

THE BAD IMPACT OF CORRUPTION ON POVERTY

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Abstract

This study rigorously examines the negative association between corruption and poverty rates across 65 regional administrations in Southern Sumatra throughout the year 2018. The corruption metric was developed using the irregularities identified by BPK-RI on LKPD as an empirical indicator of corrupt practises. Concurrently, the measurement of poverty was conducted utilising data sourced from BPS-RI, which was represented by the proportion of the socioeconomically disadvantaged population within each respective region. The study utilised a methodological technique that involved the application of basic linear regression to establish the correlation between the two variables. The findings of this study demonstrate a significant and noticeable positive association between corruption and heightened levels of poverty. The aforementioned highlights the significant ramifications of corruption in intensifying poverty, underscoring the pressing necessity for governance reforms and anti-corruption strategies to mitigate poverty in the researched locations.

Keywords: *Corruption, Poverty, The impact*

Introduction

The problem of poverty is still a big problem for developing countries in the world, including Indonesia. The problem of poverty continues to be of great concern to the government, researchers and interested parties. This is because poverty will cause multiplayer effects such as low economic growth and not being able to absorb the workforce (Jhingan, 2012); low health and quality of

public services (Kuncoro, 2006); low quality of education, low investment (Arshad, 1999).

Indonesia as one of the developing countries has not yet been able to escape the problem of poverty, where the Southern Sumatra Region, which is one of the largest regions in Indonesia in 2020, still has a quite significant poverty rate, namely an average of 10.91% as shown in following table:

Table 1: % of Poor Population in the Southern Sumatra Region in 2020

Province	Percentage of Poor Population (%)
Jambi	7,92
Bengkulu	15,43
Lampung	13,14
Kep. Bangka Belitung	5,25
Sumatera Selatan	12,80
Rata – Rata	10,91

Source: Central Statistics Agency of the Republic of Indonesia, 2021

The still high percentage of poverty in the Southern Sumatra region is of course caused by many factors, one of which is corruption (Chetwynd *et.al*, 2003; Yolanda, 2019). This is because corruption is an abuse of power to benefit certain parties at the expense of state finances which should be used to improve community welfare (Republic of Indonesia Law No. 20/2001). However, Huang's (2015) research results state that the causality of corruption on economic growth is positive, which means it will indirectly reduce poverty.

This research is important to carry out because the findings regarding the relationship between corruption and poverty are still inconsistent and in order to convince interested parties that corruption is an enemy of development. Apart from that, this research is novel in terms of measuring corruption, where the corruption variable is measured using the number of irregularities discovered by audit institutions (Wu & Rui, 2010; Zhao & Tao, 2009; Glaeser & Saks, 2006) with the argument that irregularities are strong indications that have the potential to harm state finances. Meanwhile, in general, corruption is measured by the corruption perception index (Akhter, 2004; Akcay, 2006; Huang, 2015; Khairudin & Erlanda, 2016).

Literature Review and Theoretical Framework

The agency theory presented by Jensen and Meckling (1976) will give rise to information asymmetry. The information asymmetry that occurs will give rise to acts of fraud in the form of corruption, because agents have more information in terms of quality and quantity and this confirms that agents do

not always act in the interests of the principal, namely realizing welfare for society. Corruption that arises due to information asymmetry will certainly have a negative impact on local governments.

Corruption is an unlawful act to enrich oneself or another person or a corporation by harming state finances or the state economy (Republic of Indonesia Law No. 20/2001). Meanwhile, poverty is a socio-economic condition of a person or group of people where their basic rights are not fulfilled to maintain and develop a dignified life (Law of the Republic of Indonesia No. 24/2004). Corruption that takes place in a local government organization will of course involve internal and external parties in the form of illegal agreements. As an agent, management certainly has more information in terms of quality and quantity which can be used as material to carry out corruption by naughty individuals in the form of manipulating reports, abuse of power, and so on. Corrupt practices will certainly damage the social system, threatening democratic institutions and the market economy (Pope, 2008); corruption will hinder the country's growth, development and prosperity (Sharma & Mitra, 2015); resulting in increasing poverty rates (Chetwynd *et.al*, 2003).

Previous research conducted by Chetwynd *et.al*, (2003) found that corruption will increase poverty in developing countries. Yolanda (2019) also found that corruption will increase poverty in ASEAN countries. This is because corruption is an abuse of power to benefit certain parties at the expense of state finances through misappropriation of funds from work programs to improve community welfare, so that these programs do not run optimally and in the end actually increase poverty. However, the results of Huang's research (2015) state that the causality of corruption on economic growth is positive, which means that indirectly corruption will reduce poverty rates. This happens because corruption is generally carried out by involving other parties and the money obtained from corruption will generally be used for consumptive purposes. So, that it will increase economic activity and ultimately grow the economy in the long term. Referring to the explanation above, the following hypothesis can be formulated:

Ha: Corruption has a positive effect on poverty

Methodology

This research was conducted on 65 local governments in the Southern Sumatra Province region using purposive sampling as sample criteria. The definitions and measurements of each variable appear as follows:

Variable	Variable Measurement
Corruption (X)	Corruption is measured using the number of irregularities found by audit institutions

	(Wu & Rui, 2010; Zhao & Tao, 2009; Glaeser & Saks, 2006).
Poverty (Y)	Poverty is measured by the percentage of poor people in an area (BPS-RI, 2020; Yolanda, 2019)

Testing in this research uses simple regression with the following equation:

$$POV = a + b_1CORR + e$$

Where POV is poverty during the observation period and CORR is corruption during the observation period.

Result & Discussion

Table 2: Descriptive Statistics

Valiabel	N	Minimum	Maxsimum	Mean	Std. Deviasi
Corruption	65	6.00	28.00	14.6923	4.32985
Poverty	65	2.76	20.85	11.2866	4.29652
Valid N (listwise)	65				

Source : Data Processed, 2021

The results of the descriptive test (table 2) above explain that the regional government with the highest corruption cases is Rejang Lebong Regency with 28 cases of irregularities found, while the regional government with the lowest corruption cases is Muaro Jambi Regency with 6 cases of irregularities found and the average Corruption cases during 2020 were 14.69 cases. The high level of corruption cases in regional governments in the Southern Sumatra region is due to the fact that the quality of good governance of regional governments in the Southern Sumatra region is still not good. Furthermore, the highest poverty is in North Lampung Regency at 20.85%, while Sungai Banyak City is the regional government with the lowest poverty, namely 2.76% and the average poverty during 2020 was 11.28%. The still high poverty rate is due to the lack of optimal implementation of regional government work programs for community welfare which is caused by budget leaks by unscrupulous individuals to enrich themselves or their groups.

This research has tested the hypothesis for the effect of corruption on poverty with the following results:

Table 3: Hypothesis Testing Results

Variabel	Coefficient	t-Statistic	Prob
C	5.609	3.182	0.002
CORR	0.386	3.356	0.001
Adjusted R-squared	0.138		

Source : Data Processed, 2021

Table 3 informs that the significance value for the t-statistic for corruption on poverty is 0.001 with a coefficient value of 0.386, so the hypothesis is "supported", which means that corruption can significantly result in an increase in poverty rates. This finding has strengthened the results of research conducted by Chetwynd *et.al*, (2003) which found that corruption will increase poverty in developing countries. Yolanda (2019) also found that corruption will increase poverty in ASEAN countries. This finding is because corruption is an abuse of power through the misappropriation of APBD/APBN funds for programs to improve community welfare, so that these programs do not run optimally and in the end actually increase poverty. Apart from that, these findings have also supported the implementation of Law of the Republic of Indonesia No. 20/2001 concerning the Eradication of Corruption Crimes, where corruption is an enemy of the state that must be fought. However, these findings contradict the results of Huang's (2015) research which found that there is positive causality between corruption and economic growth, which means that corruption will indirectly reduce poverty rates.

Conclusion & Suggestions

This research succeeded in finding that corruption and poverty in local governments in the Southern Sumatra region are still relatively high. Apart from that, this research succeeded in finding that corruption has a positive and significant effect on poverty. So that regional governments and of course related parties must be committed to fighting corruption by improving the internal control system and also increasing supervision over state financial management and consistently increasing sanctions/punishments for perpetrators of corruption.

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