# Corruption and Governance Factors as The Determination of The Regional Government Revenue in Indonesia

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## *Abstract*

*This study aims to analyze the factors of corruption and governance in determining the amount of Regional Government Revenue in all provinces in Indonesia. This research method uses quantitative approach by analyzing the number of corruption cases that have been taken in kracht in court as well as the results of evaluations of the regional government performance from 2010 to 2017. A total of 30 provinces from 34 provinces in Indonesia were taken as samples to avoid abnormal distribution. The model used is the Fixed Effect Model (FEM) showing that the factors of corruption and governance determine significantly in the opposite direction, where the corruption factor determines the negative direction while the governance factor determines the Regional Government Revenue positively. The two independent variables show that there is a close relationship between corruption and governance, this can occur with improved governance, which will reduce the level of corruption so that it can increase Regional Government Revenue. One way of governance to reduce the occurrence of corruption is to implement the application of one-stop service and e-system.*

*Keywords: corruption, governance, regional government revenue*

## 1.     Introduction

Regional Government Revenue (PAD) as one source of revenue in carrying out government to the fulfillment of community needs and financing development, is used as a benchmark for the success or failure of a development. The higher the Regional Government Revenue collected, the more this revenues allocations are used to finance regional government expenditures so that they are able to be a stimulus in encouraging economic development in the regions. This is supported by the Law No. 29 of 2009 concerning Regional Taxes and Regional Levies, where the regional governments are obliged to organize their own sources of income to finance development.

As mandated by the Law No. 23 of 2014 concerning Regional Government, through decentralization, the transfer of authority from the Central Government to Regional Governments, it is hoped that Regional Governments can regulate and manage their own regions in accordance with the needs and aspirations of their communities. As a result, the implementation of regional fiscal decentralization will increase and will reduce the level of regional dependence on the central government. The implementation of decentralization requires the existence of a governance beginning with the development of planning process that is allocated in the budgeting of revenues and expenditures and evaluated as feedback and

follow-up to sustainable development. The study of these non-economic factors in the provinces in Indonesia is still limited including Zulkarnaini (2014). This case study in North Aceh District and other Districts/City in Central Java Province shows that human resource, politics and administration factors significantly affect the regional revenue.

Various problems regarding governance arise related to the increase in Regional Government Revenue and the decline in corruption. Table 1 illustrates governance with corruption in 30 provinces in Indonesia.

**Table 1. Description of Corruption with Governance in Indonesia 2010 - 2017**

| Corruption | Low | Middle | High |
|---|---|---|---|
| **Low** | Riau | Aceh | DIY |
| | Nusa Tenggara Timur | Sumatera Barat | Nusa Tenggara Barat |
| | Sulawesi Tenggara | Jambi | Sulawesi Selatan |
| | Maluku Utara | Bengkulu | |
| | Papua Barat | Lampung | |
| | Papua | Bangka Belitung | |
| | | Kepulauan Riau | |
| | | Banten | |
| | | Bali | |
| | | Kalimantan Barat | |
| | | Kalimantan Tengah | |
| | | Kalimantan Selatan | |
| | | Sulawesi Tengah | |
| | | Gorontalo | |
| | | Sulawesi Barat | |
| | | Maluku | |
| **Middle** | | Sumatera Selatan | Jawa Tengah |
| **High** | Sumatera Utara | | Jawa Barat |
| | | | Jawa Timur |

*Source: own calculations*

Table 1 shows that there are two regions with governance assessments that are of high criteria in accordance with the results of the Regional Governance Evaluation (EKPPD) issued by the Ministry of Home Affairs each year, namely West Java Province and East Java Provinces, but accompanied by high corruption cases in both provinces. Evaluation of governance in North Sumatera Province is included in the low category so that it is allegedly also a cause of high corruption cases. More than 50% of provinces in Indonesia are included in the group of low corruption cases with moderate governance. Meanwhile there are 6 regions experiencing low corruption cases with low governance as well. There are 3 provinces with high governance criteria and low corruption, namely D.I. Yogyakarta Province, West Nusa Tenggara Province and South Sulawesi Province. Three provinces with these criteria indicate ideal conditions and in accordance with applicable laws. South Sumatera Province is in compliance with moderate governance with a moderate level of corruption. Central Java Province obtained a category with moderate corruption cases through high governance.

**Table 2. Growth of Provincial Regional Government Revenue per Capita in Indonesia 2010 - 2017**

| No | Province | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Average |
|----|----------|------|------|------|------|------|------|------|---------|
| 1 | Aceh | -3 | 10 | 31 | 22 | 11 | 2 | 6 | 11 |
| 2 | Sumatera Utara | 19 | 21 | 0 | 4 | 8 | 0 | -2 | 7 |
| 3 | Sumatera Barat | 6 | 10 | 9 | 20 | 7 | 3 | 3 | 8 |
| 4 | Riau | 8 | 41 | 3 | 14 | 4 | -15 | 15 | 10 |
| 5 | Jambi | -23 | 42 | 5 | 15 | -5 | -6 | 13 | 6 |
| 6 | Sumatera Selatan | 11 | 21 | 0 | 15 | 4 | -1 | 15 | 9 |
| 7 | Bengkulu | 15 | 11 | 6 | 21 | 3 | 3 | 18 | 11 |
| 8 | Lampung | -4 | 35 | 4 | 21 | -2 | 4 | 13 | 10 |
| 9 | Bangka Belitung | -7 | 26 | 10 | 10 | -1 | -2 | 14 | 7 |
| 10 | Kepulauan Riau | -21 | 36 | 18 | 13 | -9 | 0 | 3 | 6 |
| 11 | Jawa Barat | -16 | 36 | 18 | 17 | 5 | 6 | -6 | 8 |
| 12 | Jawa Tengah | -15 | 36 | 19 | 17 | 8 | 5 | 3 | 10 |
| 13 | DIY | -7 | 29 | 16 | 16 | 7 | 4 | -2 | 9 |
| 14 | Jawa Timur | 1 | 21 | 16 | 19 | 6 | 2 | -7 | 8 |
| 15 | Banten | -15 | 37 | 16 | 14 | -1 | 7 | 2 | 9 |
| 16 | Bali | -25 | 38 | 18 | 12 | 3 | -1 | 5 | 7 |
| 17 | Nusa Tenggara Barat | 26 | 3 | 13 | 21 | 18 | -2 | 8 | 13 |
| 18 | Nusa Tenggara Timur | 12 | 24 | 12 | 30 | 12 | 10 | -1 | 14 |
| 19 | Kalimantan Barat | -8 | 36 | 12 | 16 | 3 | -4 | -1 | 8 |
| 20 | Kalimantan Tengah | 22 | 28 | 12 | 11 | -9 | -4 | 11 | 10 |
| 21 | Kalimantan Selatan | 6 | 44 | -2 | 12 | -10 | -9 | 21 | 9 |
| 22 | Sulawesi Tengah | -28 | 45 | 7 | 18 | 7 | 2 | -4 | 7 |
| 23 | Sulawesi Selatan | 13 | 18 | 13 | 15 | 6 | 4 | 6 | 11 |
| 24 | Sulawesi Tenggara | 18 | 2 | 13 | 11 | 8 | 10 | -4 | 8 |
| 25 | Gorontalo | -11 | 31 | 15 | 23 | 1 | 6 | 11 | 11 |
| 26 | Sulawesi Barat | 16 | 20 | 8 | 30 | 17 | 0 | 5 | 14 |
| 27 | Maluku | 22 | 16 | 11 | 27 | -11 | 34 | -18 | 11 |
| 28 | Maluku Utara | 2 | 29 | 29 | 17 | 12 | 14 | 41 | 20 |
| 29 | Papua Barat | -31 | 42 | 25 | 21 | 3 | 2 | 14 | 11 |
| 30 | Papua | -28 | 48 | -1 | 36 | -5 | 9 | 21 | 11 |

*Source: own calculations*

It can be seen that growth of Regional Government Revenue of provincial per capita has increased from year to year. Although there are some regions that experience smaller Regional Government Revenue than the previous year, the highest average growth percentage of Regional Government Revenue per capita occurred in North Maluku Province by 20%, followed by West Sulawesi Province and East Nusa Tenggara Province with an average per capita growth of 14%

per year, while the smallest Regional Government Revenue per capita growth occurred in Jambi Province, Kepulauan Riau Province by 6%.

The comparison of data in table 2 and table 1 shows that East Java Province and West Java Province is included in the category of high corruption and high governance while the growth of Regional Government Revenue per capita is included in the middle category. The high level of governance should be followed by high revenue from Regional Government Revenue so that eventually, it is expected to have an impact on the reduction in corruption cases that occured. North Maluku Province which has the highest growth of Regional Government Revenue per capita but has experienced low governance evaluation results and followed by low corruption cases as well. The growth in Regional Government Revenue per capita varies in the provinces in Indonesia if it is associated with corruption and governance cases that occurred. This means that It is not always high growth of Regional Government Revenue per capita is automatically created by good governance with low corruption cases. On the other hand, provinces that experience high corruption cases that are supported by the implementation of good governance do not necessarily make the growth of Regional Government Revenue per capita in the region worse off.

Regional Government Revenue are very important in the implementation of development because these funds are owned by the regional government itself so that the regional government has full authority to manage these funds. On the other hand, the regional government also has a very big responsibility for financial management that comes from the region's original income, because the funds come from the local community who are entitled to get the funds back in the form of development carried out in their area. One way that can be done is through the implementation of accountability in the aspect of power so that the management of public resources, especially in the area of financial management can reduce the incidence of corruption.

It is believed by Davey (1988), in his book "Development from below theory" that the public will show willingness to pay taxes according to the area of their residence compared to the public having to pay taxes to the Central Government. The reason is quite acceptable that the taxpayer can immediately enjoy the results and benefits of the tax paid in his area. Rusydi (2010) states that the tendency in exploring Regional Government Revenue is often neglected by the region as the main base of regional revenue sources so that exploration and optimization are often not carried out. It should be, if the tax is high, it will increase regional income and economic development will run well.

Corruption is an act of public office that is misused for personal interests such as bribery, extortion, fraud so that many revenue and expenditure budgets cannot be allocated according to their purpose. Corruption was allegedly one of the factors hindering the optimization of the realization of provincial Regional Government Revenue in Indonesia. In accordance with the results of Bahri's research (2008) shows that the collection of Regional Government Revenue is often prevented by corruption. In line with the findings of Nawatmi (2014) that regional economic growth was significantly affected by the negative direction of corruption. The phenomenon that occurs in Indonesia, there are some ruling political parties using budget politics to accommodate their political decisions, such as the power to allocate revenue budget for development spending. The high manipulation of government budgets that are not in accordance with the needs and interests of the people, will result in the waste of financial resources, the unstable social structure of the community, and the lack of authority of the authorities and government, which in turn will lead to political instability and corruption.

Some studies in Callejas (2010), Fiorino and Galli (2010), Nielsen and Haugaard (2000), Kwabena et al (2002), Chetwynd et al (2003), Seldadyo (2006), Akçay (2006), Satiene and Toleikiene (2007), Nawatmi (2016), show the relationship between corruption and political patronage, low economic freedom, regulatory capacity, federalism, inequality, trade and political liberties, human development, investment, democracy, economic growth in a country or region where from the literature concluded that corruption can be caused by the occurrence of money politics or money campaigns. Corruption is an obstacle to investment originating from within and outside the country, the quality of public infrastructure has decreased, causing distortion of

public spending, obstruction of trade and capital mobility, human development is hampered which leads to obstruction of regional economic growth which will have an impact on reducing tax revenues.

Regional governance indexes are obtained from public data of the Regional Government Budget (APBD), Public Accountability Report on Budget (LKPJ), Government Wide Work Plan (RKP), Provincial of Regional Legislation Program (Prolegda) which are combined to assess aspects of governance, bureaucracy, civil society, and economic society that meet the principles of participation, accountability, transparency, efficiency, effectiveness, and justice. According to Arsjad (1992) particularly in the framework of the accountability of the structuring of state finances, the results criteria and potential, fair and equitable, are administered in accordance with government rules and take into account the effect of taxes on the economy must be developed so as to optimize state and regional revenues that will encourage economic activity.

The governance variable has also been reviewed by several other researchers such as Davey (1988), Lenny (2014), Zulkarnaini (2014), Suprianto (2014), Pirade et al. (2018). Davey stated that budgeting and accountability are influenced by national political objectives carried out through transparent and accountable administration or governance. Furthermore human resource management is significantly affected by transparency and accountability, meaning that the performance of government officials is determined by the strategy and implementation of good governance. From these two variables, namely corruption and governance, it can be stated that the Regional Government Revenue can be increased by the existence of ethics, morally responsible, the existence of minimum limits on services performed by apparatus so as to prevent wastefulness in determining budget allocations which will result in a decrease in corruption cases.

## 2.    Methods

Based on the explanations of the theories above, regional government revenue in this study can be influenced by corruption factors and governance factors in the form of conceptual frameworks which can be seen in Graph 1.
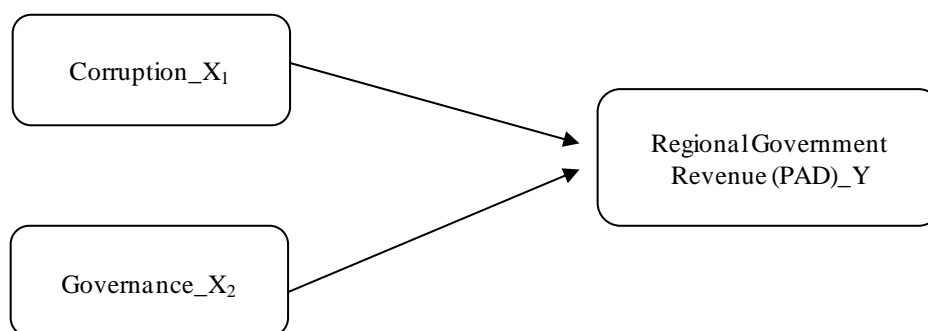


**Graph 1. Conceptual Framework**

data used are secondary data in the form of panel data for the period 2010 to 2017 in provinces in Indonesia with total data of 8 X 30 = 240. There are 4 (four) Provinces not included in the research data, namely DKI Jakarta Province which has special characteristics in objects revenue so that it becomes different from other provinces in Indonesia, where the tax collected is including taxes for the province and taxes for the Regency/City. In addition to avoiding data series deviations, there are 3 other provinces, namely East Kalimantan Province, North Kalimantan Province, and North Sulawesi Province which also are not estimated.

The processed data was obtained from the Central Bureau of Statistics (BPS) and the Corruption Eradication Commission (KPK), and the Ministry of Home Affairs (Kemendagri) which included the number of corruption cases that had been in kracht decided by the local court and published by the Corruption Eradication Commission (KPK). While the governance that is used is the result of the Performance Evaluation of Regional Government (EKPPD) which is conducted and published by the Ministry of Home Affairs annually.

In general, by using the Ordinary Least Square (OLS) approach, it is determined the equation model that affects the Regional Government Revenue, namely:

$$yi = \beta 0 + \beta 1\ x1it + \beta 2\ x2\ it + \varepsilon it$$

where: Y is PAD, $X_1$ is Corruption, $X_2$ is Governance, $\beta 0$ is constant, $\beta 1$ is corruption estimation coefficient, $\beta 2$ is estimated coefficient of governance, $\varepsilon$ is error term.

## 3.    Data Analytic and Discussion
## 3.1.    Data Analityc

The classic assumption test has been performed on panel data so that it is obtained that the tested model has passed the normality test, multicollinearity test, heteroscedasticity test, Chow test and Hausman test so that the suitable model is the Fixed Effect Model (FEM) in table 3 with the following regression equation:

$$PAD\_Y = 12.48189 - 0.003902\ x1 + 0.287466\ x2$$

**Table 3. Data Panel Regression with Fixed Effect Model**

Dependent Variable: LNY
Method: Panel Least Squares
Date: 10/10/19  Time: 10:14
Sample: 2010 2017
Periods included: 8
Cross-sections included: 30
Total panel (balanced) observations: 240

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| KORUPSI_$X_1$ | -0.003902 | 0.000695 | -5.61361 | 0 |
| TATA_KELOLA_$X_2$ | 0.287466 | 0.050558 | 5.68581 | 0 |
| C | 12.48189 | 0.164264 | 75.98696 | 0 |

Effects Specification

Cross-section Fixed (Dummy Variables)

| | | | |
|---|---|---|---|
| R-squared | 0.750814s | Mean dependent var | 12.58941 |
| Adjusted R-squared | 0.713676 | S.D. dependent var | 0.547672 |
| S.E. of regression | 0.293055 | Akaike info criterion | 0.506653 |
| Sum squared resid | 17.8633 | Schwarz criterion | 0.970738 |
| Log likelihood | -28.79838 | Hannan-Quinn criter. | 0.693646 |
| F-statistic | 20.21672 | Durbin-Watson stat | 0.921601 |
| Prob(F-statistic) | 0 | | |

*Source: own calculations*

The resulting regression equation shows the direction and influence of each other between the independent variable and the dependent variable in table 4:

**Table 4. Direction and Effects of Corruption and Governance Variables against Regional Government Revenue**

| No. | Variable Independent | PAD_Y | Information | Significance α = 0,05 |
|---|---|---|---|---|
| 1 | Corruption ($X_1$) | Negative | The higher the corruption case, the lower the Regional Government Revenue | Significant |
| 2 | Governance ($X_2$) | Positive | The higher the Performance Evaluation of Regional Government (EKPPD) will increase the acceptance of the Regional Government Revenue | Significant |

*Source: own calculations*

### 3.2. Discussion

This study analyzes the factors of corruption and governance in determining the amount of local revenue in all provinces in Indonesia. This study uses the Ordinary Least Square (OLS) approach in order to produce a regression coefficient value that minimizes the square of the residual between the dependent variable and the independent variable. The results of the regression analysis show that the variables of corruption and governance variables used in the model determine Regional Original Income in Indonesia.

Based on regression processed with Eviews 8 can be discussed as follows: the regression coefficient of corruption variable (X1) shows a negative relationship to Regional Government Revenue (PAD) per capita of 0.003902. It means that for every increase in one thousand cases of corruption, the PAD per capita will decrease by Rp. 3,90. In this case other factors are considered permanent. Significance value of 0.0000 <0.05, corruption has a significant effect on PAD per capita; the regression coefficient of the governance variable (X2) shows a positive relationship of 0.287466. It means that for every increase in one thousand points of governance value, then the Regional Government revenue (PAD) per capita will increase by Rp. 287,47. In this case other factors are considered permanent. Significant value of 0,000 < 0.05, governance has a significant effect on PAD per capita.

Davey (1988) said that Regional Original Income sourced from public tax revenues will increase if the community as taxpayers is willing to pay taxes or their obligations if supported by good and transparent governance. Bahri (2008) proves that corruption is inversely proportional to PAD revenue, the higher the corruption, the lower PAD revenue will be.

Furthermore, by taking into account the results of the F Test, the Prob. (F-statistic) of 0.0000 is smaller than $\alpha = 0.05$, It means that the factors of corruption and governance together influence and determine the acceptance of PAD (Y). While the coefficient of determination (R2) of 0.750814 shows that PAD (Y) can be explained by 75% jointly by corruption variables and governance variables while the remaining 25% PAD (Y) is explained by other factors not analyzed in this study.

In this study, corruption is an independent variable that turns out determine the Regional Government Revenue show significant results in a negative direction. It means that an increase in Regional Government Revenue will be followed by a decrease in the level of corruption and vice versa where an increase in corruption will cause a decrease in Regional Government Revenue. This can be seen from several provinces that have the ideal conditions referred to namely the D.I. Yogyakarta Province, West Nusa Tenggara Province, and South Sulawesi Province. This is in accordance with the Law on State Financial Management that good governance is hold by implementing transparency and accountability, where these two principles are able to prevent corruption.

The results of the regression analysis of governance towards Regional Government Revenue show significance in a positive direction, where the implementation of transparent and accountable governance will increase Regional Government Revenue by 75.08%, while the rest is determined by other factors not included such as commitment and government policies from related parties (stake holders).

### 4. Conclusions

The conclusion of corruption analysis and governance in determining Regional Government Revenue is that governance plays an important role in significantly increasing Regional Government Revenue and is able to reduce the level of corruption. A significant increase in corruption cases determines provincial PAD revenue in Indonesia, the more corruption cases the provincial PAD will decrease, this is due to the lack of public trust in taxpayers to pay taxes, and conversely a decrease in corruption cases will increase provincial PAD revenues. Governance determines the size of the provincial PAD revenue, the better the governance, the higher the provincial PAD revenue, the worse the governance, the lower the provincial PAD revenue.

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