini, A. (2018). Corruption, Poverty and Economic Growth: Causality Studies Among ASEAN Countries. *JEJAK: Journal of Economics*.