

# Corruption, Governance, and Inequality in Indonesia

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Forum Kajian Pembangunan

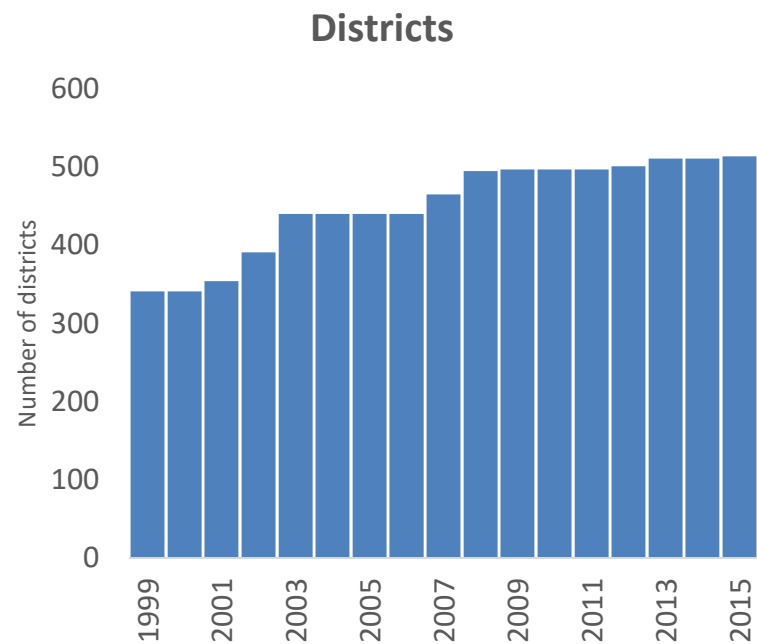
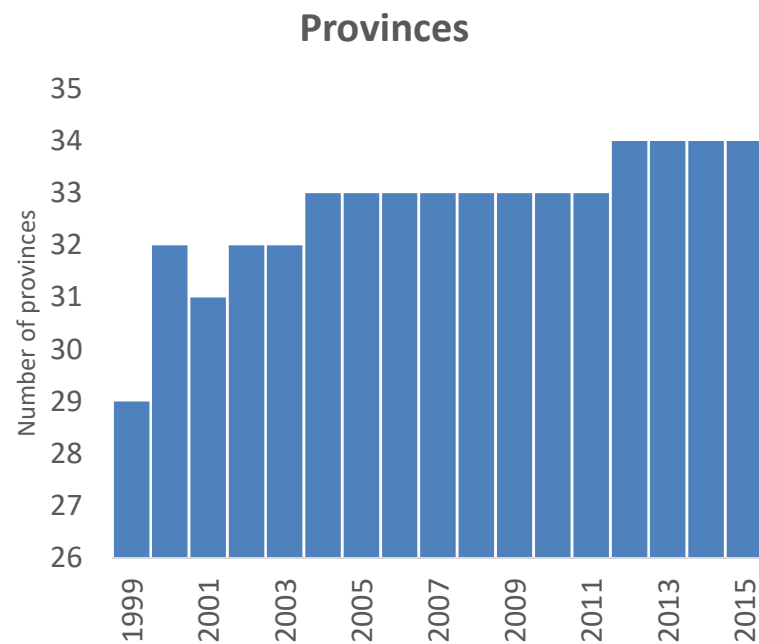
31 October 2017

# Outline

- Background
- Stylised Facts
- Empirical Evidence
- Preliminary Conclusion

# Decentralisation

- Responsibility to manage its fiscal capacity; assume it brings government closer to the people; improving efficiency; matching local preference.



# Inequality during decentralisation

- The rise in inequality is predominantly visible in democratisation period, as before it was relatively stable (Yusuf, 2017).



Source: BPS, Bappenas.

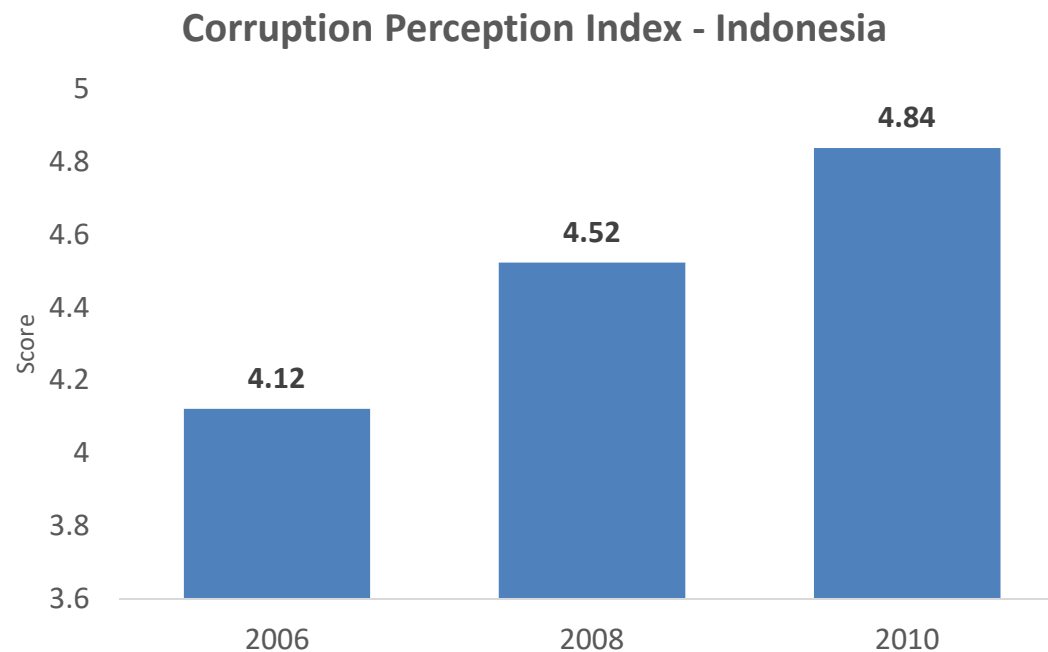
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# Motivation of study

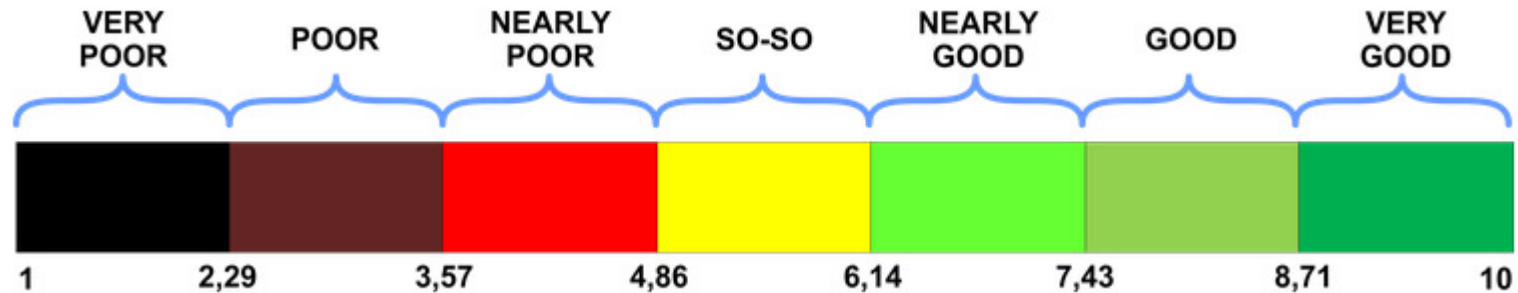
- Studies on reducing inequality rely mostly on monetary aspects → economic expansion, progressive tax, social assistance.
- Corruption studies: corruption reduces the effectiveness of social assistance (Dartanto et al, 2016) and less corrupt environment is a necessary condition for the public spending to have effect on enrollment rates (Suryadarma, 2012).
- 3,099 corruption cases, 135.88 trillion rupiahs of total loss, and 13.5 trillion rupiahs of total fines during 2001-2015 (Monitor Corruption, UGM).
- Losses in public trust → business environment, tax revenue, and participation of the poor in social assistance programme.
- Governance studies: on poverty reduction (Sumarto et al, 2004) and on growth and HDI (Patunru and Rahman, 2014).

# Corruption perception index - TII

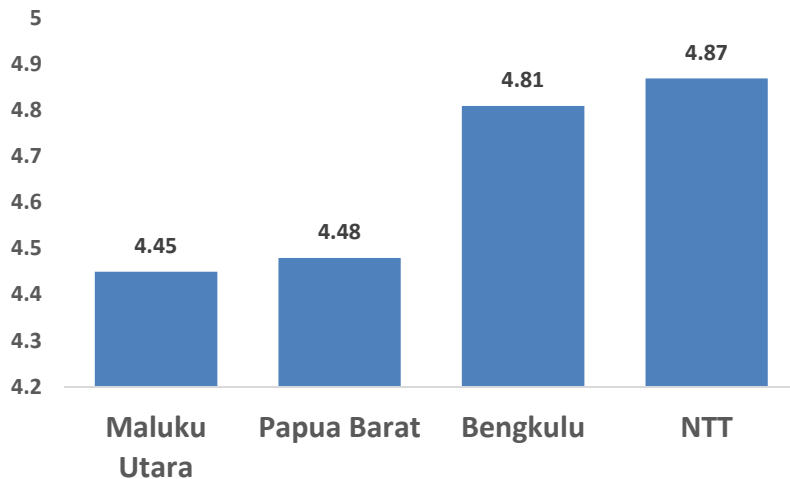
- There is an increased efforts to combat corruption as well as a stronger need to completely eliminate corrupt practices in the public sector.



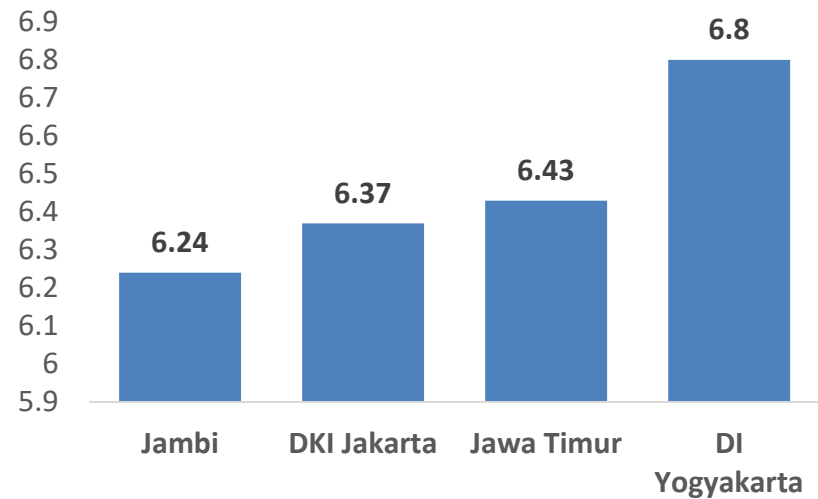
# Governance index - Kemitraan



Worst provinces in IGI 2012

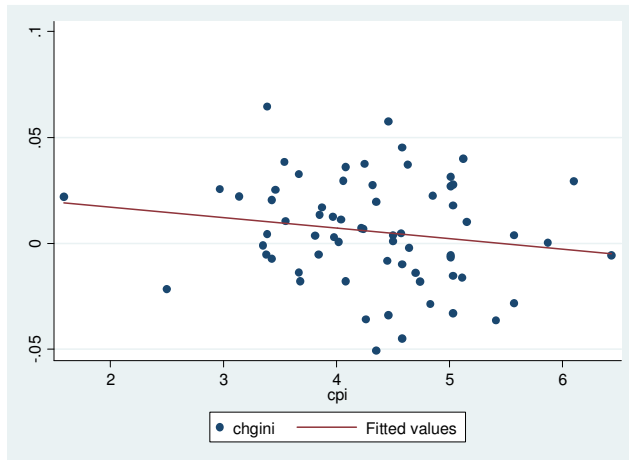


Best provinces in IGI 2012

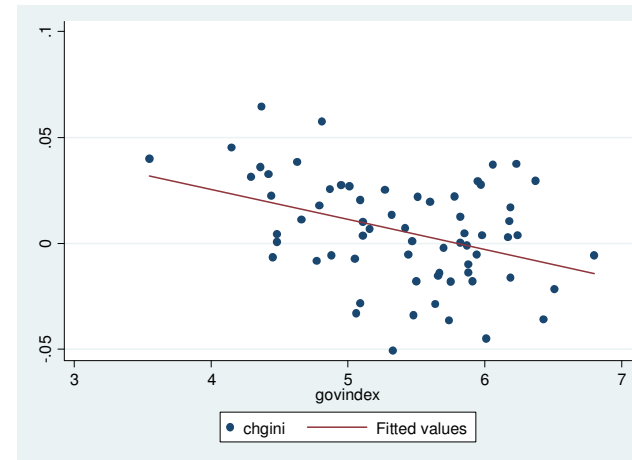


# Corruption, Governance, and Inequality

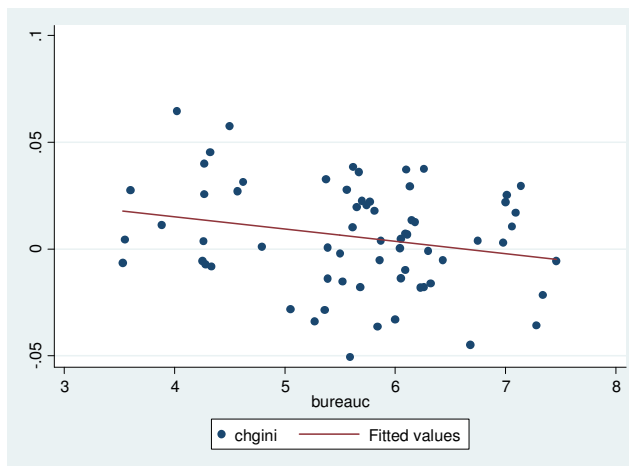
Corruption Perception Index



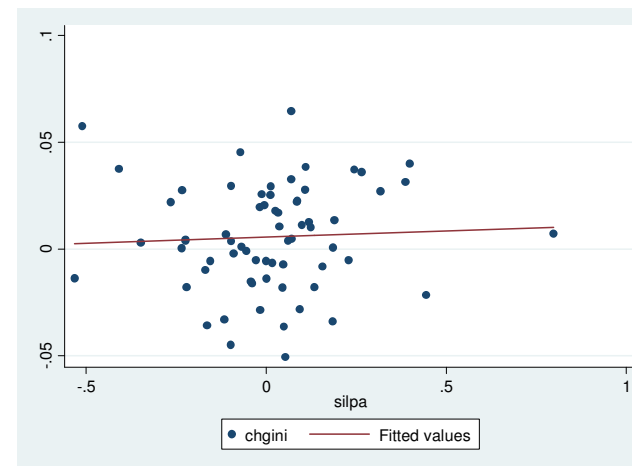
Governance Index



Bureaucracy Aspect



Unspent Budget



# This paper

- **Research questions**

- Does less corruption lead to a reduced inequality?
- Does good governance lead to a reduced inequality?
- Which aspect of good governance that lead to a reduction in inequality?

- **Variables**

- Outcomes =  $f(\text{corruption, governance, controls})$
- Outcomes: change in consumption-based Gini coefficient
- Corruption: Corruption Perception Index (CPI)
- Good governance: Governance Index (IGI), unspent budget
- Controls: degree of decentralisation, BPK audit opinion, spending on health, education, infrastructure, and social protection, average per capita expenditure, poverty rate.

# Regression results

Change in Gini <sub>t</sub>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Gini <sub>t-2</sub>	-0.229** (0.089)	-0.194** (0.084)	-0.234** (0.086)	-0.235** (0.089)	-0.309*** (0.090)	-0.328*** (0.098)
CPI <sub>t-2</sub>	-0.005* (0.003)		-0.006* (0.003)	-0.006* (0.004)	-0.004* (0.003)	-0.004* (0.004)
Governance <sub>t-2</sub>		-0.013*** (0.004)	-0.013*** (0.004)		-0.008*** (0.003)	-0.009*** (0.003)
Unspent budget <sub>t-2</sub>				0.002* (003)		
Average PCE <sub>t-2</sub>					-0.130 (0.014)	-0.118 (0.015)
<sup>0</sup> of decentralisation <sub>t-2</sub>					0.199** (0.094)	0.154** (0.127)
BPK audit <sub>t-2</sub>					0.006* (0.004)	0.006* (0.004)
Constant	0.102*** (0.032)	0.139*** (0.032)	0.160*** (0.036)	0.143** (0.058)	0.315* (0.181)	0.256* (0.212)
Additional controls	No	No	No	No	No	Yes
Observations	66	66	66	66	66	66
R <sup>2</sup>	0.1204	0.2199	0.2455	0.1849	0.2769	0.2803

# Aspect of governance

- Government: not significant
  - Policy making bodies consists of the executive and legislative branches.
- Bureaucracy: highly significant
  - The executing body that serves as a bridge between government and the public. Government offices and agencies at the provincial level which its key functions in the area public service such as local revenue collection and regulation of the local economy.
- Civil society: highly significant
  - Constitutes of NGOs, associations, labour unions, education, and research institutes with public policy advocacy function as the key.
- Economic society: not significant
  - Participation of economic actors in government tender and project implementation.

## On the mechanism

- Interaction with more governed region dummy
  - Spending on health, education, infrastructure, social protection, PAD, and DAU: significantly negative

# Preliminary conclusion

- A first step to understand the effects of corruption (perceived) on inequality reduction.
- Also whether good governance has a role in explaining the effects.
- Less corrupt environment is important to policies on reducing inequality especially good governance in the arena of bureaucracy and civil society.
- A higher unspent budget (SILPA) in government budget allocation tend to be associated with a positive change in inequality.
- Signs on degree of decentralisation are unexpected.
- Obtaining bad opinion from BPK → positively increase the change in inequality.
- Effects may still unfold.

# Drawbacks

- Need to look at district level
- Measure of corruption
- Unspent budget → equity vs efficiency
- Political variable: divided/unified government
- Obsolete year of analysis

# Thank you

Your comments and suggestions are welcome.