



# The Impact of Corruption on Local Own-Source Revenue (PAD) at the Provincial Level in Indonesia

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**Abstract.** Corruption can be described as either a hindrance or as the *grease of wheel* that accelerates the economic turnover in Indonesia. With this research, the researchers can determine the extent of the influence of corruption on the economy in Indonesia after fiscal decentralization. This study utilizes statistical correlation tests using data sourced from publications released by the The Indonesian Ministry Of Finance (Kemenkeu RI) and publications from the Corruption Eradication Commission (KPK). Economic development variables are measured using accounting measures proxied to Regional Original Income (PAD), and corruption is proxied in reports from the verified public in the years 207-2019 at the provincial level. The results show that corruption at the provincial level significantly and positively affects Local Own-Source Revenue (PAD). The results elucidate that in Indonesia, corruption plays a role in the economy and also demonstrate that fiscal decentralization does not impede corruption levels at the provincial level.

**Keywords:** Corruption, Grease of Wheel, Local Own-Source Revenue, Fiscal decentralization.

## 1 Introduction

Corruption in research has two principles, namely as a hindrance or as a grease of the wheel in the economy. This can be described as duality (Adiguna and Warsono 2019) because this event has two opposing characteristics. The view from the first perspective is that corruption acts as a hindrance to economic development. Corruption is believed to exert an adverse influence on Nigeria's economy (Ibraheem, Umar, and Ajoke 2013), economic expansion (Akman and AH 2018), and global trade (De Jong and Bogmans 2011). Overall, corruption has a negative effect on both macro and micro scales (Boudreaux, Nikolaev, and Holcombe 2018) and also disrupts the lending process by banking institutions (Weill 2011).

Another perspective considers corruption as an element that greases of the wheels of the economy. As per the studies conducted by Leff (1964) and Lui (1985), corruption

is viewed as having the potential to accelerate economic activities. Nonetheless, Wei's (1999) research contradicts this perspective, suggesting that the idea of corruption serving as the 'grease of the wheel' applies specifically to countries grappling with extensive bureaucratic regulations within the industry. According to Vial and Hanoteau (2010), such occurrences only happen in Asian countries (the Asian Paradox). Additional studies propose that corruption escalates the inclination of banks to take risks in accordance with implemented monetary policies (Chen et al. 2015). In line with research conducted in Indonesia, corruption is identified as a facilitator for local revenue generation and expenditure (Arsandi 2022b).

Considering both viewpoints, researchers are keen to examine how corruption affects the economy of Indonesia. Researchers have chosen provincial own-source revenue as the focus of the study and conducted research using panel data that covers the period from 2017 to 2019. In those years, Indonesia had fully implemented fiscal decentralization. Since 2001, with the implementation of fiscal decentralization, local governments have had full economic authority in economic matters in accordance with Law Number 32 of 2004 (DPR RI 2004).

Different perspectives exist regarding the impact of decentralization on the occurrence of corruption. Some argue that increased decentralization diminishes the levels of corruption, as evidenced in the studies conducted by Mello (2001) and Changwony (2019).

Another viewpoint suggests that decentralization, which can reduce the level of corruption, is only effective in developed countries, as mentioned in the study (Tufail et al. 2021). In developing countries, decentralization is believed to increase the level of corruption, as found by Lessman and Markwardt (2010). This further reinforces the rationale for conducting this research, which is to evaluate the impact of corruption that occurs in provincial local governments on local revenue. From a wider viewpoint, the importance of this study resides in investigating how economic decentralization affects corruption levels at the provincial level.

Similar to international research, in Indonesia, previous research has also garnered various perspectives, as exemplified by studies conducted by Alfada (2019) and Vial & Hanoteau (2010). In Indonesia, corruption is also seen as having both positive and negative impacts on various aspects of economic development.

Through the application of a threshold model, it is deduced that the detrimental effect of corruption on economic growth is contingent upon whether the corruption level surpasses or falls below a specific threshold (Alfada 2019). In the era of President Suharto's rule (1975-1995), corruption also demonstrated a notable favorable influence on the expansion of the industrial sector (Vial and Hanoteau 2010). However, Samputra and Munandar (2019), examine the notion that corruption contributes to the rise of poverty within Indonesia. Impede the progress of local industrial sectors, as probed by Arсандi (2022a), and diminish the well-being of the populace, as studied by Putra & Linda (2022). Additional research results suggest that corruption does not yield a favorable "grease the wheels" effect on the Indonesian economy (Nawatmi 2016).

In the context of fiscal decentralization, studies in Indonesia also record varied results. A study conducted in 2001 and 2004 by Henderson and Kuncoro (2011) found that corruption tends to decrease with decentralization. Nevertheless, studies carried

out by Saputra (2012) and Arsandi (2022b) Concluded that as fiscal decentralization intensifies, the incidence of corruption also rises.

The goal of this research is to assess the effects of corruption on economic factors during the fiscal decentralization period in 2017-2018, specifically with a focus on local-generated revenue (PAD) as the dependent variable. PAD is the income acquired by regions through collections in accordance with regional regulations and legislation. PAD aims to provide authority to local governments in realizing regional autonomy in line with the potential of the region as part of decentralization (Kemenkeu 2018).

In this research, the independent variable is corruption, as defined by the World Bank (2000) as the improper use of authority for personal gain. This research concentrates on corruption activities that take place at the provincial level throughout the entirety of Indonesia.

## 2 Method

Conducted in Indonesia, this study utilizes secondary data sourced from publications released by the Corruption Eradication Commission (KPK) and the Indonesian Ministry Of Finance (Kemenkeu RI). The study examines the impact of provincial-level corruption on provincial local-generated revenue (PAD) over a three-year duration within the fiscal decentralization period (2017-2019). Data constraints necessitate the utilization of only the data from 2017 to 2019.

In this research, the independent variable is represented by the count of corruption cases in each Indonesian province, while provincial-generated revenue (PAD) serves as the dependent variable.

This study employs a quantitative descriptive method in its process. The process of addressing the research inquiries encompasses descriptive statistical analysis, examination of classical assumptions, and correlation testing. To analyze the data, the software SPSS version 23 is used as a tool.

This study is a correlational research that seeks to determine if there is a correlation between variables.



**Fig. 1.** Conceptual Framework

Here are the hypothesis statements proposed by the researcher in this study:

H: A relationship exists between the level of corruption in provinces in Indonesia (X) and the realization of locally generated revenue in provincial areas (Y).

In accordance with the suggested hypothesis, the investigator can formulate the conceptual framework of the study, depicted in Figure 1.

### 3 Results

This study falls within a quantitative approach and comprises three testing stages. The first stage is descriptive statistical analysis, used to assess basic statistics that will be processed. The second stage involves testing classical assumptions, such as checking for normality and heteroscedasticity. The last step involves conducting correlation tests to establish the connection between the variables under consideration.

After applying the appropriate data collection methods for the selected variables, the researcher obtained observational data documented in Table 1. Table 1 contains observation data, including the levels of corruption in each province. All data presented in this table are from the range of 2017 to 2019.

After analyzing the observation data using descriptive statistical tests, the researcher obtained results documented in Table 2.

The minimum number of corruption cases occurred in East Kalimantan province (2018) with a total of 13 cases, and the maximum value occurred in DKI Jakarta province (2019) with a total of 893 cases, with an average of 179.25 cases. Through the observation of Figure 2, It is evident that there is a pattern of rising corruption instances at the provincial level.

The lowest total realization of PAD was Rp718,911,131,164 (2018) in West Sulawesi province, the highest was Rp45,707,400,003,802 (2019) in DKI Jakarta province, and the average was Rp8,241,620,970,018.98. Figure 3 shows a trend of increasing PAD.

Following that, Researchers carry out a normality test to find out whether the distribution of the residuals for each variable corresponds to a normal distribution. From the findings of the Kolmogorov-Smirnov normality test presented in Table 3, the significance value for the variable is 0.200. If this value exceeds 0.05, it indicates that the data follows a normal distribution.

**Table 1.** Descriptive Statistics Results for the Variables: Number of Corruption Cases (Tipikor) and Local Own-Source Revenue (PAD)

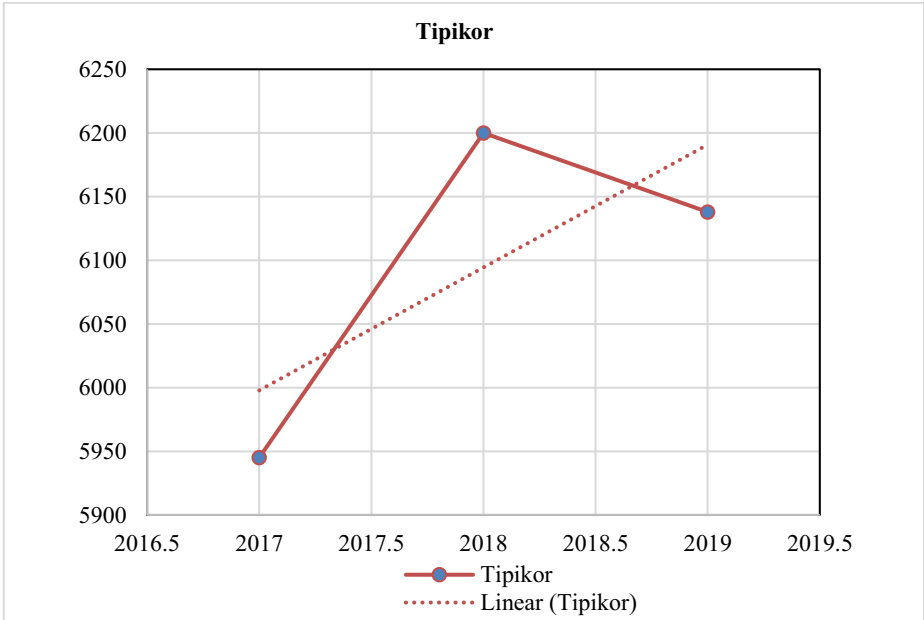
	N	Minimum	Maximum	Mean	Std. Deviation
Tipikor	102	13	893	179.25	193.594
PAD	102	718911131164	45707400003802	8241620970018.98	11586484987421.258
Valid N (listwise)	102				

Source: data processed by KPK and Kemenkeu using SPSS version 23.

**Table 2.** Research Observations

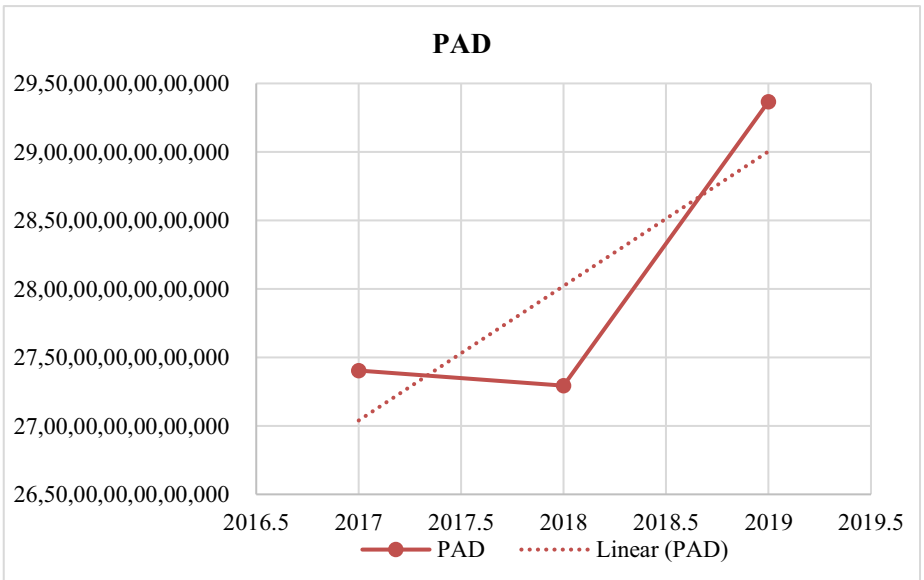
Province	Tipikor			PAD		
	2017	2018	2019	2017	2018	2019
Aceh	81	99	124	4,956,144,333,449	5,143,153,039,020	5,549,650,497,817
Sumatera Utara	489	545	518	10,732,002,100,317	10,831,005,929,848	11,312,405,397,365
Sumatera Barat	147	137	118	4,663,164,844,923	4,198,604,193,100	4,426,443,171,486
Riau	245	193	177	6,299,532,077,279	6,038,848,517,527	6,176,293,529,615
Jambi	138	124	116	2,859,652,827,722	2,868,830,019,548	2,949,171,896,837
Sumatera Selatan	401	280	289	6,092,481,549,883	6,266,511,732,636	6,645,691,889,431
Bengkulu	117	87	92	1,464,272,942,208	1,598,698,888,398	1,527,820,162,200
Lampung	116	170	171	4,524,757,695,989	4,605,336,014,738	5,105,916,360,557
DKI Jakarta	840	855	893	43,901,488,807,742	43,327,136,602,811	45,707,400,003,802
Jawa Barat	566	639	553	41,400,147,753,820	40,240,461,574,775	44,150,909,128,074
Jawa Tengah	394	401	395	26,945,325,899,151	26,766,784,043,018	28,648,041,587,525
DI Yogyakarta	40	73	75	4,349,902,284,875	4,503,175,499,458	4,742,511,857,431
Jawa Timur	605	665	571	37,263,120,085,229	37,000,782,051,294	39,344,673,330,873
Kalimantan Barat	97	96	67	3,888,720,866,323	4,035,131,315,383	4,179,910,991,508
Kalimantan Tengah	95	101	148	2,741,702,831,484	2,884,500,351,443	3,212,108,868,623
Kalimantan Selatan	158	156	129	4,869,696,450,648	5,461,513,858,277	5,650,042,071,639
Kalimantan Timur	146	13	166	7,048,343,043,178	8,138,182,348,481	9,537,631,021,215
Sulawesi Utara	87	130	93	2,277,757,227,512	2,280,239,290,226	2,380,359,117,981
Sulawesi Tengah	57	56	49	2,428,170,892,823	2,284,473,207,967	2,475,587,030,499
Sulawesi Selatan	171	169	173	8,354,954,309,879	8,225,141,902,729	8,774,005,120,516
Sulawesi Tenggara	107	99	94	1,914,315,826,914	1,777,335,066,773	2,063,338,188,988
Bali	64	55	101	10,737,300,643,694	11,319,957,020,585	12,305,573,383,540
Nusa Tenggara Barat	73	90	68	3,994,325,500,645	3,286,997,688,715	3,598,012,440,504
Nusa Tenggara Timur	117	178	107	3,062,236,368,253	2,508,614,463,143	2,844,072,457,606
Maluku	67	68	82	926,924,844,754	1,013,416,884,844	1,045,205,236,761
Papua	118	100	78	2,480,745,802,659	2,389,420,519,108	3,496,501,051,904
Maluku Utara	24	34	36	845,989,353,685	841,298,348,011	990,258,909,347
Banten	182	184	184	14,711,439,834,885	14,673,802,588,144	15,763,358,905,334
Bangka Belitung	28	49	51	1,643,273,166,800	1,687,214,510,141	1,634,944,581,696
Gorontalo	18	52	31	1,018,447,095,357	949,712,893,387	1,047,309,342,653
Kepulauan Riau	58	47	81	3,013,883,337,657	3,214,701,042,041	3,467,482,175,149
Papua Barat	61	44	24	990,126,651,745	937,411,606,905	1,094,132,886,442
Sulawesi Barat	17	33	118	805,496,860,755	718,911,131,164	773,573,551,036
Kalimantan Utara	21	178	166	826,825,626,487	917,854,396,892	1,057,174,516,728

Source: data processed by KPK and Kemenkeu



Source: processed from data published by KPK using SPSS version 23.

**Fig. 2.** Corruption Trends in Provinces (processed from data published by KPK)



Source: processed from data published by Kemenkeu using SPSS version 23.

**Fig. 3.** Local Own-Source Revenue (PAD) Growth Trends (processed from Kemenkeu data)

**Table 3.** Kolmogorov-Smirnov Normality Test

		Unstandardized Residual
N		102
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.69717146
Most Extreme Differences	Absolute	.053
	Positive	.053
	Negative	-.047
Test Statistic		.053
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: data processed from KPK and Kemenkeu using SPSS version 23.

After testing whether the data distribution follows a normal distribution, the next step is to check if the variances of the residuals differ, as indicated in Table 4. The results from Table 4 show that the significance value for variable X is 0.931, which exceeds 0.05. From these results, the researcher can conclude that there is no indication of heteroscedasticity, and the data follows a normal distribution.

**Table 4.** Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.512	.235		2.180	.032
LNx	.004	.049	.009	.086	.931

Source: data processed from KPK and Kemenkeu using SPSS version 23.

Following the completion of the heteroscedasticity test, the subsequent stage involves examining the association between variables, and the findings are recorded in Table 5. The data presented in Table 5 indicates that the significance value is 0.00, which is below the threshold of 0.05, signifying the existence of a correlation. Furthermore, the level of correlation is categorized as strong because the Pearson correlation coefficient reaches 0.781, and the result shows a positive correlation.

**Table 5.** Correlation Test Results

		Tipikor	PAD
Tipikor	Pearson Correlation	1	.781**
	Sig. (2-tailed)		.000
N		102	102

PAD	Pearson	.781**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	102	102

Source: Results of data processing using SPSS version 23

## 4 Discussion

The correlation analysis conducted by the researcher concluded that the proposed hypothesis can be confirmed. Similar to the study by Arsandi (2022b), The results of this research also indicate a positive correlation between the level of corruption at the provincial level (X) and the actualization of the province's Original Regional Income (PAD) at the same level (Y).

This research exclusively utilizes secondary data derived from Corruption Eradication Commission (KPK) publications. The corruption data used consists of confirmed corruption cases at the provincial level.

Therefore, it is possible that the processed sample does not encompass the entire population of existing corruption cases.

Overall, these findings indicate that corruption serves as a lubricant for the economic machinery, explaining the complexity of the economy (Wei 1999) in Indonesia and rejecting the idea that corruption acts as an economic hindrance (Akman and AH 2018). This implies that as the level of corruption increases, so does the economic level. The findings of this research also indicate a noteworthy positive impact between the degree of corruption and regional economic factors in the fiscal decentralization period, indicating that fiscal decentralization does not limit the level of corruption.

## 5 Conclusion

This research has limitations that do not allow for a full understanding of the extent to which factors contribute to the increase in corruption during the fiscal decentralization period. Therefore, this topic may be an interesting subject for further research.

In summary, this study produces results indicating a substantial positive connection between provincial-level corruption and provincial-generated revenue (PAD). These results indicate that corruption in Indonesia can play a role as a factor that greases the wheels of the economy. Furthermore, the study observes that the extent of corruption at the provincial level did not decrease throughout the fiscal decentralization period.

Previous research addressing the concept of "grease the wheels" highlights that this phenomenon arises when a nation's bureaucracy and regulations become overly complex. (Wei 1999). Therefore, the researcher hopes that the government can consider simplifying bureaucracy as a step to improve business certainty in Indonesia.



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