Effect of Fiscal Decentralization and Region-wide Corruption Level in Indonesia

Edy Anan

Abstract—Many parties suspect that there is an in-between relationship of fiscal decentralization and the corruption level in the regencies and city. This study aims to examine the effect of fiscal decentralization on the city-wide corruption level in Indonesia. This study used the General Allocation Fund (Dana Alokasi Umum or DAU) of the regency and city, age of regency and city, and location of regency and city as the control variables. The population of this research is all regencies and cities in Indonesia. As the data sources, we used the secondary data. The research sample was selected using the purposive sampling method.

Hypothesis testing uses multiple regression analysis, the coefficient of determination test ($R^2$), and partial test (t-test). The statistical test results of the significance level of fiscal decentralization of the corruption level is 0.016 smaller than the significance level of 0.05 (5%). This result shows that fiscal decentralization has a significant effect on the corruption level in the regencies and city in Indonesia. The statistical significance level results for the control variable are regency and city’s DAU of 0.081, age of regency and city of 0.221, and regency and city location of 1.222. This means that the DAU, age, and location of regencies and cities have no significant effect on the corruption level of regencies and cities in Indonesia.

Keywords—Fiscal Decentralization, Corruption Level, Regency and City.

I. INTRODUCTION

Decentralization and local government reform in the implementation of development has become a globalizing trend in the 1990’s [1]. This tendency is not only in federal countries, but also in unitary countries, including in countries that have an autocratic-centralistic tradition [2]. The fact that of the 75 developing and transitional countries, 63 of them have been carrying out the process of fiscal decentralization, although with varying degrees [3].


Experts such as Barzelay [8], Bird, et al. [9], Tjokroamidjojo [10], and Mulyana, et al. [11] supports the importance of fiscal decentralization. But Prudhomme [12] states that decentralization with regional autonomy has weaknesses, that is:

- Creating a gap between rich and poor regions.
- Threatening economic stability due to inefficient macroeconomic policies, such as fiscal policy.
- Reducing efficiency due to underrepresentation of representative institutions with indicators of weak public hearing.
- Expansion of the corruption network from the center to the regions.

Indonesia Corruption Watch (ICW) noted that in 2010 – 2017, a number of 215 governors, mayors, and regents suspected of corruption (Figure 1). The data came from the Corruption Eradication Commission (Komisi Pemberantasan Korupsi or KPK), the police and the prosecutor’s office handling governors, mayors, and regents who were suspected of corruption. The governors, mayors, and regents who were the suspect in the regent’s highest corruption case was 130 cases and the lowest was the vice governor of two cases [13].

FIG 1. SUSPECT FOR CORRUPTION CASE 2010 - 2017

The high number of a governor/mayor/regsents became a suspect indicating that there has been a shift in corruption from the central government to the regional government. Almost all provinces and regions of this country are yielding to corruption. A famous newspaper line, Kompas, in their headline mentioned there were at least one suspect of corruption everyday [14].

The high cases of corruption in the regions carried out by governor/mayors/regsents have tarnished and injured the meaning of decentralization amid community expectations; which is to be able to produce good public services to the community [15]. Decentralization ironically made the trend of the corruption level in the regions sharply increased [16]. The most visible impact of fiscal decentralization is corruption rather than public services [17].

Research results in various countries regarding the effect of decentralization with the corruption level in the regions shows inconsistent results. Research by Goldsmith [18], Treisman [19], and Wu [20] found that federal states have a relationship with high corruption level. The opposite results are Fisman and Gatti [21], Gurgur et al. [22], and...
Tumennasan [23] found that decentralization had a relationship in reducing the corruption level.

Interesting results from the research of Freille, et al. [24] which divides decentralization, namely constitutional, political and fiscal (market). In fiscal (market) decentralization, it was found that decentralization has impacted on the low level of corruption. However, constitutional decentralization (federalism) has an effect on the high corruption level. While political decentralization exacerbates the positive effects of constitutional centralization on corruption.

Research on the in-between relationship of decentralization and corruption in Indonesia by Rinaldi, et al. [16] stating that along with the start of the decentralization policy, there has been an increase in the number of disclosures of corruption cases in the regions. Furthermore, TI-Indonesia research [25] revealed that the abuse of the authority of Regional Development Budget (Anggaran Pendapatan dan Belanja Daerah or APBD) has become a potential den of corruption. Regional legislative bodies are filled with project brokers, or even in some places they have become contractors. Anan’s research [26] also mentioned that decentralization has caused widespread corruption cases in the regions.

II. LITERATURE REVIEW
Fiscal decentralization is the delegation of responsibilities, authority and related resources (such as: finance, employees, etc.) from the central government to lower government level [11]. Bird and Vaillancourt [27] stating that fiscal decentralization is a process of distributing budgets from higher government level to lower government, to support the functions or tasks of government and public services, in accordance with the many authorities in the field of government delegated.

Fiscal decentralization in Indonesia uses the principle of money follows. This means that the amount of financial distribution is based on the distribution of predetermined duties and responsibilities [28]. The mechanism of money follow function is the transfer of functions and authority accompanied by the authority to utilize its own financial resources carried out in the Regional Original Revenue (Pendapatan Asli Daerah or PAD), the main source of which is local tax and regional levies and is supported by a balancing fund consisting of revenue from Land Tax and Buildings (Pajak Bumi dan Bangunan or PBB), Fees for Acquisition of Rights to Land and Buildings (Bea Perolehan Hak Atas Tanah dan Bangunan or BPHTB), Revenue Sharing from Natural Resources (Bagi Hasil dari Sumber Daya Alam), DAU, and Special Allocation Funds (Dana Alokasi Khusus or DAK).

Corruption can be interpreted as behavior that does not obey the principle, carried out by individuals in the private sector or public officials [29]. Decisions are made based on personal or family relationships, including conflicts of interest and nepotism. Factors that cause corruption at the regional level are with the following formula [30]:

\[ C = M + D - A \]

(1)Corruption = Monopoly of Power + Discretion of official - Accountability

According to the theory, corruption will occur if the monopoly of power by the leadership (monopoly of power) is coupled with the high power of someone (discretion of official) without adequate supervision (minus accountability). It can be said that corruption in the regions can occur, if the regional government is monopolistic that has discretion or the power to make decisions, and without adequate accountability it will tend to be corruption.

In the context of accounting, corruption is related to accounting fraud as a white-collar crime. According to the Association of Certified Fraud Examiners (ACFE), fraud is an act of error made by a person or entity that knows that the mistake can result in some unfavorable benefits to individuals or entities or other parties [31]. The ACFE divides Fraud into three types, namely:

- Assets Misappropriation
- Fraudulent Statement
- Corruption

The causes of fraud, according to Cressey (1953) with the Fraud triangle theory [32], are 1. incentive/pressure, 2. opportunity, and 3. Attitude/rationalization.

III. RESEARCH METHOD
This study is using the empirical research with hypotheses testing, the aim is to test a hypothetical model. The population in this research are all regencies and cities in Indonesia. The research sample was selected using purposive sampling method fulfilling these criteria:

- Regencies and cities included in the calculation of the Indonesia Corruption Perception Index (Indeks Persepsi Korupsi or IPK) survey conducted by Transparency International Indonesia (TI-Indonesia) for the year 2004, 2006, 2008, and 2010.
- Regencies and cities included in the calculation of the IPK by TI-Indonesia survey has the complete data of Revenue and Expenditures Budget, and the regencies and cities age.

Data type to use in this research is a secondary data. Secondary data is a source of research data obtained indirectly through intermediary media (obtained and recorded by other parties). The research data collection method uses the documentation method. Data collection techniques by searching (browsing) and collecting data obtained from published annual reports. Data collected in the form of Hard Copy and Soft Copy.

Definition and measurement of research variables are:
A. Corruption Dependent Variables
Operational definition: measure the degree of corruption of the regency and city using the IPK, Scale: ratio, and the measurement: the index range is from 0 to 10; the scale 0 means very corrupt, while the scale 10 means very clean.

B. Fiscal Decentralization Independent Variables
Operational Definition: The process of distribution of the budget from the central government to regional governments, according to the number of functions delegated, Scale: nominal, and its measurement: DF = PAD + tax and non-tax yield divided by total expenditure of district and city governments.
C. General Allocation Fund Control Variables

Operational Definition: One of the allocation of balancing funds through fund transfers from the central government to regional governments, Scale: nominal, and its measurement: DAU log.

D. Area Age Control Variable

Operational Definition: The age level of a region calculated since the region was established or determined to be an autonomous region, Scale: nominal, and its measurement: Age log

E. Location Control Variable Area

Operational Definition: differentiation of the location of the region, Scale: category, and measurement: Using a dummy variable that is Java and Bali are given the number 1 (one) and regions outside of Java and Bali are given the number 0 (zero).

Hypothesis testing is done by multivariate using multiple regression. Equation model to test the following hypothesis:

\[ IPK = \beta_0 + \beta_1 \text{DF} + \beta_2 \text{DAU} + \beta_3 \text{Age} + \beta_4 \text{Lokasi} + \varepsilon \]  

IV. RESULTS AND DISCUSSION

A. Results

<table>
<thead>
<tr>
<th>TABLE I DESCRIPTIVE STATISTICS</th>
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<tbody>
<tr>
<td>N</td>
<td>Min.</td>
<td>Max.</td>
<td>Mean</td>
</tr>
<tr>
<td>IPK</td>
<td>144</td>
<td>2.97</td>
<td>6.71</td>
</tr>
<tr>
<td>DF</td>
<td>144</td>
<td>.07</td>
<td>.78</td>
</tr>
<tr>
<td>DAU log</td>
<td>144</td>
<td>4.87</td>
<td>5.98</td>
</tr>
<tr>
<td>Age</td>
<td>144</td>
<td>10</td>
<td>1328</td>
</tr>
<tr>
<td>Location</td>
<td>144</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>144</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Table I above the amount of samples (N) are 144 regencies and/or cities. Minimum IPK (2.97) is found in the Kupang city by 2006, while the maximum IPK (6.71) is found in the Denpasar city by 2010. The average IPK is 4.74 and the standard deviation value of 0.72 can be said to be the corruption level in the regencies and/or city of Indonesia has almost the same magnitude. With a starting range IPK of 0, means it is very corrupted and 10 means very clean, it can be said that the average corruption level in Indonesia’s regencies and/or cities is still high.

The minimum calculating results of fiscal decentralization 0.07% is the Ambon city in the year 2004, while the maximum results of fiscal decentralization 0.78% is a Kutai Kertanegara regency or Tenggarong in the year 2008. The fiscal decentralization average in Indonesia regencies and/or cities is 0.24% with a standard deviation of 0.14%. This shows the lack of financial performance or financial independence in Indonesia regencies and/or cities in covering regional expenditure.

The value of the multiple linear regression equation is in Table II below:

<table>
<thead>
<tr>
<th>TABLE II COEFFICIENTS</th>
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<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>8.154</td>
<td>1.862</td>
<td>4.380</td>
<td>.000</td>
</tr>
<tr>
<td>DF</td>
<td>-1.169</td>
<td>.480</td>
<td>-2.222</td>
<td>-2.437</td>
</tr>
<tr>
<td>DAU log</td>
<td>-.257</td>
<td>.146</td>
<td>-.177</td>
<td>-1.760</td>
</tr>
<tr>
<td>Age</td>
<td>.000</td>
<td>.000</td>
<td>.113</td>
<td>1.228</td>
</tr>
<tr>
<td>Location</td>
<td>.192</td>
<td>.141</td>
<td>.123</td>
<td>1.359</td>
</tr>
</tbody>
</table>

From the above table, the value of multiple linear regression equation is:

\[ IPK = 8.154 - 1.169 \text{DF} - 0.257 \text{DAU} + 0.000 \text{Age} + 0.192 \text{Location} + \varepsilon \]  

The results in the table above points out the following:

- The regency and/or city fiscal decentralization (DF) variable has a t value of -2.347 with a significance level of 0.016, which is less than the significance level of 0.05 (5%). This result has shown that regency and/or city fiscal decentralization has a negative and significant effect on the corruption level regency and/or city.
- The regency and/or city DAU log variable has a t value of -1.760 with a significance level of 0.081 , which is higher than the significance level of 0.05 (5%). This result has shown that the location of the regency and/or city General Allocation Fund has a negative and no significant effect on the corruption level.
- The regency and/or city age variable has a t value of 1.228 with a significance level of 0.221, which is higher than the significance level of 0.05 (5%). This result has shown that the age of the regency and/or city has a positive and no significant effect on the corruption level.
- The regency and/or city location variable has a t value of 1.228 with a significance level of 0.221, which is higher than the significance level of 0.05 (5%). This points that the location of the regency and/or city has a positive and no significant effect on the corruption level.

The results of the coefficient of determination test ($R^2$) are shown in Table III. The following coefficient of determination test:

<table>
<thead>
<tr>
<th>TABLE III THE TEST COEFFICIENT OF DETERMINATION ($R^2$) MODEL SUMMARY</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>$R$</td>
<td>$R$ Square</td>
<td>Adjusted $R$ Square</td>
</tr>
<tr>
<td>1</td>
<td>.221</td>
<td>.049</td>
<td>.021</td>
</tr>
</tbody>
</table>

* Predictors: (Constant), Location, Age, DF, DAU
* Dependent Variable: IPK
The coefficient of determination ($R^2$) is 0.021 or 2.1%. This points the corruption level in the regency and/or city of Indonesia is only 2.10% due to fiscal decentralization, the DAU, age and location of the regency and/or city. While 97.90% of the corruption level in the regency and/or city of Indonesia is caused by other variables not examined in this research.

B. Effects of Fiscal Decentralization on Regency / City Corruption Levels

Statistical test results indicate that fiscal decentralization has a negative and significant effect on the corruption level in the regency and/or city. This negative effect means that the higher the fiscal decentralization, the lower corruption level of regency and/or city and vice versa. However, because the range of IT GPA is 0 to 10, while 0 means that it is very corrupt and 10 is very clean, it can be said that the higher the fiscal decentralization, the higher corruption level of regency and/or city and vice versa.

The results also showed that fiscal decentralization was able to significantly influence the corruption level to the regional level; where the high fiscal decentralization in the regency and/or city government will have a significant effect on the corruption level in the regency and/or city.

The results of this study are consistent with the theory of Klitgaard et al. that corruption follows power [30]. Fiscal decentralization that gives large powers to regency and/or city governments in regional financial management has been followed by a high corruption level. The results of this study also support the Fraud Triangle theory that the emergence of local government corruption cases tends to be caused by opportunity factors.

The results of this study are consistent with previous studies such as Goldsmith [18], Treisman [19], and Wu [20] which shows that federal states have a relationship with high corruption. Likewise the results of this study are in line with Rinaldi, et al. [16] and Anan [26] that since the start of the fiscal decentralization policy in Indonesia there has been a sharp increase in the number of corruption cases in the regional level.

In accordance with the theory of Klitgaard et al. that one of the causes of corruption in local government is the lack of supervision [30]. Regional legislature have not been able to function as supervisory council. In some cases, even elements of the regional legislature were involved and even became the mastermind of corruption cases. Not infrequently there is collusion between the regional government and the DPRD. For this reason, there is a need for state institutions that are able to effectively control deviations in authority in the regions.

Although the KPK has formed task forces in several provinces, the formation of KPK representatives in the regencies and/or cities area has become a very strategic policy in fighting corruption cases in the regions. Of course the authority of the regional KPK must be reduced compared to the Central KPK. For example limited authority in non-enforcement, such as receiving community reports and carrying out preventive activities. Whereas in terms of prosecution, the regional KPK was given authority in handling cases with a minimum state loss of Rp500 million [33].

In addition, there needs to be increased public participation and public accountability in the strategy to eradicate corruption in the regions. Public accountability and community participation are the instruments most expected to be able to minimize corruption in the regions. Public accountability and community participation are also aligned as strategies that focus on the community, law, markets and politics [34].

The results of this study emphasize the need for a grand design of the direction of fiscal decentralization policies referred to by stakeholders. Fiscal decentralization is expected to make local governments more independent, able to improve the welfare of the community, and guarantee the political rights of local communities. Thus the long-term fiscal decentralization can become economic decentralization.

C. Effect of the DAU, Age, and Location on Regency and/or City Corruption Level

Statistical test results shows that the DAU has been proven to have a negative and insignificant effect on the corruption level regencies and/or city. It can be said that the size of the DAU is not a big or small factor causing the corruption level. The DAU is not a major influence on the corruption level in Indonesia's regencies and/or cities.

Snape [35] mentioned the three factors of the development of corruption, collusion and nepotism (KKN) in Indonesia, namely political factors, economic factors, and Javanese cultural factors. The DAU itself is one of the economic factors causing the rise of economic cases in the region. The economic factor is an extensive government intervention in the economy, which brings a number of financial benefits to a small number of Indonesian people, especially those who have power and have political patrons with the authorities.

Statistical test results shows that the age of Regency and/or City has a positive and not significant effect on the corruption level of the Regency and/or City. This result shows that the older age of a Regency and/or City is not followed by the lower corruption level in the Regency and/or City.

The history of the establishment of Regencies and/or Cities in Indonesia is inseparable from the history of the kingdoms. Regencies and/or Cities governance or management established government management. The regional autonomy program initiated by the central government today is not followed by a lower corruption level in the Regency and/or City.

The establishment of Regencies and/or Cities in Indonesia is inseparable from the history of the kingdoms. Regencies and/or Cities governance or management are still much influenced by the culture of the kingdom or power will be more dominant than established government management.

Isra [33] mentions the root causes of the level of corruption in an increasingly high region, that is:

- The regional autonomy program initiated by the government only focuses on the delegation of authority in policy making, finance and administration from the central government to the regions, without any distribution of power to the community. The regional autonomy program is not followed by a democratization program that opens opportunities for community involvement in local government.
• There are no state institutions that are able to effectively control deviations in authority in the regions. The regional autonomy program has cut the structure of the government hierarchy, so that central government control is no longer effective because there is no longer a structural relationship directly imposing local government compliance on the central government.

• Regional legislatures have failed to carry out their functions as a control institution. On the contrary, there is a close collusion between the regional government and the DPRD so that control over the administration of the area does not occur, while the control of civil society is still weak.

• Statistical test results shows that the location of Regency and/or City has a positive and not significant effect on the corruption level. It can be said that the assumption that Java and Bali have better quality of human resources that are expected to minimize the corruption level, does not occur. The spread of corruption is evenly distributed among the various Regencies and/or Cities in Indonesia regardless of whether the Regency and/or City is still young or old.

These results reinforce the need to strengthen the role of the community in overseeing the government and strengthening public accountability to minimize the corruption level regency and/or city. Public accountability and community participation are instruments that are considered capable of overcoming criminal acts of corruption both that occur as a result of factors that are direct and indirect as well as the result of factors that originate from individual and structural characteristics [34].

The results of the study which showed that the influence of the DAU, Age, and Location of Regency and/or City were not significant to the corruption level. This confirms that corruption in Indonesia is endemic, systemic and widespread [36].

The R² test statistical results that the corruption level of Regency and/or City is only influenced by 2.10% of the variables studied. These results indicate that further research needs to be done by adding other variables as estimators of the corruption level of the Regency and/or City in Indonesia.

The development of research variables is very possible because corruption can be seen in various perspectives such as economic, political, social, and cultural. The development of variables is needed for more in-depth research so as to produce a better research model. Variables that can be used such as the Human Development Index (HDI), Gross Regional Domestic Product (GRDP), public participation, and public accountability.

V. SUMMARY

This research has the following limitations:

• The research sample is limited to the results of the IPK survey conducted by TI-Indonesia in Regencies and/or Cities in Indonesia, in 2004, 2006, 2008, and 2010.

• Only 2.10% that the corruption level of regency and/or city in Indonesia is influenced by the variables studied.

• The research model only uses one hypothesis; the higher the fiscal decentralization, the higher the corruption level. While the fiscal decentralization variable, the DAU, age, and location of Regency and/or City are control variables.

Due to the limitations of the research, suggestions that can be given, that is:

• For further research it is recommended to be able to obtain a larger sample of the population of a research observation.

• If it is possible to add variables that can strengthen the influence of independent variables on the dependent variable or level of corruption, such as the Human Development Index (HDI) variable, Gross Regional Domestic Product (GRDP), as well as community participation and public accountability.

• In further research, it is necessary to develop a broader research model to explain the corruption level in Indonesian regency and/or cities by their independent variables.

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