THE MODERATING ROLE OF ECONOMIC GROWTH IN THE ASSOCIATION BETWEEN CORRUPTION AND POVERTY IN INDONESIA

Raldin Alif Al Hazmi

1) raldinalif@gmail.com, PKN STAN

Abstract

Indonesia has abundant natural and human resources. With a large population and abundant natural resources, Indonesia has the potential to become the centre of the world economy. But in reality, Indonesia faces many challenges. With such abundant wealth, corruption, economic growth, and poverty are the biggest problems in Indonesia. Corruption is closely related to the economic condition of society. This study aims to analyse the impact of corruption on the poverty rate in Indonesia. Using secondary data published by the Central Bureau of Statistics (BPS) from 2018 to 2022, a panel data regression model in 34 provinces in Indonesia was used to obtain 170 data samples. The researcher found that the Corruption Perception Index (CPI), which is considered an indicator of the level of corruption in Indonesia, has a negative and significant impact on the poverty rate. On the other hand, GR as an indicator of economic growth in Indonesia has a negative and significant impact on Indonesia’s economic growth. In this study, economic growth is able to moderate the interaction relationship between corruption and poverty levels in Indonesia. Although Indonesia in the 2018-2022 timeframe has always experienced growth, this is also in line with the higher level of corruption in Indonesia, which has an impact on the high disparity and poverty in Indonesia. Therefore, the government and society must work together to fight corruption and reduce poverty by improving transparency and increasing public participation in order to reduce inequality and poverty among Indonesians.

Keywords: Corruption, Corruption Perception Index, Economic Growth, and Poverty

INTRODUCTION

High poverty can cause economic growth to run slowly so that it is unable to absorb labor (Yolanda & Satrianto, 2019). There are several causes and impacts of poverty in developing countries, namely people can only be employed as productive labor due to inadequate consumption patterns, high illiteracy rates and lack of skills due to inadequate educational infrastructure.

Poverty is often defined as the inability of a person or community to fulfill basic needs such as clothing, food, shelter, health, and education. Many variables, including limited access to education and career opportunities and resources to meet basic needs, can contribute to poverty. Poverty is a global problem that affects many people around the world.
The issue of poverty is multifaceted and can hinder progress. A person is considered to be in poverty if they cannot fulfill their most basic needs. In Indonesia, the national poverty rate from 2018 to 2022 has fluctuated with the majority of the trends decreasing. In 2018 poverty in Indonesia reached 9.66%. This has decreased from the previous year. During the covid-19 pandemic, namely 2020, there was a spike in the poverty rate in Indonesia, which amounted to 10.19%. With the implementation of the economic stimulus carried out by Indonesia in the face of the co-19 pandemic, Indonesia managed to reduce its poverty rate to 9.57%. Many things can affect poverty in Indonesia besides the pandemic that occurred, reported on the aclc.kpk.go.id page states that there are several causes of poverty, one of which is the behavior of criminal acts of corruption (Pusat Edukasi Antikorupsi, 2022).

Corrupt practices can hinder economic progress, which is one of the factors contributing to increased poverty (Yolanda & Satrianto, 2019). The reality is that corruption has a negative impact on small cities in Indonesia. This negative impact can occur in several ways, one of which is that the rich become richer and pay less tax to the government, which will hinder business and keep the poor poor. Corruption will also make it harder to improve people’s welfare and reduce government spending, which will increase poverty (Pusat Edukasi Antikorupsi, 2022). Corruption that occurs in Indonesia due to the weak bureaucratic system so that in terms of the state budget cannot be fully used for economic and infrastructure development but is used for personal interests by government officials (Gumala & Anis, 2019). In Indonesia, corruption has become a serious public disease that endangers every aspect of the life of the nation, state and society (Hazmi, 2024).

In assessing corruption in a country, there is a measure to compare the level of corruption in a country with other countries, namely the Corruption Perceptions Index. This index is issued by the Transparency International organization. Reported on the page www.transparency.org In 2022, the Corruption Perception Index in Indonesia had a score of 34 with a rank of 110 out of 180 countries included in the calculation by Transparency International (Transparancy International, 2022). The ranking reflects that Indonesia ranks poorly in the world's corruption level. In fact, the Indonesian government already has an independent anti-corruption institution, the Corruption Eradication Commission (KPK). It is hoped that the KPK can stop and reduce the massive corruption that occurs in Indonesia.

In addition to corruption, economic growth can also reflect the level of poverty in a country. The higher economic growth in a country will reflect that the government can control the existing poverty rate. Economic growth will be inversely proportional to the poverty rate in a region. In Indonesia, reported on the old bps.go.id (Badan Pusat Statistik, 2019) and (Badan Pusat Statistik, 2022), it was stated that during the pandemic in 2020, economic growth in Indonesia decreased to -2.07% with a poverty rate of 10.19%. Over time, the economic growth rate in Indonesia in 2022 grew by 5.31% with a poverty rate of 9.57%. This shows that poverty is best correlated with economic growth in Indonesia.

In terms of poverty and corruption, Indonesia is currently at a low point that doesn’t seem to be ending. Poverty is a serious problem that Indonesia must face as a developing country. In Indonesia, the proportion of the population living in poverty is quite high. To reduce poverty in Indonesia, the government has implemented a number of initiatives. In Indonesia, there is a historical correlation between economic growth and poverty. Other issues include the fact that Indonesia is a developing country with a high level of corruption. According to a report by Transparency International, Indonesia has a corruption perception index (CPI) score of 34 on a scale of 0-100 in 2022. This score makes Indonesia the 5th most corrupt country in Southeast Asia. According to the report, the global average CPI in 2022 is 43. Thus, Indonesia’s corruption index is worse than the world average (Databoks, 2023). However, through various means, the government has always tried to increase economic growth. Therefore, it is imperative to
examine the issue of corruption as it may impact Indonesian poverty with economic growth as a moderating variable.

THEORITICAL REVIEW

The World Bank and IMF provide a simple definition of corruption, which is the abuse of power for personal or group gain (Saputri, 2023). The origin of the word corruption is from the Latin "corruptio" or corruptus, which means depravity or corruption. In addition, it is also used in relation to someone's dishonesty in the financial sector. In the research conducted, The damaging impact of corruption on economic growth in Indonesia the results say that corruption shows worsening economic growth. According to (Nawatmi, 2014) In the private sector, corruption will increase costs due to unauthorized payments and the possibility of canceled or checked agreements, this hinders economic progress in the economy (Saputri, 2023).

A person commits a heinous act known as corruption when they abuse their power or position to benefit or enrich themselves (M Arief, 2015). In accordance with the provisions of Law No. 31 of 1999 concerning the Eradication of Corruption, a person is considered to have committed a criminal act of corruption if he violates the law, enriches himself, benefits himself, another person, or a corporation, or abuses the opportunities or means available to him because of his position or position that can harm the state's finances or economy.

To measure corruption in the world, the Corruption Perception Index (CPI) standard issued by Transparency International is applied. A worldwide non-governmental organization called Transparency International is committed to fighting corruption and does so with a strong commitment. One way it does this is by releasing the annual findings of a poll called the Corruption Perception Index (CPI), or IPK in Indonesia. Based on the level of public perception of corruption in public and political office, the poll ranks 180 countries. The Corruption Perception Index uses a scale from 0 (high corruption) to 100 (low corruption).

Chart 1. Indonesia’s CPI Ranking

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>38</td>
</tr>
<tr>
<td>2019</td>
<td>40</td>
</tr>
<tr>
<td>2020</td>
<td>37</td>
</tr>
<tr>
<td>2021</td>
<td>38</td>
</tr>
<tr>
<td>2022</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Transparency International with data processed

Chart 1 shows that the CPI value in Indonesia in the last 5 years tends to decrease. This illustrates that corruption is rampant in Indonesia. This CPI assessment will greatly affect the image of the Indonesian nation. The CPI value will affect Indonesia's corruption ranking in the eyes of the world and is directly proportional to the results of the corruption ranking according to the International Transparency data.
Chart 2 Comparison of Corruption Cases and Suspects

Comparison of Corruption Cases and Suspects

Source: PWC

Chart 2 reflects that the comparison of corruption cases and suspects has increased significantly, which affects Indonesia’s CPI value. It can be seen that corruption cases increase every year with the most suspects in the 2019–2022 timeframe in 2022. With so many corruption cases in the long run, it will affect Indonesia’s growth.

Poverty

It has long been recognized that poverty is a complex phenomenon. This implies that poverty is more than just a state of lack of resources or financial inability. A common understanding of poverty is the condition of not having enough money to meet basic needs, which makes it less able to support oneself, making it more difficult to sustain life (Imanto et al., 2020). Another definition of poverty is when a group of people are rendered powerless by a political framework that renders them powerless to abuse (Somba et al., 2021).

Poverty is the inability of people to earn enough income to fulfill their basic needs (Padang & Murtala, 2020). The capacity to meet basic needs is the idea used by the Badan Pusat Statistik (BPS) to measure poverty levels in Indonesia (basic needs approach). This thinking is based on the World Bank Handbook on Poverty and Inequality. In line with this strategy, destitution is characterized as the failure to meet basic needs such as food and non-food. If a person’s normal monthly per capita investment is less than the destitution line, they are considered destitute.
In chart 3, the poverty rate in Indonesia has increased in 2020 due to the pandemic that hit Indonesia. However, in the last three years, the poverty rate in Indonesia has decreased, which illustrates that Indonesia has managed to get out of the poverty problem slowly.

**Economic Growth**

On the other hand, economic growth serves as a measure of a country's progress and wealth. Broadly speaking, one of the sufficient levels of financial progress is economic growth. The level of development describes how far an economy has progressed as seen from changes in the poverty control of a country (Hazmi, 2024).

In order for everyone to benefit from development outcomes, economic growth must be coordinated and planned to promote equal opportunities and a fairer distribution of benefits. The benefits of progress are shared more fairly, so that even the poorest members of society can benefit (Susanto & Pangesti, 2021).

Economic growth plays a crucial role in reducing poverty. When a region's economic growth improves and increases, the impact is felt in reducing poverty (Nadhifah & Mustofa, 2021). Sustainable economic growth can reduce poverty by increasing incomes, creating new jobs, and facilitating better access to essential services (Brajannoto et al., 2021). Broadly speaking, sustainable and inclusive economic growth is the foundation for poverty reduction.

With these definitions, it can be concluded that economic growth is quantitative and directly related to the output of commodities and services. Gross national product or commonly abbreviated as GDP can be used to measure Indonesia's economic growth. In contrast, the growth of gross regional domestic product (GRDP) at constant prices is an indicator of regional economic growth.
Chart 4 Economic Growth in Indonesia

Source: Badan Pusat Statistik

Chart 4 reflects that economic growth in Indonesia in the last 5 years has been positive. In 2020, a global pandemic occurred in Indonesia, namely Covid-19, this caused an economic recession in several countries including Indonesia. However, Indonesia can overcome it and show a positive trend towards economic growth.

Chart 5 Comparison of Poverty Rate and Economic Growth in Indonesia

Source: Badan Pusat Statistik

Chart 5 reflects the comparison between the poverty rate in Indonesia and economic growth in Indonesia in the period 2018-2022. In 2020, it can be seen that as economic growth falls, it will increase existing poverty due to the global pandemic in Indonesia. However, the end of the pandemic can increase economic growth and can reduce the poverty rate that occurs in Indonesia.

METHODS

This research uses a quantitative approach using Moderated regression Analysis (MRA). Secondary data was used in this study. Secondary data from various organizations such as the Central Statistics Agency (BPS), the Corruption Eradication Commission (KPK), Transparency
International, etc. are the types of data used. In addition to the secondary data collected by these institutions, additional information was obtained from various literature sources such as books, journals, notes, and articles related to the research conducted. The sample data used in this study amounted to 170 data, and the data came from 34 provinces in Indonesia throughout 2018-2022.

**Table 1. Sample Data**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Provinces in Indonesia</td>
<td>34</td>
</tr>
<tr>
<td>Number of provinces that do not have complete data on poverty rate and Corruption Perception Index</td>
<td>0</td>
</tr>
<tr>
<td>Year Sample Data</td>
<td>5</td>
</tr>
<tr>
<td>Total Sample Data</td>
<td>170</td>
</tr>
</tbody>
</table>

Source: Data processed

This test uses the Corruption Perception Index as an independent variable. The data sample used to measure corruption crimes that occur is data released by the Transparency International organization in the form of an index, namely the CPI. The CPI index has a value from 0 to 100. The highest level of corruption in a country is represented by a score of 0, while the lowest amount of corruption is represented by a score of 100.

The dependent variable used in this test is the poverty rate in each province with the TPM proxy. The percentage (%) that represents the difference between the total population and the number of individuals living below the poverty line at any given moment is stated by the Central Bureau of Statistics (Badan Pusat Statistik, 2023). The proportion of poor people in a region is shown by the HCI-P0 number. A high percentage of poor people indicates that the poverty rate in the region is also high (Badan Pusat Statistik, 2021).

In this test, the moderating variable used is the proxy of GRDP value which is used to measure regional economic growth. Through the value of GRDP, regional economic growth can be calculated. The percentage rate of economic growth, or the percentage rate of gross domestic product (GRDP) for 34 provinces in Indonesia at constant 2000 prices, is the measure of economic growth used in this study.

The panel data model used in this study employs simple linear regression methodology. This is done to show how corruption affects economic growth and poverty:

\[
TP_{it} = \alpha + \beta (CPI) + PDRB_{it} \varepsilon_{it} + CPI \cdot PDRB_{it} \varepsilon_{it}
\]

Description:
- \(TPM_{it}\) = Level of Poor Population, as dependent variable
- \(CPI\) = Corruption Perception Index, as independent variable
- \(GRDP\) = Gross Regional Domestic Product, as a moderating variable
- \(\alpha\) = Constant
- \(i\) = City and/or Regency
- \(\beta\) = Regression Coefficient
- \(t\) = Time
- \(\varepsilon_{it}\) = Error term condition
RESULTS AND DISCUSSION

Table 2 shows the findings of descriptive statistical data testing conducted in this study. In Table 2, it can be seen that the TPM value of this study has a mean value of 10.47529, for the median of 8.645 and a standard deviation value of 5.407516. The maximum value of TPM is 27.43 (Papua Province in 2018) and the minimum value of TPM is 3.42 (DKI Jakarta Province in 2019). The Corruption Perception Index value has an average index of 37.4, a median value of 38 and a standard deviation value of 1.965381. The highest value of the Corruption Perception Index was 40 in 2019 and the lowest was 34 in 2022. Economic Growth from this study has a mean value of 3.812647, for a median of 4.665 and a standard deviation value of 4.259314. The maximum value of GR is 22.94 (North Maluku Province in 2022) and the minimum value of TPM is -15.74 (Papua Province in 2019).

Table 2. Descriptive Statistics Test Results

<table>
<thead>
<tr>
<th>Description</th>
<th>Observation</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPM</td>
<td>170</td>
<td>10.47529</td>
<td>8.645</td>
<td>27.43</td>
<td>3.42</td>
<td>5.407516</td>
</tr>
<tr>
<td>CPI</td>
<td>170</td>
<td>37.4</td>
<td>38</td>
<td>40</td>
<td>34</td>
<td>1.965381</td>
</tr>
<tr>
<td>GR</td>
<td>170</td>
<td>3.812647</td>
<td>4.665</td>
<td>22.94</td>
<td>-15.74</td>
<td>4.259314</td>
</tr>
</tbody>
</table>

Source: Data processed

In this study, the direct regression technique was used for testing. A number of test results were generated using the identified variables. In analyzing the impact of corruption on economic growth, the Fixed Effect model is a more suitable choice than the Common Effect model approach, as indicated by the Chow test results which show that Chisquare has a probability of <0.05.

The Hausmann test is another test model used. The cross-section random probability in the Hausmann Test is 0.0000 (<0.05). Therefore, in analyzing the impact of corruption on economic growth in Indonesia, the Fixed Effect model technique is the most appropriate technique to use.

The following are the test results using the Fixed Effect model approach:

Table 3. Fixed Effect Regression Model Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>13.0747</td>
<td>12.09065</td>
<td>0.0000</td>
</tr>
<tr>
<td>CPI</td>
<td>-0.066166</td>
<td>-2.292823</td>
<td>0.0117**</td>
</tr>
<tr>
<td>GR</td>
<td>-0.450642</td>
<td>-2.636451</td>
<td>0.0047***</td>
</tr>
<tr>
<td>GRCPI</td>
<td>0.01119</td>
<td>2.451071</td>
<td>0.00775***</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.995613</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Based on the results of Table 3, the multiple linear regression coefficient test results after being carried out, the following equation can be obtained:

\[
TPM = 13.0746986398 - 0.0661662908824*CPI - 0.450641501882*GR + 0.0111895082886*GRCPI
\]

In table 3, testing with the Fixed Effect approach shows the Adjusted R Squared result is 0.994425. By looking at the lift in Adjusted R Squared, it shows that the poverty rate in Indonesia is influenced by the corruption perception index variable and the economic growth variable as a moderating variable. So that there are 0.005575 explained by other variables outside the variables used in the analysis test results.

How much the independent variables in the panel data regression model can explain the dependent variable is shown by the adjusted R squared test results. When the independent variables provide the information needed to predict the dependent variable, the R value is close to 1.

In the fixed effect test model, the Indonesian CPI variable, corruption perception index has a t-statistic of -2.292823 and a prob of 0.0117 (<0.05), and this indicates that the CPI has a significant influence on the TPM variable. On the other hand, the test results show that the economic growth variable in Indonesia, GR, has a t-statistic of -2.636451 and a prob of 0.0047 (<0.05). This indicates that GR has a significant influence on the TPM variable.

Corruption has a significant and adverse impact on poverty, according to the estimation findings of the variable moderation equation in table 3. This finding shows that poverty is significantly negatively affected by corruption, with a probability of 0.0117. This indicates that poverty will decrease by 6% for every one unit increase in corruption. This indicates that this is consistent with the theory of corruption and poverty which states that there will be a decrease in poverty of 0.066166 for every one unit increase in corruption, where poverty will rise in response to increased corruption and vice versa. The test explains that more corruption has the potential to erode market integrity, reduce investment in the economy, cause market distortions, and result in inefficiencies that increase firm costs and widen income inequality—all of which adversely affect poverty. This is also in line with research (Gumala & Anis, 2019) and (Yolanda & Satrianto, 2019) which say that corruption has a significant effect on poverty.

In addition, it turns out that economic growth in Indonesia has a significant influence and negative relationship with poverty in Indonesia. This can be shown in table 3 which reflects that economic growth has a significance value of 0.0047 (<0.05). This indicates that higher economic growth in Indonesia will negatively affect the poverty rate in Indonesia. High economic growth will reduce the level of poor people in Indonesia. This is in accordance with the initial hypothesis by having high economic growth in Indonesia reflects that the Indonesian government can reduce the income gap in its society, this will have an impact on increasing people's income and will ultimately reduce the poverty rate in Indonesia.

Table 3 states that the role of economic growth in poverty is significant. This is also reflected in the role of economic growth in moderating corruption on economic growth with a significance value of 0.00775 (<0.05). This shows that economic growth is able to moderate corruption against poverty. In 2018-2022 in Indonesia, economic growth in Indonesia is
arguably quite stable, and this results in more careless people who can commit corruption. Widespread corruption in Indonesia will undoubtedly motivate careless parties to embezzle public funds for their own benefit, while avoiding accountability to the general public.

Corruption is often found in licensing and procurement processes in Indonesia. Indonesian entrepreneurs influence laws, regulations, and market systems by using their wealth and contacts to obtain licenses, control laws, and influence market forces. According to some viewpoints, some individuals agree with this need arguing that corruption serves as a "wheel lubricant" or "lubricant in the wheels of the Indonesian economy" (Hazmi, 2024). With an increasing level of economic growth, there will be new opportunities for corruption. This is caused by several factors, including facilitating licensing for infrastructure development by using "facilitation payments" as a form of corruption, reducing the quality of infrastructure to gain more profit and reducing the function of the KPK. This can increase poverty in Indonesia despite increased economic growth because in fact corruption will erode other factors in Indonesia's economic growth.

CONCLUSIONS AND SUGGESTIONS

Conclusions
The findings from data processing using regression techniques with the Fixed Effect model show that there is a negative influence on corruption and Indonesia's economic growth can moderate the relationship between corruption and poverty levels in Indonesia. Corruption has a significant relationship with the poverty rate in Indonesia. Another finding in this study is that economic growth has an influence on the poverty rate in Indonesia. This indicates a significant positive relationship between growth and poverty, with poverty tending to increase at the beginning of development and decrease at the end of development. In addition, economic growth in Indonesia can moderate the interaction relationship between corruption and poverty levels.

Suggestions
Despite this, Indonesia is a country that continues to experience extreme poverty. Therefore, to drive economic progress, poverty must be eliminated. Improving the living standards of Indonesians is the right choice. To reduce poverty in Indonesia, high-quality education is essential. The economies of countries with excellent education systems grow both at the individual and government levels. Improving the economy of the people will significantly reduce the poverty rate in the country. In this study using a relatively short period of time, it is hoped that future researchers can extend the research time span to get better results. It is recommended that future studies use the latest data and include more dependent factors or more appropriate data variables to ascertain the impact of corruption on poverty in Indonesia, with economic growth as a moderating factor.

DAFTAR PUSTAKA


