The impact of government transfers and expenditure assignments as part of fiscal decentralization on the level of corruption: Evidence from Indonesia

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Abstract— Since 1999 Indonesia has provided as much autonomy as possible. Regional autonomy is provided together with funding through fund transfers and also flexibility in the budget. Fund transfers from the central government are used by local governments to fund expenditures following the desired needs. But on the other hand, the provision of authority makes the amount of corruption in Indonesia increase. This study aims to examine the effect of central government fund transfers and expenditure assignments as part of fiscal decentralization on the level of corruption in Indonesia. This study is a quantitative study with analysis using the most unusual multiple linear regression with a fixed-effect model. The object of this research is all provinces in Indonesia by taking data from 4 years 2013-2016. The results of this study prove that government transfer and expenditure assignment which are the measurement of fiscal decentralization in this study have a positive and significant impact on the level of corruption in Indonesia

Keywords—Government Transfer; expenditure assignment; fiscal decentralization; the level of corruption.
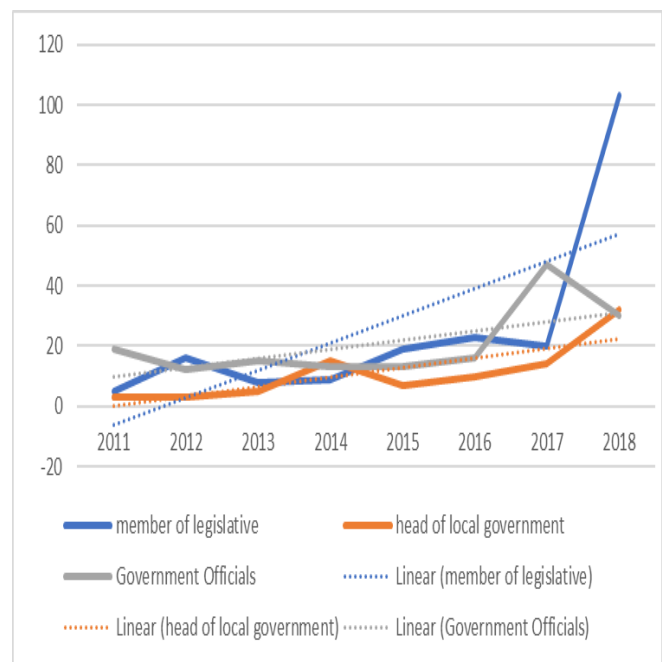
I. INTRODUCTION

In 7 years Indonesia succeeded in improving its ranking in the corruption perception index (CPI) issued by Transparency International from 118 with a CPI value of 32 in 2012 to a rating of 89 with a value of 38 in 2018 from 180 countries. In terms of trends, Indonesia's CPI value always rises, but in a ranking, there was a decline in 2015 and rose again in 2016. From a report released by the world bank on corruption in Indonesia in handling corruption in local governments, it was found that since 2002 there had been a wave of the disclosure. The case alleged corruption in various regions and almost evenly in various parts of Indonesia. The tendency of corruption is carried out by the executive in the area which is increasing sharply [1].

About corruption and public officials, the World Bank defines corruption as "an abuse of authority by officials to gain personal gain," where this phenomenon occurs both in developing and developing countries [2]. From the data of perpetrators of corruption issued by the Anti-Corruption Clearing House (ACCH) KPK, segmented by agencies offenders, criminals who work as head of the region, board members, and the officers/employees in the Government in the aggregate accounted for the largest number of perpetrators of corruption in Indonesia. The number of corruptors who were regional heads from 2011 to 2018 was 89 people, while the total number of corruptors who were officials/employees in both provincial and district/city

governments in the same time frame amounted to 165 people. The increasing trend of corruptors from government administrators in 2011 to 2018 can be seen in the following graph.

FIG. 1 CORRUPTION ACTORS BASED ON POSITION

The increase in corruption and the perpetrators is due to the implications of decentralization where there is a shift of central authority to the regions and between Institutions [1]. The consequences of the implementation of the decentralization are accompanied by the provision of financial resources for regional governments by the principle of financial balance policy mentioned in article 2 of Law number 33 of 2004 concerning Central and Regional Financial Balances. Provision of financial resources from the government to local governments, one of which is given in the form of a Balancing Fund as Government Transfer. Gift. This transfer is used by regional governments in the context of administering the government by the principle of decentralization. Fiscal decentralization policy in the form of transfer of funds to the regions has a great influence on the budget posture of local governments. For the regions,

balanced funds are the main source of income in funding the budget. According to data released by the Ministry of Finance, the proportion of regional income originating from the national balance fund until 2018 is in the range of 60.9%, in the sense that more than 50% of local government expenditure is funded from the balanced fund or the dependency of the region to fund its budget expenditure on transfers from the central government [3].

Using various models and variables, the researchers conducted tests to prove the relationship between fiscal decentralization and corruption. So far the results of the researchers' studies have provided mixed conclusions and analyzes. Research on federal transfer policy in the United States by measuring the dependent variable, namely the level of corruption with the number of public officials convicted of abuse of authority or corruption, using one independent variable, federal transfer, and five control variables, namely *gross state product per capita, police employment, population, government expenditure,* and *level of bureaucratic wages level of* found that there was a high confidence in the abuse of public office in states that received greater federal transfers [4]. Besides, this research also emphasizes that the decentralization of expenditure will be effective if accompanied by income devolution.

Other studies have found that fiscal decentralization has a positive and statistically significant effect on government quality, meaning that fiscal decentralization policies improve government quality. But different results are found if fiscal decentralization is followed by political decentralization [5]. In this study using cross-country analysis and panel data. However, some studies lead to the conclusion that there is a strong negative relationship between decentralization in a country and the level of corruption [6]. The 182 countries studied show that decentralization means bringing government services closer to the community in the sense of empowering local governments to reduce corruption. On the other hand, different conclusions indicate that there is no relationship between decentralization and corruption, regardless of the size of the decentralization used (both administrative and fiscal). The study was conducted on a local health care program in Brazil [7].
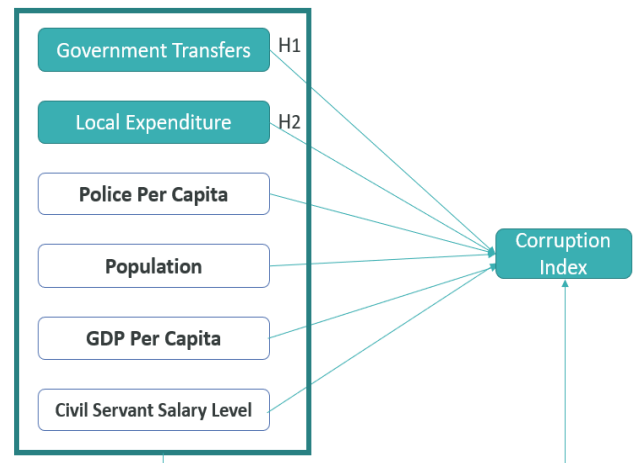
To that end, from several studies that have been conducted related to decentralization and corruption, this research will prove the model of the relationship of corruption with decentralization carried out by Fisman and Gutti by referring to the principle of financial balance policy in Indonesia which is regulated in the Law on central and regional financial balance.

II. RESEARCH METHODS

This research is a quantitative study using panel data regression in secondary data on Fiscal decentralization and Corruption Levels in the Province of Indonesia from 2013 to 2016. This study adopts the Fisman and Gutti (2002) corruption level model by adjusting the model according to the principles of fiscal decentralization in Indonesia which is regulated in the Law on Central and Regional Financial Balance. Where the principle of fiscal decentralization in the regulation is in the form of granting authority affairs to the regions accompanied by funding from the central

government in the form of balance funds or government transfers and flexibility in spending in the budget [8].

FIG 2. RESEARCH MODEL THIS RESEARCH

The model includes a proxy that measures the level of regional autonomy, namely the amount of regional income and expenditure in analyzing decentralization, as a research [9] criticized the Fisman and Gutti models which did not mention information about the level of regional autonomy. For this reason, this model incorporates the principle of fiscal decentralization as regulated in the regional autonomy law.

The dependent variable of this research is the Level of Corruption (NAPI) measured by the number of public officials/civil servants who are detained with permanent legal decisions *(inkracht van gewijsde)* for criminal corruption [4]. The higher number of prisoners from an area illustrates the increasingly widespread distribution of corruption. The level of corruption variable (NAPI) in the province (i) in year t *is* calculated by adding up the number of convicted of corruption in the province in that year.

The independent variable in this study is the transfer of the central government to the regions in the form of a balanced fund (TRAN). The provincial TRAN variable (i) in year t will be calculated by dividing the realization of balanced funds in a province (i) in year t by the realization of local government spending in the province (i) in the year (t). The next free variable is the variable of regional government expenditure (EXPEND) which is measured by using the proportion of regional expenditure to regional income minus government transfers. The EXPEND variable needs to be controlled to relate to government size and corruption.

To strengthen the model of the relationship of fiscal decentralization to corruption, this study uses a control variable in the form of the number of police officers to control the characteristics of law enforcement in an area, because a large number of prisoners can mean the spread of corruption is widespread or law enforcement is getting better [4]. This variable is measured by dividing the number of police to the overall population in the province (i) in year t officers so that the police per capita (POLI) is obtained.

Because organizational size is often associated with decentralization and corruption, the population needs to be controlled [4]. Population control variables are calculated using population projection data for Indonesia (POP) in

provinces (*i*) and year *t* inform *log-linear(ln)*. The next control variable is GDP per capita (GDP) which is used to control the possibility of poorer regions becoming very dependent on funds transferred to the regions and the spread of corruption. The GRDP per capita variable (GDP) is calculated in the linear log form (ln) in the province (*i*) in year *t*.

According to Goel and Rich (1989) and Van Rijckeghem and Weder (1997) concluded that the low salary of civil servants can lead to corruption [4], for that the other control variable is the salary level of local civil servants (SALL), which is calculated from the average value realization of employee expenditure is not directly compared to the provincial GRDP per capita.

III. FINDING AND DISCUSSION

The population in this study is all provinces in Indonesia. Values representing provinces were obtained from an aggregate of 542 Regional Governments both Provincial and District/City which was then grouped by territoriality into 34 provinces. Of the provinces that have complete data that will be used for measurement of research variables, both the dependent variable, the independent variable, and the control variable obtained in the 31 provinces that will be studied.

The results of statistical tests on the level of corruption in the form of the number of corrupt prisoners have an average growth rate of 76.57% per year in the period 2013-2016. While the transfer variable which is the ratio of government transfers, namely the balance fund to regional expenditure has an average value of 0.65 or close to one, which indicates that the region is very dependent on the balanced fund, and vice versa. In other words, most local governments in Indonesia are still unable to collect regional own-source revenues to be used as the main source of income instead of balancing funds. Whereas the regional expenditure proxy experienced an average growth of 11.94% each year, where the amount of regional expenditure and regional income always increased every year.

By using multiple regression to calculate the influence between variables in the established research model, there was evidence that there was an influence significant variable government transfers and local government expenditure as independent variables and GDP per capita, population, police per capita, and the level of regional civil servant salaries simultaneously to the variable bound to corruption, as shown in figure 3.

FIG 3. F- TEST RESULT
Weighted Statistics

R-squared	0.920320	Mean dependent var	27.05244
Adjusted R-squared	0.887349	S.D. dependent var	36.31363
S.E. of regression	10.02142	Sum squared resid	8737.302
F-statistic	27.91301	Durbin-Watson stat	2.099101
Prob(F-statistic)	0.000000		

While partially on the T-test the results obtained both the independent variable and the control variable used in this study have a positive and significant effect on the level of corruption.

TABLE 1. T-TEST RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TRAN	74.73101	12.43882	6.007886	0.0000
Ln(EXPEND)	36.46460	16.45189	2.216438	0.0293
Ln(GDP)	54.78056	12.11847	4.520418	0.0000
Ln(POP)	217.0821	58.72768	3.696418	0.0004
POLI	6760.438	2995.313	2.257006	0.0265
SALL	17.32871	4.886531	3.546220	0.0006
C	-4385.786	708.3691	-6.191386	0.0000

From the results of the T-test and the research model formed obtained regression equations formed on the research model as follows:

$$NAPIi = -4385.79 + 74.73* TRANi + 36.46* \ln(EXPENDi) + 54.78 * \ln(GDPi) + 217.08 * \ln(POPi) + 6760.44* POLIi + 17.33 *SALLi + i$$

Results of research on the effect of fiscal decentralization which is proxied by transfers from the central government on the level of corruption as measured by corruption convicts show that there is a positive and significant influence. The positive effect of local government spending on corruption is explained also like the effect of the size of the government that has a greater expenditure capability will tend to corruption [4]. Thus, the results of this study prove the phenomenon that occurs in the mass media in Indonesia and previous reports from the World Bank on case studies in 5 provinces in Indonesia in 2006. Fiscal decentralization policy, one of the dimensions of which is the transfer of funds to the regions, has led to widespread corruption. to region. This is consistent with research on the reference model, which found a strong positive relationship between the proportion of state expenditure originating from transfer funds and corruption.

In addition to proving the relationship of fiscal decentralization to corruption, the control variable used in this study shows that GDP per capita that shows the level of community welfare has a positive effect means that the more prosperous people in an area have not been a guarantee to reduce corruption. Then the high level of justice enforcement represented by a large number of police officers towards the population can be the cause of the increasing number of corruption convicts who have successfully been tried [4]. Then, the more population can increase corruption because more and more can be subject and object of corruption [10]. Also, the level of PNS salaries that have a positive effect shows that large incomes are not a guarantee to reduce corruption in government.

IV. Conclusion

From the results of the multiple regression statistical tests used in the established research model, it is concluded that there is a relationship between the influence of fiscal decentralization which is related to the fiscal decentralization policy principles regulated in Law No. 33 of 2004 concerning Central and Regional Financial Balances on the level of corruption, as the research model Fisman and Gatti are linked to the level of regional

autonomy, which is carried out on a sample test of all local governments in the provinces in Indonesia. This result proves the situation and conditions of corruption relations conducted by public officials in Indonesia as the data released both by the world bank and anti-corruption institutions in Indonesia are related to decentralization. Also, researchers can further explore the findings of this study which prove that rising salary levels are not in line with the decline in corruption.

ACKNOWLEDGMENT

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