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Impact of Local Anti-Corruption on Local Economic Growth: Does Local Politics Matter in Indonesia?

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Content

Abstract

Corruption has not been limited to the central level in Indonesia, but has also permeated the local level due to the decentralization of authorities. Efforts to combat this issue have been made aggressively, and anti-corruption initiatives in local governments have been carried out through the Monitoring Center for Prevention programme, which is led by the Indonesian Corruption Eradication Commission. It is believed that corruption at the local level can impede economic growth due to the abuse of power. This study aims to estimate the impact of anti-corruption programme on local economic growth in Indonesia. The study includes 508 districts and cities across Indonesia and uses both quantitative and qualitative approaches. The quantitative approach involves the use of two-period panel data and the difference-in-differences method. Meanwhile, the qualitative approach involves critical analysis. The results of the quantitative approach using the two-period panel model show that curbing corruption in planning and budgeting, as well as procurement, respectively, can lead to an increase in local economic growth by 15.7% and 23.9%. On the other hand, closing loopholes in the procurement of goods and services can actually reduce local economic growth by 4.6%. The findings from the difference-in-differences estimation indicate a negative influence on local economic growth stemming from anti-corruption programmes, particularly in areas characterized by corruption. Moreover, the results of the estimation for regions with high levels of anti-corruption reveal a negative economic growth when there is political intervention, such as the significant interest of political oligarchs in the local parliament, political interests of coalition parties at the national level, and the incumbent status of a local leader. On the other hand, the qualitative study highlights that the disparity between formal and informal institutional arrangements, such as the culture of patronage and intricate political structures, impedes anti-corruption efforts and bolsters local political oligarchy. To address this issue, it is essential to possess the political will at the highest national level, provide anti-corruption education to legislators and local government officials, and enhance the independence of the Internal Audit Agency.

Keywords: anti-corruption, political aspect, economic growth, difference-in-differences, Indonesia

Chapter 1
Introduction

1.1 Background

Studies reveal varied impacts of institutional quality on economic growth across different regions. In the Western Balkans and South Asia, effective corruption control significantly boosts economic growth, while in the European Union, the effect is notable for candidate countries. However, in Gulf Cooperation Council (GCC) countries and Eastern Europe, efforts to control corruption have a minimal impact on growth. Local studies by Rodríguez-Pose & Zhang (2019) and Balaguer-Coll et al. (2022) indicate that anti-corruption measures can positively affect economic growth, though accurately measuring institutional quality remains challenging.

The link between democracy and economic growth is debated, with some studies suggesting a negative or weak relationship. Barro (1996) and Tavares & Wacziarg (2001) found that democracy had a limited or adverse impact on growth. In contrast, Acemoglu et al. (2018) demonstrated a strong positive effect of democracy on economic growth. Saha & Sen (2021) argued that the impact of corruption on growth differs based on regime type, with high corruption boosting growth in authoritarian regimes but not in democracies.

In Indonesia, corruption remains a significant challenge despite the establishment of the Corruption Eradication Commission (KPK) in 2002. The KPK's efforts, including the Monitoring Center for Prevention (MCP) program, target high-risk areas such as planning and budgeting, procurement, and licensing. However, the effectiveness of these measures in promoting local economic growth in the context of Indonesian democracy and corruption dynamics warrants further research, particularly examining how local political and economic factors interact with anti-corruption efforts.

1.2 Gaps and motivation

This study addresses how local anti-corruption efforts impact economic growth by conducting a systematic literature review (SLR). The review covers the evolution of anti-corruption strategies in Indonesia, highlighting key developments post-1998 reform, including the establishment of the Corruption Eradication Commission (KPK) and its collaboration with other law enforcement agencies. Despite the KPK's central role in anti-corruption through the National Strategy for Prevention and Eradication of Corruption (Stranas-PK) and the Monitoring Center for Prevention (MCP) programme, political interference has weakened its effectiveness, as evidenced by the 2019 revisions that diminished its authority and independence.

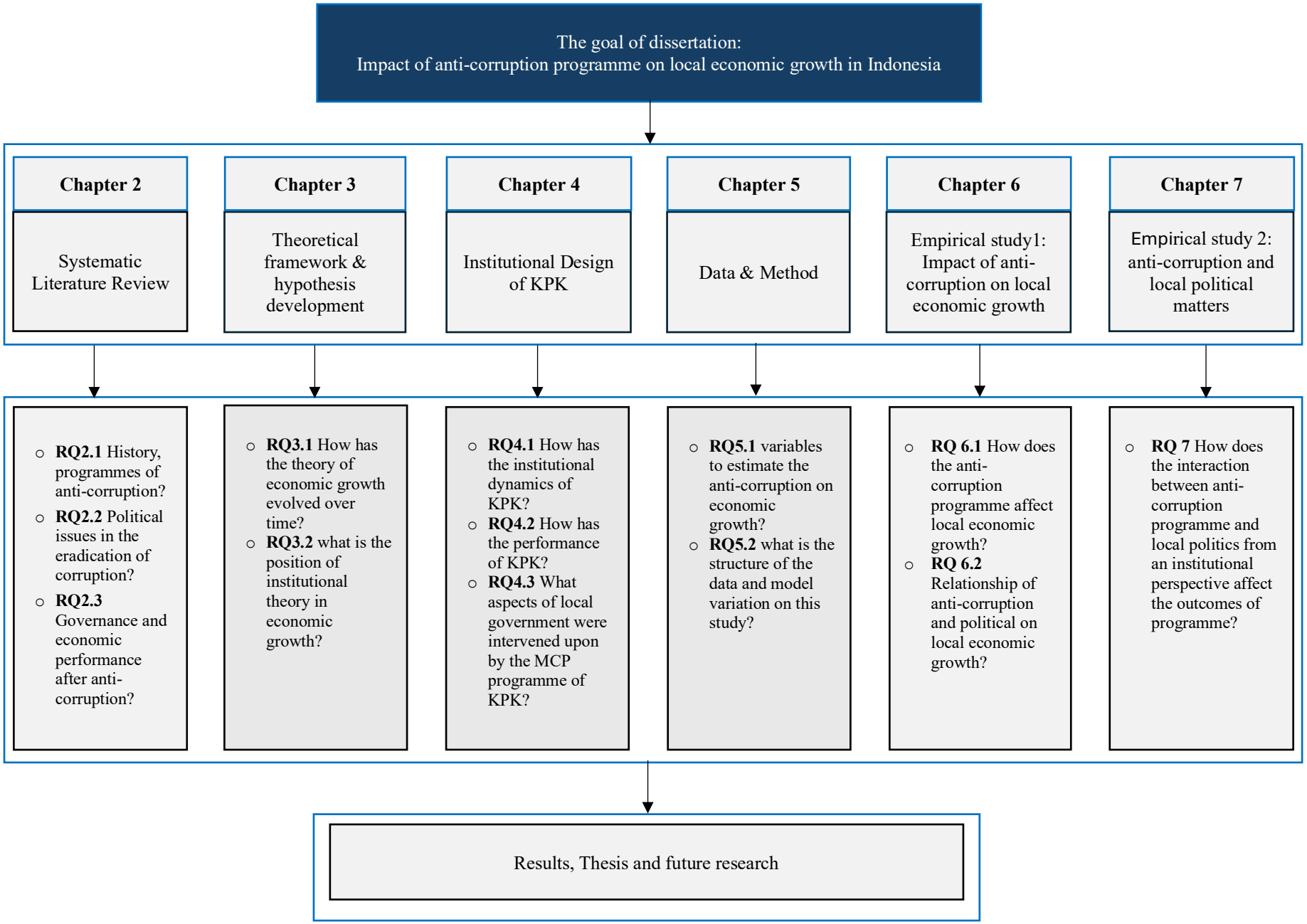
The analysis reveals that while anti-corruption efforts, especially those led by the KPK, aim to enhance governance, they may inadvertently impede economic growth. This supports the "grease the wheels" hypothesis, where corruption's reduction leads to economic slowdown due to structural inefficiencies. Our study identifies gaps in understanding the MCP programme's impact and highlights the need to consider local political dynamics to fully grasp the effects on economic growth. Chapter 6 presents the study's findings, while Chapter 7 explores barriers to anti-corruption implementation influenced by local political factors.

1.3 Framework of dissertation

The dissertation aims to investigate the impact of anti-corruption programs on local economic growth, influenced by local political factors. To achieve this, the dissertation is structured into six chapters: Chapter 2 conducts a systematic literature review (SLR), Chapter 3 outlines the theoretical framework and develops hypotheses, Chapter 4 presents the design of an anti-corruption institution, Chapter 5 describes the data and methods, Chapter 6 presents the first empirical research, and Chapter 7 focuses on the second empirical study. A research roadmap is provided in Figure 1.1 to guide readers through the structure of the dissertation.

Chapter 2 reviews Indonesia's anti-corruption history since the collapse of the authoritarian regime in 1998, focusing on both past and ongoing anti-corruption programs and relevant studies at the local level. The chapter also examines the political influence on corruption eradication efforts, including attempts to weaken the KPK, and studies related to the relationship between anti-corruption and politics at the local government level. Chapter 3 introduces the theoretical framework, discussing economic growth theories, corporate governance in the context of economic growth, and the relationship between corruption control, institutions, and economic growth. Subsequent chapters explore the design and performance of the KPK, the methodology and data used in the research, and the empirical analysis of anti-corruption programs' impact on local economic growth, considering local political factors. The dissertation concludes with a summary of the findings, research limitations, and suggestions for future research.

Figure 1.1 The framework of dissertation



Chapter 2
Anti-corruption in Indonesia: a systematic literature review

2.1 Introduction

Corruption studies in Indonesia have become increasingly relevant to scholars amidst the storm of controversy surrounding efforts to curb it. Most researchers argue that since the democracy was opened up after the collapse of the New Order in 1998, corruption in the decentralization era has become more rampant (Siburian, 2024). Corruption in Indonesia does not only occur at the central level, but also extends to the local level. Corruption can be classified into three sectors: government, private, and political parties. In the government sector, corruption often occurs in the form of bribery, gratification, budget embezzlement, bribery in procurement of goods and services, embezzlement in licensing, and selling positions (Kuncoro, 2004). Similar instances of corruption also occur in the private sector, including bribery, asset concealment, and money laundering (Brown, 2006; Kuncoro, 2004; Lukito, 2015; Wibisana & Marbun, 2018). In the political party sector, corruption takes the form of vote buying, nepotism, and favoritism (Brown, 2006; Henderson & Kuncoro, 2011; Juwono, 2016; Umam, 2021). Furthermore, the attention of researchers has increased with the rise of corruption and anti-corruption efforts, particularly since the establishment of the Indonesian Corruption Eradication Commission (KPK) in 2003.

The extraordinary intensity of anti-corruption efforts has led to the examination of corruption and anti-corruption in Indonesia. Several studies have brought some illuminating findings. The purpose of this chapter is to provide a general overview of corruption and anti-corruption in Indonesia, ensuring that issues related to corruption and anti-corruption that have not been examined are addressed, and to suggest future research directions. Therefore, we propose three research questions in this article:

RQ 2.1 how are the histories and what kind of the anti-corruption policies that have been implementing in Indonesia?
RQ 2.2 what is the relationship between political issues in the eradication of corruption?
RQ 2.3 how are the governance and economic performance managed and executed after anti-corruption policies are implemented?

The remainder of this chapter is organized as follows. The subsequent section summarizes the methods used. In the third section, we discuss the findings of the three research questions.

2.2 Method

This study employs a systematic literature review to consolidate findings on corruption in Indonesia post-1998, focusing on the decentralization era. Following Tranfield et al. (2003) for planning, implementation, and reporting, the review adopts a comprehensive, neutral, and iterative approach, supported by meta-narrative analysis (Greenhalgh et al., 2005) to critically evaluate literature and identify research differences. Scopus, Web of Science, and JSTOR were primary sources, with SINTA used to address database limitations and ensure high-quality, compliant references.

2.3 Discussion

2.3.1 Anti-corruption in Indonesia: story, policy, and studies at the local level

In this section, we will present three important findings regarding anti-corruption policies in Indonesia post-reformasi 1998. Firstly, we will discuss the history of anti-corruption

measures. Secondly, we will examine ongoing and present anti-corruption programmes. Lastly, we will explore local-level policy studies on anti-corruption efforts.

Story of anti-corruption in Indonesia

The establishment of anti-corruption agencies in Indonesia began with the Assets Auditing Commission (KPKPN) in 1999 under President Habibie, followed by the National Ombudsman Commission under President Abdurrahman Wahid (Sherlock, 2002). Despite these efforts, corruption remained rampant. To address this issue, the Corruption Eradication Commission (KPK) was created in 2002 based on Law No. 30/2002, with its first commissioner sworn in December 2003 and the first corruption case tried in 2005 (Umam & Head, 2020). However, the KPK has faced significant threats from corrupt politicians and government officials, making it essential to understand its institutional capacity (Schütte, 2011).

The KPK, with broader powers than its predecessors, can conduct investigations, wiretaps, and bank account inspections, particularly in cases involving significant state losses (Schütte, 2007). However, it has been continuously threatened by attempts to weaken its authority, particularly from law enforcement agencies and parliament (Butt, 2011; Hadiz, 2017). Despite these challenges, the KPK remains a crucial institution in the fight against corruption, although it is under-resourced and politically vulnerable (Syariefudin, 2018; Yunan et al., 2023; Fransisco, 2020).

Anti-corruption policy of KPK: Stranas-PK and MCP

The KPK's anti-corruption strategy is centered on two main programs: the National Strategy for Prevention and Eradication of Corruption (Stranas-PK) and the Monitoring Center for Prevention (MCP). The MCP specifically targets corruption in local governments by focusing on eight vulnerable areas, such as budgeting, procurement, and asset management. Stranas-PK, part of the National Integrity System, is designed to enhance anti-corruption compliance across public and private sectors, as highlighted by Lukito (2016). This system comprises eight interdependent pillars, including the executive, judiciary, and civil society, which must be strengthened to reduce corruption and improve governance, supported by Presidential Regulation No. 55 of 2012.

Despite these efforts, challenges persist. Stranas-PK, initiated under President Susilo Bambang Yudhoyono's administration, faces criticism for poor coordination among stakeholders and misalignment between central and local government programs (Wijayanti & Azhar, 2021). Moreover, Himawan et al. (2022) note that while the National Anti-Corruption Commission (Timnas PK) is similar to other preventive bodies, it lacks authority and is constrained by its subordination to the presidency, underscoring the need for stronger coordination and authority in anti-corruption efforts. The Internal Audit Agency (APIP) plays a crucial role in supporting the MCP program, particularly in improving budget management and public services (Sumarauw et al., 2023). Research also shows that governance and political support, as measured by MCP and performance accountability, significantly impact corruption levels (Arifuddin et al., 2023). Additionally, Tua & Mahi (2023) found that MCP's preventive actions positively influence private investment decisions, with local economic indicators like GDP per capita and skilled labor availability playing critical roles.

Various anti-corruption studies at the local level

Olken (2007) examined two approaches to combating corruption in Indonesia: top-down government audits and bottom-up grassroots participation. He found that increasing the likelihood of external audits reduced financial losses in rural projects, though the effect was constrained by low prosecution rates. Grassroots monitoring proved effective only under

specific conditions, such as when personal interests were involved or anonymous feedback was allowed. Olken suggested that professional audits might be more suitable for public goods, while grassroots efforts could work better for private interests, highlighting the need for careful design of monitoring programs to avoid exploitation by local elites.

Further research by Adlin & Handoko (2019) and Firmansyah & Novianty (2021) focused on anti-corruption behavior in local governments. Adlin & Handoko revealed corruption involving 13 officials in Riau Province, emphasizing the need for stronger government policies, law enforcement oversight, and bureaucratic integrity. Firmansyah & Novianty (2011) study in Tasikmalaya City found that robust internal controls and competent human resources are key to preventing corruption in government procurement. Both studies highlight the importance of institutional and individual commitment to anti-corruption efforts within local bureaucracies.

Additional studies, including those by Periansya et al. (2023) and Santosa (2023), explored the impact of whistleblowing systems and anti-corruption education. Periansya et al. (2023) found that whistleblowing systems significantly enhance fraud awareness and prevention, while good governance alone was insufficient for fraud prevention in Palembang City. Santosa (2023) evaluation of an anti-corruption education program in Central Java concluded that while the program was effective, it required updates and better cooperation among institutions. Handayani et al. (2024) further emphasized the role of auditor experience and independence in enhancing internal audit quality and fraud prevention, suggesting that these factors are crucial in maintaining accountability in government operations.

2.3.2 Political issues and anti-corruption challenges

Tornquist (2000) criticizes the shallow democratization efforts in Indonesia, highlighting that political elites and local patrons are better suited to the neo-traditional electoral system, while the transition from the "New Order" to President Gus Dur's government was only a preliminary step. He stresses the need for a grassroots democracy movement to ensure development and stability. Freedman & Tiburzi (2012) and Blunt et al. (2012) add that decentralization has reduced violence but increased patronage and corruption, exacerbating "patronage democracy" due to weakened anti-corruption institutions and ineffective technocratic reforms.

Several studies emphasize the persistent challenge of corruption in Indonesia. Kuncoro & Resosudarmo (2006) discuss how democratization has made corruption a central issue, with political parties and government institutions identified as the most corrupt. Anti-corruption efforts, although initiated during President Yudhoyono's era, are often hindered by the power of political leaders. Sherlock (2002) and Setiyono & McLeod (2010) underscore the importance of parliamentary accountability and legal policies in combating corruption, noting that politicians and bureaucrats frequently manipulate procurement processes for personal gain.

Recent research by Riwanto & Achmad (2018), Tidey (2018), and others continues to explore the deep-rooted issues of corruption and political reform in Indonesia. They argue that systemic corruption within political parties undermines democracy and elections, and propose reforms such as improving recruitment models, alternative party financing, and stricter oversight in elections. Despite some progress, studies suggest that the dominance of financial power and cartel politics, particularly under the Jokowi administration, has weakened democratic processes and increased corruption, highlighting the need for continued reform efforts.

Efforts to paralyze the KPK

Political issues significantly hinder corruption eradication efforts in Indonesia, particularly through explicit resistance against the KPK (Corruption Eradication Commission). Various studies indicate that corruption suspects engage in political lobbying and systematic attempts to revise the KPK law to reduce its authority. Tomsa (2015) highlights how corruption flourishes in environments where transparency is lacking, with corruptors often using closed negotiations to evade punishment. Although some local politicians still face prosecution, these cases are rare and often linked to prosecutors determined to secure convictions, despite efforts by the wealthy to escape criminal proceedings.

Moreover, the KPK's selective investigation practices suggest that anti-corruption efforts are sometimes used as political tools by incumbents. Schütte (2012) notes that corruption charges are often politically motivated, emerging strategically around elections to benefit those in power. The KPK, while focusing on major cases in Jakarta, tends to neglect corruption at the local level. Despite its success, the KPK faces resistance from corrupt networks within political parties and law enforcement agencies, which seek to undermine its initiatives through judicial challenges, budget cuts, and revoking surveillance permits. Without robust political protection, the KPK risks losing its effectiveness, credibility, and authority, as pointed out by Price (2024).

Studies of political issues on local government

Olken (2010) investigated rural infrastructure project selection mechanisms in 49 Indonesian villages, comparing representative meetings and voting. His study found that voting significantly improved citizen satisfaction, particularly among women, and directed projects to poorer areas, although the types of projects chosen remained unchanged. This research highlights the role of participation in enhancing political satisfaction and suggests that village elites' political agreements may influence voting outcomes, illustrating the complex interplay between electoral mechanisms and local power. In contrast, Lewis and Hendrawan (2019) evaluated majority coalitions' impact on local government, finding that while coalitions initially increased health spending, these benefits waned and corruption in budget allocations worsened towards the end of their term, aligning with local political business cycle research. Lewis (2020) also found that pre-electoral coalitions (PECs) significantly boost candidates' chances in mayoral elections but are often associated with corruption, emphasizing the need for legal enforcement while balancing PEC benefits.

Irham (2016) addressed the persistence of corruption despite democratization, critiquing Warren's concept of democratic corruption for overlooking political parties as a corruption site. His findings align with Lewis's observations on PEC-related corruption, highlighting the need for preventive measures in leader selection. Similarly, Prakasa (2021) studied oligarchic practices in Bangkalan District, which entrenched dynastic politics and undermined democratic participation.

2.3.3 Governance and economic performance after anti-corruption policies

In this section, we evaluate the Indonesian government's management and economic performance at both central and local levels. While anti-corruption policies haven't directly influenced these areas, improvements in anti-corruption institutions have increased public and investor confidence. Marks (2004) noted that internal political shifts and external factors like foreign capital flows affected Indonesia's development. Although the 1997-98 crisis's structural barriers persisted, the first direct presidential election raised hopes for governance and economic reforms. However, government interventions, such as trade policies and subsidies, led to inefficiencies and corruption, despite progress in anti-monopoly and anti-corruption legislation.

McLeod (2005) highlighted that, on the 10th anniversary of Suharto's resignation, the economy showed growth but faced challenges like high inflation and global rice price surges.

Bureaucratic reforms and entrepreneurial local leadership made some headway, yet the legal system and state-owned enterprises still struggled with governance issues. In December 2005, President Yudhoyono's cabinet reshuffle aimed to tackle these issues but faced hurdles, including economic slowdowns and investment declines, as noted by Kuncoro & Resosudarmo (2006). Basri and Patunru (2006) reported increased GDP growth and improved macroeconomic indicators, yet concerns over stalled economic reforms persisted.

Recent studies show that despite stable economic performance, bureaucratic and anti-corruption reforms remain crucial. Kong and Ramayandi (2008) observed macroeconomic improvements but warned of global economic pressures and challenges in infrastructure spending and government coordination. Badjuri (2011) emphasized the strategic importance of anti-corruption agencies like KPK for attracting foreign investment. Howes & Davies (2014) noted President Yudhoyono's mixed track record on economic reform, while Talitha et al. (2020) and Siburian (2024) highlighted the paradoxical effects of decentralization, suggesting it may exacerbate corruption rather than drive local development.

Studies in local public sector

Olken (2006) found that corruption caused significant losses in a large Indonesian aid program, with 18% of subsidized rice lost, primarily concentrated in ethnically diverse and low-population villages, suggesting central government involvement and highlighting corruption's severe impact on program effectiveness and intended benefits. Mimba et al. (2013) observed that local government reforms often increased the power of dominant stakeholders like mayors, with performance measurement systems failing to ensure accountability due to a focus on symbolic rather than functional indicators, reflecting compromise under central and local pressures.

Nawatmi (2013) supported the "grease the wheel" hypothesis, showing that while corruption negatively impacts economic growth in some provinces, its overall effect becomes negligible when excluding wealthier regions. Lewis (2017) and Lewis (2018) found that local government spending positively affects public services up to a threshold, with direct elections improving resource management and service quality. Lewis and Hendrawan (2020) noted that high-quality accounting practices reduce corruption, though the impact of accounting reform alone was not significant. Paranata (2022) reported that 40% of budget leakage occurs locally, exacerbated by management quality issues and limited KPK jurisdiction, with more leakage in eastern regions compared to the west.

2.4 Future research agenda on anti-corruption in Indonesia

Despite significant international focus on corruption and the efforts of Indonesia's KPK through programs like Stranas PK and MCP, there is a notable lack of comprehensive analysis on their impact, particularly at the local level (Rodríguez-Pose & Zhang, 2019; Balaguer-Coll et al., 2022). These programs, though aimed at improving governance and reducing corruption, face challenges from persistent local corruption and political interference, raising questions about their effectiveness in fostering economic growth. The integration of socio-economic, demographic, and political control variables, as suggested by recent studies, could enhance understanding of their impact.

Furthermore, the complex interaction between local anti-corruption initiatives and local politics remains underexplored, with power dynamics often impeding anti-corruption efforts (Köbis et al., 2022). There is a need for a more nuanced theoretical framework beyond traditional institutional approaches to better manage and assess the effectiveness of these programs. Future research should explore innovative frameworks, such as the Nudge theory, to motivate public officials and improve anti-corruption strategies.

2.5 Conclusion

The progress made in the field of anti-corruption in Indonesia has been significant in recent years. The purpose of this writing is to provide a more comprehensive understanding of the findings of research on anti-corruption in Indonesia. The results found that most literature focuses on the history of anti-corruption in Indonesia, anti-corruption programmes, political issues in the handling of corruption, efforts to weaken the KPK as an authorized institution in investigating corruption cases, obstacles in eradicating corruption in each government term, as well as the relationship between anti-corruption and government administration and economic performance.

These findings indicate that the government's efforts, particularly those of the KPK, have been successful in eradicating corruption at the elite level, which has resulted in the KPK facing backlash from corruptors. However, the impact of anti-corruption programmes applied at the local level, specifically the MCP programme, has not been thoroughly investigated. In particular, the relationship between anti-corruption and economic growth amid local political interventions, as well as qualitative studies on the influence of political power at the local level, need to be further examined. Additionally, various anti-corruption research in Indonesia is needed.

Chapter 3
Institutions and economic growth: theory, literature and hypotheses development

3.1 Introduction

While good governance is often considered a marker of institutional strength, it is notably absent from traditional growth theories like classical, neoclassical, and endogenous growth models, which primarily focus on tangible economic factors. This study diverges from conventional approaches by integrating institutional variables, especially anti-corruption measures, into the economic growth framework. This method aligns with Solow's growth theory and Barro's extensions (1991), and incorporates perspectives from scholars such as Balaguer-Coll et al. (2022), Qi et al. (2023), Rodríguez-Pose & Zhang (2019), and Saha & Sen (2021). Recently, institutions have become central to discussions on economic performance, with key contributions from Acemoglu, North, and Williamson. Williamson's institutional theory highlights four aspects: 'social embeddedness' (customs and norms), the institutional setting (regulations and legislation), governance (minimizing transaction costs), and institutions within a principal-agent framework (incentives and penalties) (Williamson, 1979, 1983, 1998).

This chapter poses two questions:
RQ 3.1: How has the theory of economic growth evolved over time?
RQ 3.2: What is the position of institutional theory in economic growth?

We present the theoretical references as the foundation of the research objectives as well as the empirical literature that serves as a guide. In the next section, we explain the economic growth theory used as a reference. We then discuss the importance of institutional theory in chapter. Next are the relationship between institutions and economic growth, and anti-corruption programme in Indonesia, the relationship between anti-corruption and political institutions on economic growth, and also the development of hypotheses.

3.2 Economic growth

According to Kuznets (1973), economic growth reflects a country's capacity to provide its population with economic goods over the long term, supported by technological progress, strong institutions, and state ideology. This definition highlights three key components: the continuous increase in the supply of goods, the role of technological capabilities in determining growth rates, and the regulatory function of institutions and ideology in optimizing technology for human benefit. Flammang (1979) added that economic growth and development are interdependent and mutually reinforcing, emphasizing that growth involves certain sectors leading while others lag. This suggests that structural development, characterized by changes in economic structure, is essential for sustaining overall growth. Without structural change, sectors may experience diminishing returns, slowing overall growth. Conversely, growth in established sectors can provide investment funds for emerging sectors. While development replaces old structures with new ones, growth facilitates development by supplying necessary resources, leading to concurrent rather than alternating processes.

3.2.1 Classical school

In this section, we discuss foundational ideas from classical economists. Adam Smith, a key figure in classical economics, introduced concepts such as the division of labor and the "invisible hand" of the free market, asserting that individual profit-seeking ultimately benefits society through efficient resource allocation (Spengler, 1959). Smith's view was that economic growth depends on natural resources, human resources, and capital accumulation, with capital playing an active role in increasing productivity (Eltis, 2000). Meanwhile, Thomas Robert Malthus's theories on population growth and resource constraints, although criticized, highlighted the potential for population to outstrip resources, leading to famine and the need for population control (Montano & García-López, 2020). Empirical research shows mixed impacts of population on economic growth, with some theories suggesting that demographic changes influence resource constraints in the modern context (Azam et al., 2020; Naso et al., 2020).

David Ricardo extended Smith's ideas with his theories on absolute profit, labor value, and the iron law of wages. Ricardo posited that absolute profits arise from trade, the value of goods is determined by labor input, and wage increases lead to higher population growth, which in turn drives wages down due to excess labor supply (Dixon, 2008; Letiche, 1960). Ricardo's approach suggested that a well-functioning free market and extended franchise could align the interests of the working class with broader economic health, thereby promoting prosperity (Dixon, 2008). His theory of economic growth, based on capital accumulation and labor productivity, explored how to balance economic development with a growing population and varying productivity rates (Letiche, 1960).

3.2.2 Neo-Classical school

The study builds upon the neo-classical growth model developed by Solow, which incorporates capital, labor, and technology to estimate output growth. Solow's model, introduced as an improvement over the Harod-Domar model, integrates technological change to shift from constant to increasing returns to scale. His 1957 work demonstrated that technological change significantly influenced aggregate output, showing that most output growth stemmed from technological advancements rather than just capital improvements. This model laid the groundwork for future research and was refined in response to criticisms of the Solow Residual, as noted by Hartley (2000), who questioned the consistent relationship between technological change and Solow residuals.

Subsequent developments by Barro and Sala-i-Martin (1990) expanded on Solow's model, emphasizing the role of human capital accumulation in long-term economic growth. Their research introduced concepts like beta convergence, sigma convergence, and absolute convergence to explain income disparities and growth rates across regions. They argued that investment in education and skill development enhances labor productivity and overall output, leading to the narrowing of income gaps over time. This theory supports the notion that poorer regions can catch up with wealthier ones through sustained investment in human capital and technological progress (Barro, 1991; Barro et al., 1992; Barro & Sala-i-Martin, 2004).

3.2.3 Endogenous Growth

Romer's model challenges Solow's neoclassical growth theory by positing that technological progress is endogenous rather than exogenous. While Solow viewed technology as an external factor, Romer argued that it arises from within the model through investments in research and development, fostering innovation and long-term growth. Romer's framework, which operates under the assumption of imperfect competition and temporary monopoly power, emphasizes the role of knowledge, innovation, and human capital in driving sustained economic growth. Unlike Solow's constant returns to scale, Romer's model assumes increasing

returns to scale, where continuous investment in technology and education directly influences economic growth, making policy support for R&D and education crucial for long-term prosperity (Romer, 1986, 1987, 1989, 1990, 1994).

3.3 Theoretical position of institutions in explaining economic growth

Referring to Acemoglu et al. (2005) assertion that the most enduring yet pivotal question in the economic growth and development is: why do some countries lag behind in prosperity? The neoclassical luminary Solow elucidated the pathway to growth, and Romer was renowned for introducing the concept of endogenous growth. While these theoretical traditions persist in economics and offer valuable insights into the mechanisms of economic growth, they have not yielded fundamental insights into their core drivers. According to North and Thomas, factors such as innovation, economies of scale, education, and capital accumulation do not merely contribute to growth; rather, they constitute growth itself. These factors serve as proximate causes of growth, with institutional differences being the most fundamental determinant.

What exactly are these institutions? North defines institutions as rules (constraints) created by people to organize and shape political, social, and economic interactions (Acemoglu and Robinson, 2008). They consist of informal (customs, traditions, social norms, and religion) and formal rules (constitutions, laws, regulations, and property rights). Together, they determine the incentive structure for society, particularly for the economy.

According to Acemoglu et al. (2005), three characteristics of good institutions are particularly relevant to the economy. First, it preserves property rights for the whole society so that each individual has an incentive to invest and participate in economic activities. Second, they constrain the actions of elites, politicians, and other powerful groups so that they cannot deprive others of income and investment, or create unequal opportunities for everyone. Third, it provides equal opportunities for every member of society, so that each individual can invest, especially in human capital, and participate in productive activities.

Furthermore, Acemoglu and Robinson (2012) distinguish two categories of institutions: inclusive and extractive. Inclusive institutions are characterized by 1) supporting broad community participation in economic activities; 2) promoting investment, innovation, and economic growth; 3) guaranteeing property, contract, and individual rights; and 4) reducing inequality and providing opportunities for many people. Meanwhile, the characteristics of extractive institutions are: 1) they tend to favour small groups or elites who control economic resources, 2) they create barriers to broad participation and economic development, 3) they strengthen monopoly and oligopoly, and 4) they create high inequality.

In our opinion, from what has been described by experts in institutional theory in our study, which is related to the impact of corruption control on economic growth at the local level in Indonesia, the implementation of the anti-corruption programme is an implementation of institutional theory. Therefore, the anti-corruption programme in Indonesia can be included as an institutional characteristic that can prevent elites and politicians at the local level from committing acts that fall under the categories of corruption, collusion, and nepotism. The anti-corruption programme is included as one of the categories of inclusive institutions that can boost the economy by guaranteeing good governance.

3.4 The review of empirical studies so far

3.4.1 The relationship between institution and economic growth: empirical studies

Corruption as sand the wheels

This study explores the relationship between institutional dynamics and economic growth using various indicators from the World Bank, Transparency International, and the International Country Risk Guide. While the literature offers mixed views on the impact of

corruption, suggesting both negative and potentially positive effects, the study primarily examines two hypotheses about corruption's economic impact. The 'sand in the wheels' hypothesis, supported by 17 regional studies, indicates that corruption generally impedes growth.

Research from Indonesia and other regions provides evidence on how corruption affects economic growth. For instance, Alfada (2019) found that corruption negatively impacts growth at specific thresholds, while Al Qudah et al. (2020) and Zeeshan et al. (2022) observed similar negative effects in Tunisia and Pakistan. Studies on regional samples, such as Hakimi and Hamdi (2017) and Belloumi and Alshehry (2021), confirm that corruption hampers growth by deterring investment. Further research on smaller regional samples, including Das et al. (2020) and Paulo et al. (2022), highlights varied impacts, often showing significant negative effects.

Additional studies from various regions, such as Spyromitros and Panagiotidis (2022) and Hamdi and Hakimi (2022), reinforce the negative impact of corruption on growth. For instance, Gründler and Potrafke (2019) and Ó. Afonso and Longras (2022) found significant negative effects across many countries. This broad range of empirical findings suggests that corruption consistently undermines economic growth, though the magnitude and specific impacts can vary based on regional and methodological contexts.

Corruption as grease the wheels

In recent years, scholarly discussions have explored the complex role of corruption, with some studies suggesting it could facilitate economic growth under certain conditions. For instance, Zeeshan et al. (2022) found a short-term positive impact of corruption on economic growth in their study using linear and nonlinear ARDL methods. Similarly, Malanski and Póvoa (2021) observed positive effects of corruption on growth in Latin America and Asia-Pacific when moderated by economic freedom. Spyromitros and Panagiotidis (2022) also noted a positive effect in Latin American countries, while Qureshi et al. (2021) highlighted a bidirectional relationship between corruption and growth, varying between developing and developed countries.

Further research by Hamdi and Hakimi (2022) and Das et al. (2020) identified a significant positive effect of corruption on economic growth above certain thresholds in developing countries. Urbina and Rodríguez (2022) found temporary support for the grease-the-wheel hypothesis in some Latin American and Nordic countries, while Afonso & de Sá Fortes Leitão Rodrigues (2022) demonstrated that the relationship between corruption and growth can be influenced by government size. Trabelsi and Trabelsi (2021) identified a threshold of 2.3 - 3 for corruption where its marginal benefits equal its marginal costs, leading to an average economic growth of 4.7%.

3.5 Impact of anti-corruption programme in economy: the global experience

Research on the impact of anti-corruption programs at the district and city levels is limited, yet some studies provide valuable insights into their potential effects on local economic growth. Rodríguez-Pose and Zhang (2019) used an endogenous growth model to explore how institutions, including anti-corruption efforts, influence city growth in China, finding a 0.011% impact on economic growth. Balaguer-Coll et al. (2022) examined government efficiency in 1,820 Spanish cities and found a positive correlation with economic growth, though measuring institutional quality through corruption eradication remains challenging. Wu and Zhu (2011) identified a significant positive effect of anti-corruption programs on GDP at the district level in China, while Kong et al. (2020) demonstrated that anti-corruption campaigns increased total factor productivity by 1.7% in non-state-owned firms in China.

Additionally, Qi et al. (2023) provided empirical evidence from Mongolia supporting the positive role of anti-corruption policies in boosting economic growth. These studies collectively highlight the importance of anti-corruption efforts and institutional quality in enhancing economic development. They suggest that effective anti-corruption measures and improved government efficiency can significantly impact economic growth, demonstrating the critical role of institutional integrity in various contexts.

Relationship between (anti) corruption, political institutions, and economic growth

In this section, we review the theoretical and empirical literature on the interplay between anti-corruption programs, political institutions, and economic growth. The existing literature often examines corruption's effects on economic growth without directly considering anti-corruption measures. While corruption is typically seen as an economic hindrance, anti-corruption efforts are often perceived as a means to enhance economic efficiency. Political institutions, whether democratic or non-democratic, are used as proxies in these studies to understand how they influence the relationship between corruption and growth.

The theoretical perspectives on corruption's impact vary by political regime. Research suggests that corruption may have a smaller negative effect on economic growth in non-democratic regimes due to more efficient bribery and stable investment policies, as seen in studies by Ehrlich & Lui (1999) and Shleifer & Vishny (1993). In contrast, corruption in democratic countries can undermine growth due to less reliable commitments from politicians, as posited by Aidt (2009) and others.

Further, empirical research highlights the complex relationship between corruption, political institutions, and economic growth. Drury et al. (2006) find that democracy can mitigate corruption's negative effects on economic growth, as democratic accountability pressures politicians to avoid harmful economic practices. Shabbir (2017) suggests that corruption's impact on growth depends on institutional performance, with a positive effect in less democratic settings but a negative one in more democratic countries. Studies by Rivera-Batiz (2002) and Saha and Sen (2021) reveal that democratic institutions and political rights can enhance governance and economic growth, while corruption might paradoxically promote growth in authoritarian contexts due to stable policy environments.

3.5 Hypothesis development

H1*: local anti-corruption programme has positive impact on the local economic growth.*
The following is hypothetical breakdown of the programme:

- H1a: *local anti-corruption programme of local planning and budgeting has a positive impact on the local economic growth*. Also, districts-cities with anti-corruption scores above the national average in the area of planning and budgeting have higher economic growth than districts-cities below the national average.
- H1b: *local anti-corruption programme of local procurement has a positive impact on the local economic growth.* Also, districts-cities with anti-corruption scores above the national average in the area of procurement of goods and services have higher economic growth than districts-cities below the national average.
- H1c: *local anti-corruption programme of local licensing has a positive impact on the local economic growth*. Also, Districts-cities with anti-corruption scores above the national average in the area of licensing have higher economic growth than districts-cities below the national average.

Interaction between local anti-corruption and local political aspect

H2a: *The interaction between local anti-corruption programme and local political concentration has a negative effect on local economic growth.* Also
The interaction between districts-cities with scores above the national average in the three of anti-corruption areas with parliamentary political concentration scores above 50 percent has a negative impact on local economic growth.

H2b: *The interaction between local anti-corruption programme and local fiscal independence has a positive effect on local economic growth*. Also,
The interaction between districts-cities with scores above the national average in the three of anti-corruption areas with fiscal independence scores above 50 percent has a positive impact on local economic growth.

H2c: *The interaction between anti-corruption programme and affiliation of political party of local leader has a negative effect on economic growth.* Also,
The interaction between districts-cities with scores above the national average in the three of anti-corruption areas with political party affiliation of local leaders has a negative impact on local economic growth.

H2d: *The interaction between anti-corruption programme and incumbent status of local leader has a negative effect on local economic growth*. Also,
The interaction between districts-cities with scores above the national average in the three of anti-corruption areas with incumbent status of local leaders have a negative impact on local economic growth.

In addition, we have formulated hypotheses that will be tested using the difference-in-differences method in this study.

H3a: *Districts and cities will have experience negative economic growth after the anti-corruption programme is implemented.*

H3b: There is a negative difference in local economic growth in the district-cities that are treated (anti-corruption implementation), which also have high levels of corruption compared to areas with low levels of corruption.

Chapter 4
Corruption Eradication Commission (KPK): design, performance, and anti-corruption programme

4.1 Establishment of KPK

Indonesia's shift from a centralized government under Sukarno to an authoritarian regime during the New Order ended with the 1998 crisis, leading to financial collapse and the end of 32 years of authoritarian rule. The Reform Era began with democratic elections in 1999 and 2004, introducing checks and balances and adhering to Trias Politika. Despite initial democratic progress under President Yudhoyono, concerns have arisen under his successor, Joko Widodo. The KPK, established by Law No. 32/2002 to tackle corruption, initially gained public support but now faces challenges from the executive and legislative branches. In 2018, the KPK introduced the Monitoring Center for Prevention (MCP) programme, focusing on key areas such as local planning, procurement, and licensing to curb corruption at the local level.

Accordingly, three questions are raised in this chapter:

RQ 4.1 How has the institutional dynamics of the KPK changed since its establishment in 2003?
RQ 4.2 How has the performance of the KPK despite the recurring crises that have rocked the institution from time to time?
RQ 4.3 What aspects of local government administration were intervened upon by the MCP programme of KPK?

4.2 Institutional design of KPK

The Corruption Eradication Commission (KPK) was established to combat corruption in Indonesia with powers to coordinate anti-corruption efforts, supervise related agencies, and prosecute offenses (Kurniawan, 2018). However, significant revisions to the KPK Law in 2019 are seen as weakening the commission's effectiveness, primarily due to increased political influence and a newly established Supervisory Board with extensive powers, including authorizing searches and wiretaps (Syahuri et al., 2022; Umam et al., 2020). These changes, driven by political pressures, have raised concerns about the KPK's independence and its ability to operate impartially (Asyikin & Setiawan, 2020; Syahrum, 2022).

4.2.1 The first of KPK Law in 2002: story and performance

The KPK Law of 2002 established the Corruption Eradication Commission (KPK) to tackle corruption in Indonesia, granting it significant authority to investigate, prosecute, and punish corrupt practices. Key developments included the delegation of powers to the KPK to address corruption in the police and judiciary, the creation of a Supervisory Board to oversee the KPK's performance independently, and the authorization for wiretapping to detect corrupt activities. Despite its successes, such as major cases against police officials and lawmakers, the KPK faced attempts to weaken its authority through legislative revisions and political pressure. Additionally, the status of KPK employees and the election process for its leaders have been points of contention, indicating ongoing challenges in maintaining the commission's independence and effectiveness.

4.2.2 The first revision of KPK Law in 2015: story and performance

The revision of KPK Law No. 30/2002 extends beyond filling leadership vacancies and is seen as potentially undermining the KPK's independence. Key changes include: restoring and

strengthening the roles of the Police and Attorney General's Office, which may lead to increased political influence over elite corruption cases; maintaining the structure and responsibilities of the KPK Supervisory Board without alterations; continuing the use of tapping equipment according to previous guidelines; controversially designating KPK employees as Civil Servants, raising concerns about potential government control and favoritism; and retaining the previous process for electing KPK leaders.

4.2.3 The second revision of KPK Law in 2019: story and performance

In the second revision of the KPK Law in 2019, significant changes were made to the KPK's authority. The KPK is no longer solely responsible for combating corruption; instead, it must now collaborate with the police and prosecutors, which raises concerns about potential conflicts of interest due to low public confidence in these institutions. The KPK Supervisory Board's structure was expanded from five to nine members, with a majority from the government, potentially compromising its independence. The use of tapping equipment now requires prior approval from the Supervisory Board, elevating its role to a judicial-like status. KPK employees were transitioned to civil servant status, placing them under the executive branch's regulations. Additionally, the process for electing KPK leaders was altered, allowing the president to make direct appointments.

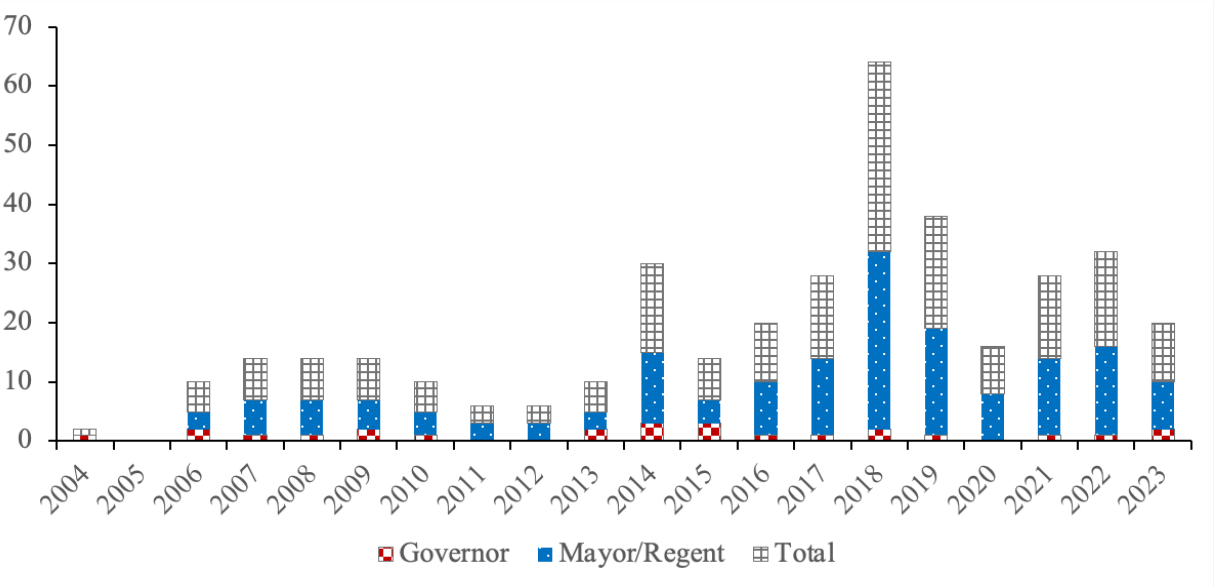
4.3 The tempest of KPK

To date, the KPK has seen five leadership periods, each consisting of a chairman and four members, with decision-making being collective. The leadership has included a diverse range of professionals such as police officers, prosecutors, judges, businessmen, lawyers, anti-corruption activists, bureaucrats, and academics. The selection process for KPK leaders involves several stages: public announcement of registration, competency testing, psychological profiling, public testing, interviews, submission of candidates to the president, a fit and proper test in parliament, and final election of the five leaders. Notable legal controversies involving KPK leaders include: Antazari Ashar, convicted of premeditated murder; Bibit Samad Rianto and Chandra M. Hamzah, whose case, dubbed "lizard vs. crocodile," ended in a presidential halt; Abraham Samad, charged with forgery and dismissed by President Joko Widodo; Bambang Widjojanto, dismissed alongside Samad for false testimony; Lili Pintauli, who resigned after being charged with graft; and Firli Bahuri, whose extortion case has severely damaged public trust in the KPK.

4.4 Performance of KPK

The KPK’s institutional design is centralized with limited branches, constraining its ability to monitor corruption comprehensively on its own. Despite its impressive performance with a narrow scope of supervision and a small number of investigators, relying solely on the KPK for elite-level corruption eradication is challenging. Collaborating with the Police and Attorney General's Office, which have branches at all government levels, provides new hope for combating corruption in Indonesia. Since its establishment in 2002, the KPK has made significant strides, addressing major corruption cases involving both state and private officials across executive, legislative, and judicial levels. Between 2004 and 2023, the KPK managed 183 corruption cases, including 24 involving governors and 159 involving mayors or deputy regents, addressing various issues such as procurement fraud, bribery, and budgetary corruption.

Figure 4.1 Number of local heads as defendant.



Between 2004 and 2013, the KPK took legal action against 65 members of parliament, 7 ministers, 8 governors, 32 regents and mayors, 4 ambassadors, and 7 members of the Indonesian Election Commission, including the Chief Justice of the Constitutional Court. Mietzner (2015) attributes the high number of arrests, especially of local heads, to the high cost of politics and poor governance. The significant financial and political costs associated with becoming a local leader, coupled with low rewards, lead to corruption in areas like budgeting, procurement, and business licensing. Mietzner argues that low state subsidies and reliance on citizen-led donations are inadequate solutions for improving democracy in transitional societies.

4.5 Monitoring Centre for Prevention (MCP) Programme

The KPK's Monitoring Center for Prevention (MCP) programme, launched in 2018, aims to curb corruption in Indonesian local governments through a preventive strategy known as the "Trident," which includes law enforcement, prevention, and education. The MCP focuses on eight key areas: planning and budgeting, procurement, licensing, strengthening internal oversight, management of state civil apparatus, optimization of regional revenues, management of regional assets, and village funds. Each area is assessed with detailed indicators to address corruption vulnerabilities effectively.

The MCP programme addresses various corruption risks: planning and budgeting interventions aim for transparency from the development stage; procurement processes, though technically transparent, require strict oversight; licensing processes, prone to corruption due to bureaucratic delays, are being simplified; internal oversight apparatuses like APIP need strengthening; state apparatus management is under scrutiny to prevent position-buying practices; local revenue and asset management are optimized to minimize losses; and village funds are supervised to ensure accountability and effective use in rural areas.

Literature of MCP Programme in Indonesia

The literature on the Monitoring Center for Prevention (MCP) programme reveals diverse evaluations and critiques. Baiti and Soemitra (2022) assessed the Medan city government's 2021 performance, scoring 77.25, and emphasized the need for advanced

procedural frameworks in planning and budgeting to minimize errors. Abadi (2023) evaluated the MCP in Riau Province, noting a 71% performance score, and suggested enhancing civil servant competence and auditor independence as key improvements. Despite ongoing monitoring, persistent corruption anomalies indicate the need for a broader programme scope.

Further analyses highlight institutional roles and impacts. Bintana and Mayasari (2023) found that KPK's anti-corruption initiatives and the 7-C protocol significantly influenced local tax optimization, motivating improvements in local bureaucracy. Conversely, Nopirina (2023) criticized the Inspectorate's evolving role from a watchdog to a collaborator with KPK, stressing the need for better auditor skills. Astuti et al. (2023) reported that MCP interventions negatively impacted corruption cases and public complaints, particularly in procurement. Meanwhile, Tua and Mahi (2023) observed positive effects of anti-corruption measures on investment accumulation, recommending stricter criteria for local incentive fund allocation to enhance MCP performance.

Chapter 5
Relationship of anti-corruption, politics, and economic growth: data and method

5.1 Introduction

The primary objective of this research is to assess the impact of anti-corruption initiatives on economic growth in Indonesian districts and cities. The study adopts a multiparadigm approach (Guba & Lincoln, 1994), incorporating both quantitative and qualitative methods. The quantitative aspect evaluates the effect of anti-corruption programs on local economies, while the qualitative aspect, using a structuralist approach, examines how local political institutions' anti-corruption measures influence economic dynamics through power structures and resource distribution.

Data for this study are sourced from the Corruption Eradication Commission (KPK), the Central Bureau of Statistics, the Ministry of Finance, and the General Election Commission of Indonesia. This unique dataset includes anti-corruption areas related to local planning and budgeting, procurement, and licensing, excluding other areas like human resource management and village funds. The focus is on these three areas due to their significant corruption loopholes as identified by the KPK.

In this chapter, we propose two questions:

RQ 5.1 what indicators are used as variables to estimate the anti-corruption, political impact on economic growth?

RQ5.2 what is the structure of the data and model variation used to estimate the anti-corruption impact on economic growth?

5.2 Data and variables

After the fall of the New Order in 1998, Indonesia transitioned to the Reform Era, adopting local autonomy and decentralizing power through a 1999 law. This shift led to an increase in the number of provinces from 27 to 34 by 2012, and the total number of administrative regions expanded to 514 cities and districts. For this study, data were gathered from 508 cities and districts across 33 provinces, excluding Jakarta Province's administrative cities due to its unique governance structure.

The study utilizes data from various sources, including local GDP per capita, anti-corruption measures, investments, and political variables, for the years 2019 and 2022. Real local GDP per capita, sourced from the Indonesian Central Bureau of Statistics, serves as the primary measure of economic growth. The study also considers anti-corruption indices and control variables such as investments, financial institutions, and employment rates, along with political factors like the concentration of local legislative power and mayoral affiliation.

Anti-corruption variables

The independent variables in this study are anti-corruption metrics developed by KPK Indonesia, which assess anti-corruption levels in districts and cities. Data from 2019 and 2022 are used to evaluate three specific anti-corruption areas, known for their susceptibility to corruption:

1. Local Planning and Budgeting: This composite index includes indicators for unit price standards, budget analysis, local budget planning, and oversight. Evaluation involves assessing how unit prices and budget standards are set, the approval and publication of budget documents, and monitoring of development plans.

2. Local Procurement of Goods and Services: This index is based on indicators such as human resources in procurement units, task implementation, supporting devices, procurement information systems, and overall control. Key aspects include evaluating procurement processes, adherence to standards, and oversight of vendor management.

3. Licensing: This index assesses regulations, infrastructure, and control in licensing. Indicators include regulatory frameworks, service infrastructure, and public satisfaction. Evaluation focuses on licensing authority delegation, local regulations, service locations, and supervision.

Control Variables

The control variables used in this study included two aspects: economic and demographic. The time periods for data in these variables were 2017 and 2022, respectively. These aspects have been adopted from previous literature by Balaguer-Coll et al. (2022) and Rodríguez-Pose & Zhang (2019).

Economic aspect

We have designated three control variables for the economic aspect. These variables are as follows:

1. Domestic investment. Domestic investment is the amount of investment by local and national investors in each district or city in Indonesian rupiah exchange rates. We then adjust it to the US dollar. Domestic investment as percentage of LGDP in each district or city.
2. Foreign investment. Foreign investment is the amount invested by foreign investors from abroad in each district/city in US dollars. Foreign investment as percentage of LGDP in each district or city.
3. Financial institutions. In this case, financial institutions are the number of bank branches and the number of cooperatives in each district/city throughout Indonesia.

The investment variables, which represent the percentage of LGDP, has been adopted from previous studies, such as those conducted by Alfada (2019), Baklouti & Boujelbene (2020), Belloumi & Alshehry (2021), Dokas et al. (2023), Hakimi & Hamdi (2017), Hamdi & Hakimi (2022), Paulo et al. (2022), Spyromitros & Panagiotidis (2022), and Trabelsi & Trabelsi (2021). Meanwhile, the financial institution is adapted from Balaguer-Coll et al. (2022).

Demographic aspect

Demographic aspects are often used as reference in control variables. The three demographic variables used in this study include (Rodríguez-Pose & Zhang, 2019):

1. Agglomeration. Agglomeration is measured through population density, namely the number of residents per unit area (square km).
2. Labor force participation rate. The labor force participation rate is the percentage of the labor force to the population aged 15 years and over. This variable is measured in each district/city in Indonesia.
3. Human Capital. The human capital proxy is the average number of years of schooling for the population in each district/city in Indonesia.

Political aspect as mediating

The political aspect is one of the indicators of democracy considered as a control variable. The role of democracy in various literatures has been proven as a growth lever. Even in the latest literature from Saha & Sen (2021) states that the interaction of democracy variables with aspects of corruption greatly affects economic growth. This study attaches local democracy variables from the political lens as interactive variables with anti-corruption variables.

1. Concentration of political coalition in LHRs. Political concentration is the percentage of parliament members from political party support for the incumbent in parliaments each district and city.

$$\frac{Total\ seats\ of\ supporting\ parties}{Total\ of\ local\ parliementary\ seats} \times 100$$

2. Political affiliation. Political affiliation is the political affiliation of the regent/mayor to the coalition of political parties supporting the president (national level). Given a value of 1 if there is affiliation and 0 if there is no political affiliation. We added this variable as a new indicator for local politics.
3. Incumbent. Incumbent is a local head who served in the previous period and was re-elected as the local head the following year. We give 1 for incumbent and 0 for non-incumbent.
4. Fiscal independence. Fiscal independence in this case is a percentage of

$$\frac{Local\ generated\ revenue}{National\ transfer\ fund} \times 100$$

Fiscal independence is an indicator of a region's ability to finance its own activities without depending on external assistance, including that from the central government. This variable was also used by Balaguer-Coll et al. (2022) as local political variable.

We provide additional information on the variables in Table 5.1. The table contains variable names, variable measurements, data period, and data sources.

Table 5.1 Variables nomenclature

Variable	Name	Measurement	Period	Source
Dependent				
Economic growth	Log of real LGDP per capita (Y)	Log real LGDP per capita in US$ in each area	2017 & 2022	Statistics Bureau of Indonesia
Independent				
Anti-corruption 1	AC1	Score of AC1, 0 – 100 in each area	2019 & 2022	MCP programme KPK Indonesia
Anti-corruption 2	AC2	Score of AC2, 0 – 100 in each area	2019 & 2022	MCP programme KPK Indonesia
Anti-corruption 3	AC3	Score of AC3, 0 – 100 in each area	2019 & 2022	MCP programme KPK Indonesia
Control				
Domestic investment	E1	Percentage of EI per capita / GRDP per capita in each area	2017 & 2022	Statistics Bureau of Indonesia and Ministry of Investment
Foreign investment	E2	Percentage of E2 per capita / GRDP per capita in each area	2017 & 2022	Statistics Bureau of Indonesia and

				Ministry of Investment
Financial institutions	Log E2	Log of financial institutions in each area	2017 & 2022	Statistics Bureau of Indonesia
Agglomeration	Log D1	Log of agglomeration in each area	2017 & 2022	Statistics Bureau of Indonesia
Labor force	D2	Percentage of labor force in each area	2017 & 2022	Statistics Bureau of Indonesia
Human capital	D3	Number of people in schooling years in each area	2017 & 2022	Statistics Bureau of Indonesia
Political concentration	P1	Percentage of political concentration in LHR in each area	2017 & 2022	Indonesian General Election Commission
Fiscal independence	P2	Percentage of fiscal independence in each area	2017 & 2022	Ministry of Finance, Indonesia
Affiliation of political party	P3	Binary: 1 have affiliation, 0 is not, in each area	2017 & 2022	Indonesian General Election Commission
Incumbent status	P4	Binary: 1 is incumbent, 0 is not in each area	2017 & 2022	Indonesian General Election Commission

The dependent variable and some of the independent variables mentioned in Table 4.2 such as financial institutions and agglomeration have unsymmetrical distributions. Therefore, these variables are transformed into logs to obtain symmetrical data.

We present the descriptive statistics result in Table 5.2 as an initial overview of the data we have provided in this study. The table below is an overview.

Table 5.2 Descriptive statistic

Variable	Mean	Std. Dev.	Min	Max
Y	1953.191	1054.897	302.649	12982
AC1	74.871	25.350	0	100
AC2	67.243	25.635	0	100
AC3	78.686	21.963	0	100
E1	4.536	11.274	0	174.875
E2	2.809	8.910	0	94.859
E3	292.823	416.476	0	8649
D1	867.438	1864.228	0	15307
D2	69.435	7.510	43.41	97.53
D3	8.270	1.641	0.97	13.03
P1	42.605	21.393	0	100
P2	16.866	21.189	0.042	195.206
P3	0.493	0.500	0	1
P4	0.449	0.497	0	1

Source: own calculation.

5.3 Methodology

5.3.1 Two-period panel data

This study applied two-period panel data adopted from Wooldridge (2010) which uses a basic model (equation 1) and a time fixed effect (equation 2). The equation used is as follows:

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \delta Dum_{2t} + \varepsilon_{it} \quad (1)$$

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \delta Dum_{2t} + \varepsilon_{it} \quad (2)$$

In addition, we also observe the interaction between each anti-corruption variable and the democracy variable proxied by local politics variables. We draw the model in the equation 3.

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \gamma \sum_{k=1}^{3} logAC_{kit} \times \sum_{k=1}^{4} P_{kit} + \delta Dum_{2t} + \varepsilon_{it} \quad (3)$$

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \gamma \sum_{k=1}^{3} logAC_{kit} \times \sum_{k=1}^{4} P_{kit} + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \delta Dum_{2t} + \varepsilon_{it} \quad (4)$$

where $logY$ is log of economic growth. i is districts-cities. t is period. $logAC1$ is log of anti-corruption programme in planning and budgeting area. $logAC2$ is log of anti-corruption programme in procurement of goods and services. $logAC3$ is log of anti-corruption programme in licensing. P_{kit} is political variables for districts-cities i in period t with k = 1, 2, 3, 4. E_{kit} is control variables of economic for districts-cities i in period t with k = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities i in period t with k = 1, 2, 3. Dum_{2t} is a dummy variable that equals to zero when $t = 1$ or 2019 and one when $t = 2$ or 2022, it does not change across i or we called as time fixed effects. α is constant. $\beta_1, \beta_2, \beta_3$ are coefficient of regression for anti-corruption variables. γ is coefficient of each interaction between anti-corruption variables and political variables. ζ_k is coefficient of control variables in economic. η_k is coefficient of control variables in demographic. δ is parameter of dummy years. ε is error term. We provide the result of these model in the Table 6.1 to Table 6.5.

The two-period panel data offers visualizations for equations 1 and 2. These visualizations are presented in Figure 5.1 and 5.2, respectively.

Figure 5.1 Basic model

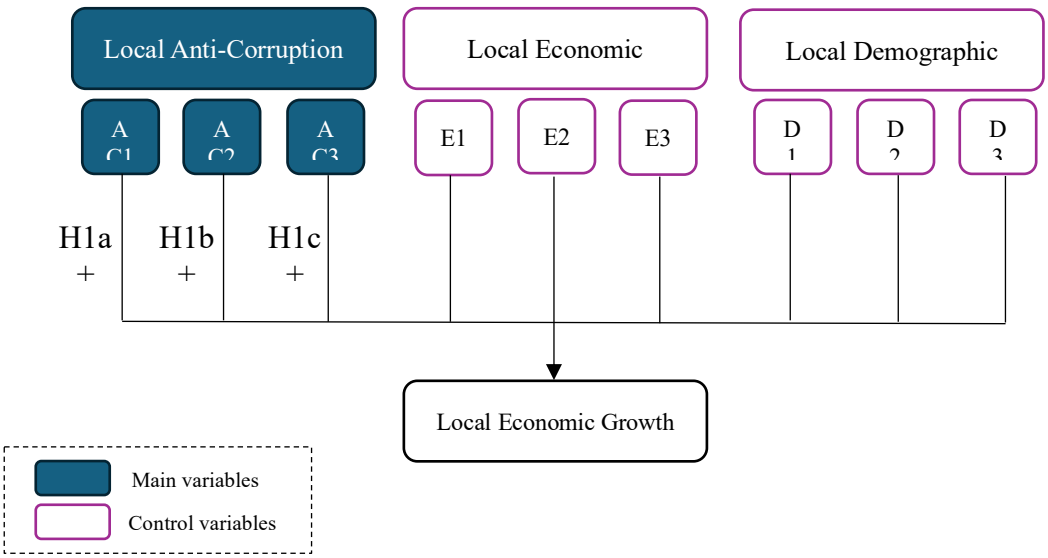
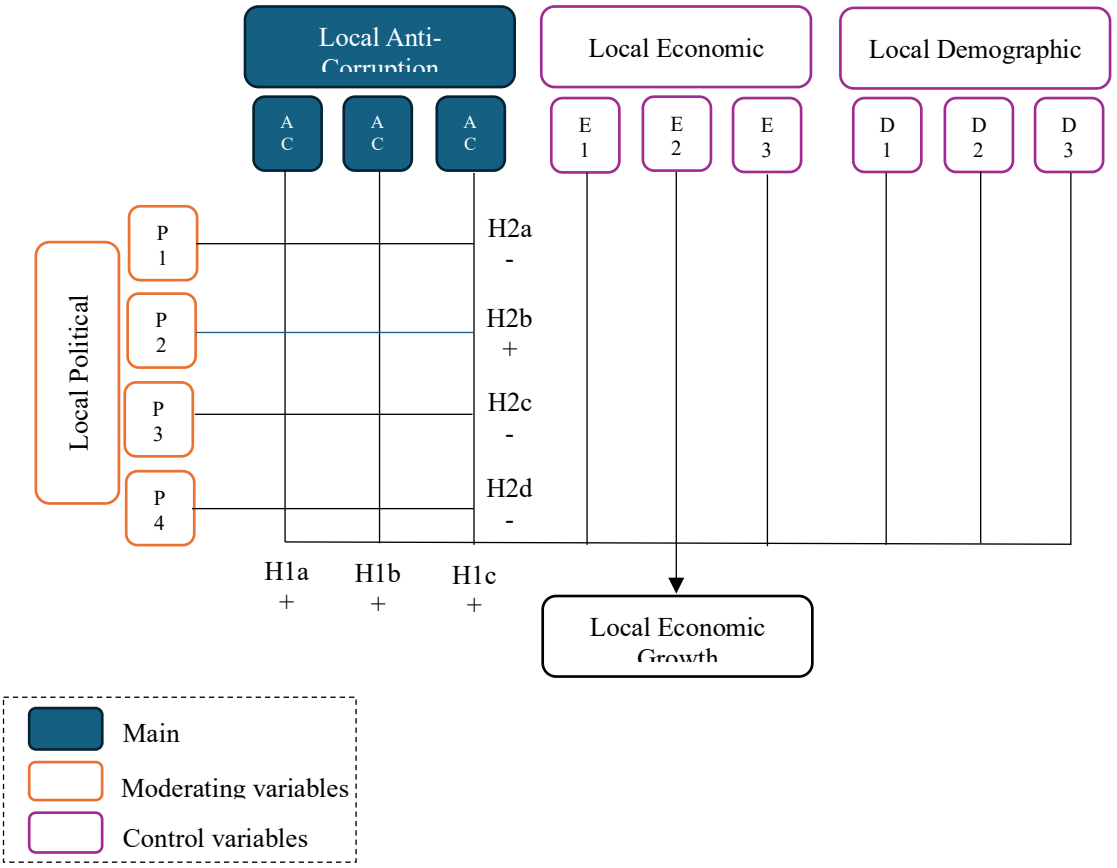


Figure 5.2 Large model



5.3.2 Difference-in-differences

Simple Differences

This study also examines the differences in economic growth between areas with high and low anti-corruption index.

$$2019\begin{cases}1\ if\ score\ of\ anti-corruption > 69\\0\ if\ score\ of\ anti-corruption < 69\end{cases}$$

$$2022\begin{cases}1\ if\ score\ of\ anti-corruption > 76\\0\ if\ score\ of\ anti-corruption < 76\end{cases}$$

The simple difference model used was as follows:

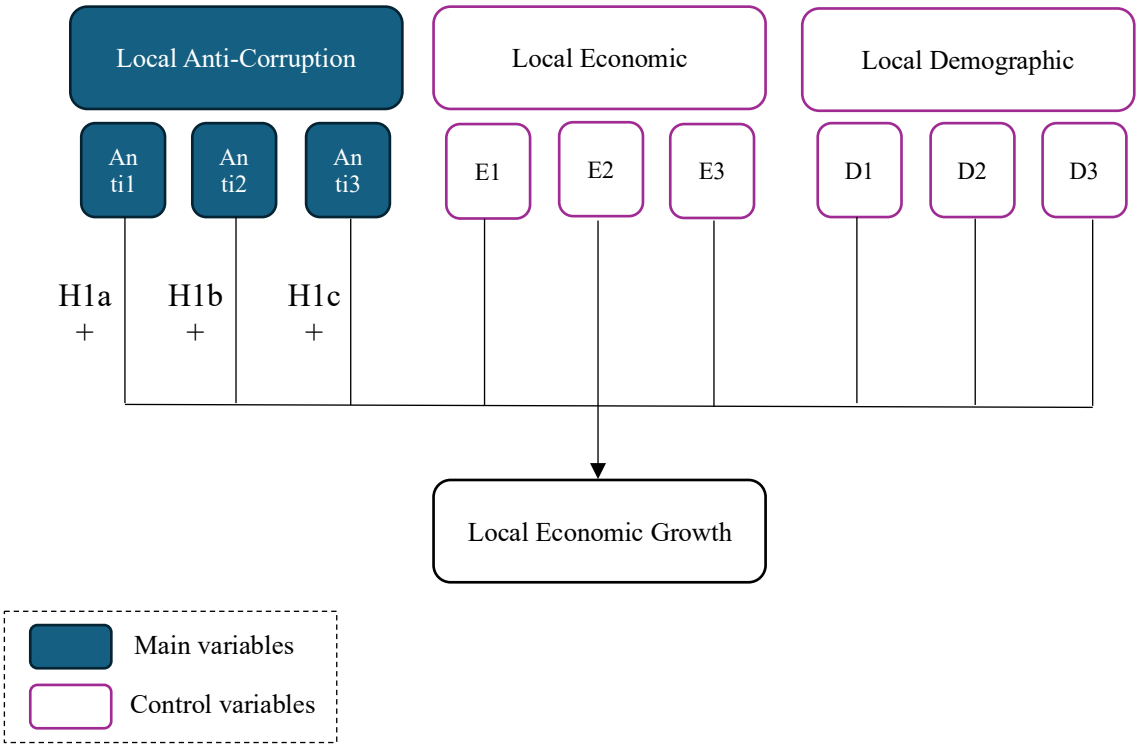
$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \varepsilon_{it} \quad (5)$$

$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \varepsilon_{it} \quad (6)$$

where $logY$ is log of economic growth. i is districts-cities. t is period. $Anti1$ is binary variable; 1 if the district-city has the score of anti-corruption in planning and budgeting > the average of national score, and 0 if < the average of national score. $Anti2$ is binary variable; 1 if the district-

city has the score of anti-corruption in procurement > the average of national score, and 0 if < the average of national score. $Anti3$ is binary variable; 1 if the district-city has the score of anti-corruption in licensing > the average of national score, and 0 if < the average of national score. E_{kit} is control variables of economic for districts-cities i in period t with k = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities i in period t with k = 1, 2, 3. α is constant. $\beta_1, \beta_2, \beta_3$ are coefficient of regression for anti-corruption variables. ζ_k is coefficient of regression for economic variables. η_k is coefficient of regression for demographic variables. ε is error term. The result of this model provided in Table 6.7 on the Chapter 6.

Figure 5.3 Simple difference



Difference-in-differences Model

As stated earlier, this study applies a natural quasi-experiment using the difference-in-differences (DiD) method. This method adopts several studies related to anti-corruption in different contexts such as Kong et al. (2017), Kong et al. (2020), and Qi et al. (2023) dan another text book by Brumback (2021) and Callaway (2023). This method is used to observe whether there is a difference in economic growth after the implementation of an anti-corruption programme.

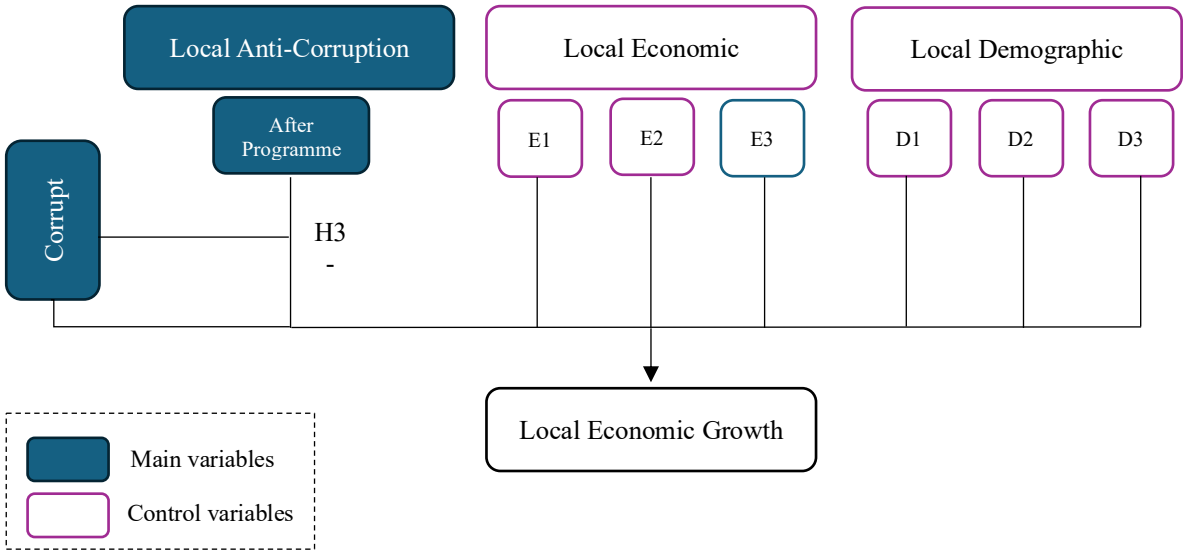
Therefore, the DiD regression equation that can be given is:

$$logY_{it} = \alpha + \beta\, corrupt_i + \gamma\, afterprogram_t + \delta\, corrupt_i \times afterprogram_t + \varepsilon_{it} \quad (7)$$

$$logY_{it} = \alpha + \beta\, corrupt_i + \gamma\, afterprogram_t + \delta\, corrupt_i \times afterprogram_t + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \varepsilon_{it} \quad (8)$$

where: $logY_{it}$ is log of economic growth, i represent districts and cities, and t is period. $corrupt$ is corruption districts-cities which is containing dummy, 1 for districts-cities that have Mayor/Vice Mayor corruptor and 0 is not. $afterprogram$ is represent time dummy, 1 for after Programme and 0 for before Programme. $corrupt \times afterprogram$ is the interaction due to collinearity. E_{kit} is control variables of economic for districts-cities i in period t with k = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities i in period t with k = 1, 2, 3. α is intercept. β is coefficient that measures the difference between the treatment group and the control group before treatment. γ is a coefficient that measures the effect of time (before or after treatment) in the control group. δ is coefficient measuring the treatment effect (interaction between $corrupt$ and $afterprogram$) in the treatment group. ζ_k is coefficient of regression for economic variables. η_k is coefficient of regression for demographic variables. ε is error term. The result of these model can be seen in the Table 6.12 on the Chapter 6.

Figure 5.4 Difference-in-differences model



To understand the concept, we use the illustrative difference-in-differences in the Table 5.3 below to facilitate the parameter calculation steps in this study.

Table 5.3 Difference-in-differences parameters

	Pre mean	Post mean	Δ (post – pre)
Treatment	$\alpha + \beta$	$\alpha + \beta + \gamma + \delta$	$\gamma + \delta$
Control	α	$\alpha + \gamma$	γ
Δ Treatment - control	β	$\beta + \delta$	δ

We then use a **fully interacted regression** to allow all the coefficients to change over time. We use political variables as proxies of democracy, as proposed by Saha and Sen (2021). The four political variables include political concentration, fiscal independence, mayor's party

affiliation, and incumbency status. Then, we use another measurement of anti-corruption variable that is *Anti.* DiD basic is:

$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \gamma Corrupt_i + \delta \sum_{k=1}^{3} Anti_{kit} \times Corrupt_i + \varepsilon_{it} \quad (9)$$

where $\log Y_{it}$ is log of economic growth of district-city i in year t. $Anti1$ is binary variable; 1 if the district-city has the score of anti-corruption in planning and budgeting > the average of national score, and 0 if < the average of national score. $Anti2$ is binary variable; 1 if the district-city has the score of anti-corruption in procurement > the average of national score, and 0 if < the average of national score. $Anti3$ is binary variable; 1 if the district-city has the score of anti-corruption in licensing > the average of national score, and 0 if < the average of national score. $corrupt$ is a dummy indicating whether the districts-cities belongs to the "High" corruption and "low" corruption in the subsample. $Anti_{kit}$ is anti-corruption variables for districts-cities *i* in period *t* with *k* = 1, 2, 3. E_{kit} is control variables of economic for districts-cities *i* in period *t* with *k* = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities *i* in period *t* with *k* = 1, 2, 3. α is a constant. $\beta_1, \beta_2, \beta_3$ are parameter of programmes anti-corruption fixed effect. γ is a parameter of districts-cities fixed effect. δ is parameter of interaction impact of the anti-corruption programme impact with *corrupt*. ε is error term. We provide the result of this model in the Table 6.13 on Chapter 6.

Our subsequent step is to incorporate a relaxation model that involved the $afterprogram$ and $westregion$ variables. The $afterprogram$ variable is identical to those used in the previous models. The $westregion$ variable is a dummy variable, where 1 represented the western region of Indonesia and 0 represented the eastern region of Indonesia. The purpose of this was to determine whether corruption in the western region of Indonesia had an impact on local economic growth.

$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \gamma Corrupt_i + \delta \sum_{k=1}^{3} Anti_{kit} \times Corrupt_i + \theta_1 afterprogram_t + \theta_2 westregion_i + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \varepsilon_{it} \quad (10)$$

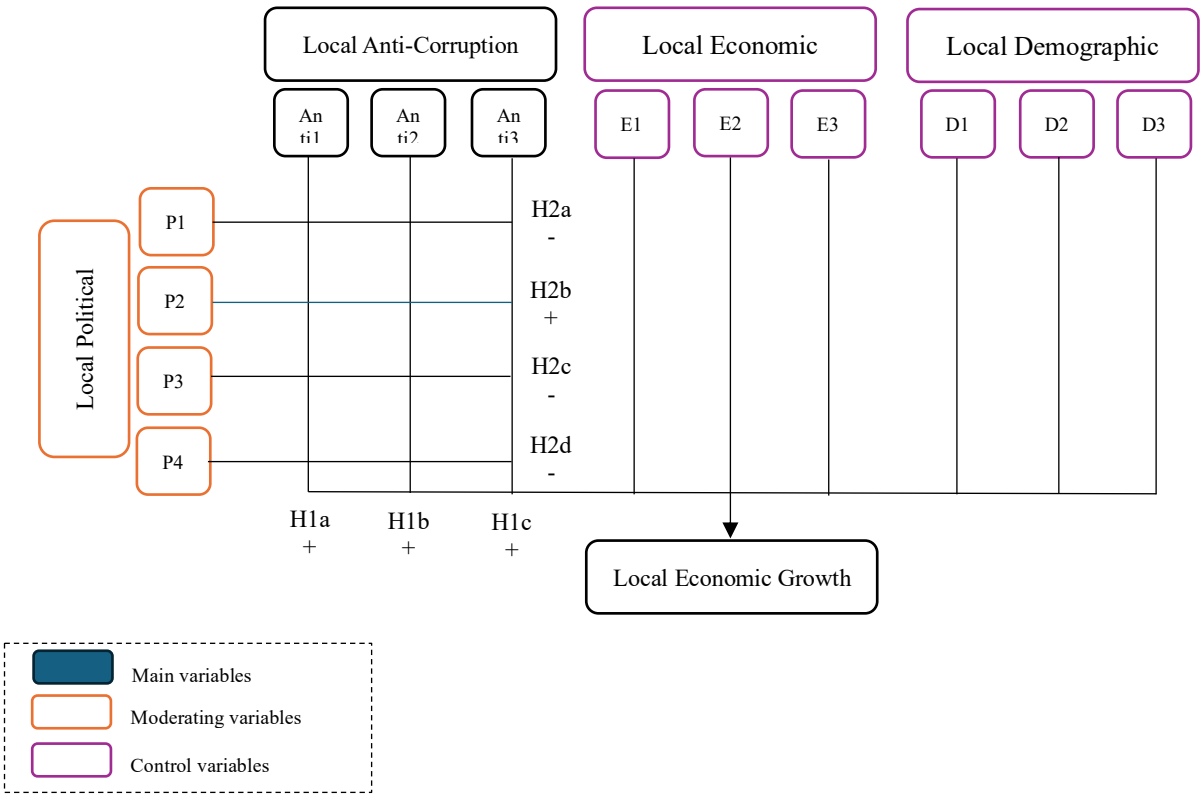
where $\log Y_{it}$ is log of economic growth of district-city i in year t. $Anti1$ is binary variable; 1 if the district-city has the score of anti-corruption in planning and budgeting > the average of national score, and 0 if < the average of national score. $Anti2$ is binary variable; 1 if the district-city has the score of anti-corruption in procurement > the average of national score, and 0 if < the average of national score. $Anti3$ is binary variable; 1 if the district-city has the score of anti-corruption in licensing > the average of national score, and 0 if < the average of national score. $corrupt$ is a dummy indicating whether the districts-cities belongs to the "High" corruption and "low" corruption in the subsample. $afterprogram$ is represent time dummy, 1 for after Programme and 0 for before Programme. $westregion$ is represent region dummy, 1 for the west region and 0 for the east region. $Anti_{kit}$ is anti-corruption variables for districts-cities *i* in period *t* with *k* = 1, 2, 3 E_{kit} is control variables of economic for districts-cities *i* in period *t* with *k* = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities *i* in period *t* with *k* = 1, 2, 3. α is a constant. $\beta_1, \beta_2, \beta_3$ are parameter of programmes anti-corruption fixed effect. γ is a parameter of district fixed effect. δ is parameter of the anti-corruption programme impact in

corrupt. ζ_k is coefficient of regression for economic variables. η_k is coefficient of regression for demographic variables. ε is error term We present the result of this model in the Table 6.14 on the Chapter 6.

Model with political interaction

In this model, the estimation was carried out by applying the interaction estimation between each anti-corruption variable and the political variables. Additionally, we also added control variables in economics and demographics. The illustration of the interaction can be seen in Figure 5.5 below, as well as in its mathematical representation in equations 11 and 12.

Figure 5.5 Model of interaction with local political



$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \theta \sum_{k=1}^{3} Anti_{kit} \times \sum_{k=1}^{4} P_{kit} + \varepsilon_{it} \quad (11)$$

$$logY_{it} = \alpha + \beta_1 Anti1_{it} + \beta_2 Anti2_{it} + \beta_3 Anti3_{it} + \theta \sum_{k=1}^{3} Anti_{kit} \times \sum_{k=1}^{4} P_{kit} + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \varepsilon_{it} \quad (12)$$

where $\log Y_{it}$ is log of economic growth of district-city i in year t. $Anti1$ is binary variable; 1 if the district-city has the score of anti-corruption in planning and budgeting > the average of national score, and 0 if < the average of national score. $Anti2$ is binary variable; 1 if the district-city has the score of anti-corruption in procurement > the average of national score, and 0 if < the average of national score. $Anti3$ is binary variable; 1 if the district-city has the score of anti-

corruption in licensing > the average of national score, and 0 if < the average of national score. $corrupt$ is a dummy variable indicating whether the districts-cities belongs to the "High" corruption and "low" corruption in the subsample. $Anti_{kit}$ is anti-corruption variables for districts-cities i in period t with k = 1, 2, 3. P_{kit} is political variables for districts-cities i in period t with k = 1, 2, 3, 4. E_{kit} is control variables of economic for districts-cities i in period t with k = 1, 2, 3. D_{kit} is control variables of demographic for districts-cities i in period t with k = 1, 2, 3. α is a constant. $\beta_1, \beta_2, \beta_3$ are parameter of programmes anti-corruption fixed effect. γ is a parameter of district fixed effect. δ is parameter of the anti-corruption programme impact in $corrupt$. ζ_k is coefficient of regression for economic variables. η_k is coefficient of regression for demographic variables. ε is error term. We present the result of this model in the Table 6.15 on the Chapter 6.

5.3.3 Qualitative approach

This study employs a qualitative structuralist approach, focusing on a radical structuralist paradigm to analyze the deep-rooted power dynamics and structural contradictions related to corruption at the local level (Burrell & Morgan, 2019). This approach helps explore the complex interactions between anti-corruption programs and local political dynamics that influence economic growth, providing a framework for understanding underlying causes of corruption and their broader impacts (Lapan et al., 2011).

Data collection involves in-depth interviews, participant observation, and document analysis, guided by methodologies from Burrell & Morgan (2019), Creswell (2013), and Guba & Lincoln (1994). Interviews are conducted with key stakeholders, including local government officials, anti-corruption activists, and business figures, to gather insights into anti-corruption practices and obstacles. Secondary sources, such as documents from local government and media, complement the primary data to offer a comprehensive view of the issues studied.

5.4 Conclusion

This study employs the difference-in-differences (DiD) method to evaluate the impact of anti-corruption measures on local economic growth, which is suitable for assessing policy effects in non-experimental settings (Fredriksson & Oliveira, 2019). The focus also includes exploring the interplay between local anti-corruption factors and political dynamics, as politics often influences government policies in democratic developing countries like Indonesia. To address potential limitations of quantitative analysis, the study incorporates qualitative approaches and critical perspectives supported by institutional theory to gain a comprehensive understanding of the issues.

Chapter 6
The relationship of local anti-corruption and local economic growth: does the local politics matter in Indonesia?

6.1 Introduction

The current chapter focuses on estimating the impact of anti-corruption programme on local economic growth. Additionally, it also discusses the interaction between anti-corruption programme and local political aspects, as well as their effects on local economic growth. The study by Rodríguez-Pose & Zhang (2019) revealed that the strength of local anti-corruption has an impact on local economic growth. This finding was also confirmed by Balaguer-Coll et al. (2022), who conducted a comprehensive sample at the local level in Spain. This study subsequently generated a review by Saha and Sen (2021) that utilized democracy as a measure of institutional quality, which has an impact on economic growth. We adopted the functional role of local political freedom as a proxy for democracy in several literatures.

The purpose of this chapter to fill a large gap in our knowledge by asking two fundamental questions:

RQ 6.1 How does the anti-corruption programme affect local economic growth?

RQ 6.2 To what extent can the interaction of local political factors with anti-corruption influence local economic growth?

This study utilized a unique and extensive dataset from all districts and cities in Indonesia, employing the panel two-period and difference-in-differences methods to analyze anti-corruption impacts. Linear models with ordinary least squares were applied, ensuring validity through verification of classical assumptions, while outliers were removed, reducing the dataset from 1016 to 903 samples. Further processing, which excluded data with zero values for investment variables, resulted in a final sample size of 679. The study confirms the hypotheses presented in Chapter 3.

Hypothesis 1 we expect a positive relationship between local anti-corruption programme and local economic growth in Indonesia.
Hypothesis 2 we assume that there is a negative relationship between local anti-corruption and local political on local economic growth, such as political concentration in the Local House of Representative (LHR), political party affiliation of local leaders with the presidential coalition, and the incumbent status of local leaders.
Meanwhile, the only local political variable that we expect to have a positive relationship with the local anti-corruption variable is fiscal independence.
Hypothesis 3 we assume that there is a decline in local economic growth due to local anti-corruption programmes in highly corrupt districts and cities in Indonesia.

6.2 Estimation of local anti-corruption impact on local economic growth

The initial examination in this study assesses the primary predictor, namely, the local anti-corruption variables, concerning their impact on local economic growth. Subsequently, the analysis incorporates control variables into the estimation process. The results of the estimations are presented in Table 6.1.

Table 6.1 Basic model with time fixed effects

Variable	Model 1	Model 2	Model 3	Model 4
log AC1	0.080** (0.043)	0.081* (0.048)	0.157*** (0.049)	0.157*** (0.050)

log AC2	-0.043 (0.040)	-0.043 (0.045)	-0.046 (0.046)	-0.046 (0.044)
log AC3	0.460*** (0.056)	0.460*** (0.067)	0.329*** (0.072)	0.329*** (0.076)
log E1			0.014* (0.008)	0.014* (0.008)
log E2			0.026*** (0.006)	0.026*** (0.006)
log E3			-0.029* (0.017)	-0.029* (0.016)
log D1			-0.026*** (0.010)	-0.026*** (0.011)
D2			-0.006*** (0.002)	-0.005*** (0.002)
D3			0.162*** (0.011)	0.162*** (0.012)
Year 2022	-0.237*** (0.032)	-0.237*** (0.032)	-0.280*** (0.032)	-0.280*** (0.032)
Constant	5.426 (0.159)	5.426 (0.210)	5.092*** (0.315)	5.092*** (0.328)
Time fixed effect	Yes	Yes	Yes	Yes
R-squared	0.186	0.186	0.359	0.359
Adj. R-squared	0.182		0.350	
F statistics	51.24***	34.95***	37.51***	41.71***
Obs.	903	903	679	679

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 2 and Model 4 are robust.

Table 6.1 demonstrates the consequences of the three important variables related to local anti-corruption. While the second local anti-corruption variable has a detrimental impact on local economic growth, the remaining two variables have favorable effects. The result on the model is based on the equation 1 and equation 2.

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \delta Dum_{2t} + \varepsilon_{it} \quad (1)$$

$$logY_{it} = \alpha + \beta_1 logAC1_{it} + \beta_2 logAC2_{it} + \beta_3 logAC3_{it} + \sum_{k=1}^{3} \zeta_k E_{kit} + \sum_{k=1}^{3} \eta_k D_{kit} + \delta Dum_{2t} + \varepsilon_{it} \quad (2)$$

$$logY_{it} = 5.426 + 0.081 logAC1_{it} - 0.043 logAC2_{it} + 0.460 logAC3_{it} + 0.237 D_{2t} + \varepsilon_{it}$$

$$logY_{it} = 5.092 + 0.157 logAC1_{it} - 0.046 logAC2_{it} + 0.329 logAC3_{it} + 0.040 logE1_{it} + 0.026 logE1 - 0.029 logE3 - 0.026 logD1 - 0.005 D2 + 0.162 D - 0.280 D_{2t} + \varepsilon_{it}$$

These findings align with the inclusion of the control variables in the analysis. Specifically, an increase of one unit in local anti-corruption in local planning and budgeting (AC1) corresponds to a 15.7% increase in local economic growth. Conversely, increasing local anti-corruption in procurement (AC2) was associated with a 4.6% reduction in local economic growth. However, a one-unit improvement in local anti-corruption licensing (AC3) correlates with a 32.9% increase in local economic growth. Addressing vulnerabilities to corruption in local planning and budgeting is crucial, as these three domains are frequently implicated in local government corruption involving leaders and operational units. The authority and influence exerted by local leaders and operational units in these areas often facilitates

corruption in local planning and budgeting, which is compounded by inadequate budgetary transparency at the local level.

Table 6.2 Interaction with local political concentration in the LHR: time fixed effects

Variable	Model 1	Model 2	Model 3	Model 4
log AC1	-0.012 (0.092)	-0.012 (0.097)	0.050 (0.104)	0.050 (0.106)
log AC2	0.122 (0.086)	0.122 (0.092)	0.172 (0.111)	0.172 (0.107)
log AC3	0.397*** (0.102)	0.397*** (0.121)	0.211 (0.133)	0.211 (0.149)
log AC1 x P1	0.002 (0.002)	0.002 (0.002)	0.003 (0.002)	0.003 (0.002)
log AC2 x P1	-0.004** (0.002)	-0.004** (0.002)	-0.006** (0.003)	-0.006** (0.003)
log AC3 x P1	0.002 (0.002)	0.002 (0.002)	0.003 (0.003)	0.003 (0.003)
log E1			0.013 (0.009)	0.013 (0.009)
log E2			0.026*** (0.006)	0.026*** (0.006)
log E3			-0.027 (0.018)	-0.027* (0.016)
log D1			-0.027*** (0.010)	-0.027*** (0.011)
D2			-0.005*** (0.002)	-0.005** (0.002)
D3			0.163*** (0.011)	0.163*** (0.012)
Year 2022	-0.230*** (0.032)	-0.230*** (0.032)	-0.274*** (0.033)	-0.274*** (0.034)
Time fixed effect	Yes	Yes	Yes	Yes
Constant	5.430*** (0.159)	5.430*** (0.210)	5.111*** (0.316)	5.111*** (0.326)
R-squared	0.190	0.190	0.364	0.364
Adj. R-squared	0.184		0.352	
F statistics	30.12***	21.66***	29.34***	34.24***
Obs	903	903	679	679

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 2 and Model 4 are robust.

In Table 6.2, the significance of the local anti-corruption programme decreased with the inclusion of political concentration (P1). The interaction effect between local anti-corruption in planning and budgeting (AC1) and local political concentration (P1) appears positive but insignificant, indicating that, while such efforts positively impact economic growth, their effectiveness is undermined in the presence of a supportive local leadership coalition. Specifically, a one-unit increase in anti-corruption scores within local planning and budgeting (AC1) yields a marginal 0.3% increase in local economic growth, suggesting that LHR is making progress in mitigating the "Dutch disease" phenomenon, with planning and budgeting initiatives emerging as crucial to developmental endeavors.

The correlation between local anti-corruption in procurement (AC2) and local political concentration (P1) revealed a negative and statistically significant relationship with local economic growth. An increase in local anti-corruption in procurement (AC2) by one unit is associated with a 0.6% decrease in economic growth as LHR coalitions strengthen, confirming

a direct link between robust local anti-corruption and local economic slowdown under the influence of LHR politics. This observation highlights the hindrance caused by LHR political dynamics to local economic growth, resulting in a decline from 0.4% (Model 2) to 0.6% (Model 4). In summary, the relationship between AC2 × P1 aligns with the hypothesis that the rejection of null hypothesis. However, the interactions between AC1 × P1 and AC3 × P1 deviate from this hypothesis, leading to acceptance of the null hypothesis.

Table 6.3 Interaction with fiscal independency: time fixed effects

Variable	Model 1	Model 2	Model 3	Model 4
log AC1	0.092 (0.055)	0.092** (0.068)	0.163*** (0.066)	0.163*** (0.074)
log AC2	-0.055 (0.049)	-0.055 (0.060)	-0.050 (0.061)	-0.050 (0.058)
log AC3	0.362*** (0.067)	0.362*** (0.079)	0.297*** (0.091)	0.297*** (0.095)
log AC1 x P2	-0.006 (0.005)	-0.006 (0.006)	0.001 (0.004)	-0.001 (0.004)
log AC2 x P2	-0.001 (0.003)	-0.001 (0.003)	-0.001 (0.003)	-0.001 (0.003)
log AC3 x P2	0.009* (0.005)	0.009 (0.005)	0.003 (0.005)	0.003 (0.005)
log E1			0.007 (0.008)	0.007 (0.008)
log E2			0.019*** (0.006)	0.019*** (0.006)
log E3			-0.040** (0.017)	-0.040** (0.017)
log D1			-0.067** (0.012)	-0.067** (0.012)
D2			-0.006*** (0.002)	-0.006*** (0.002)
D3			0.141*** (0.012)	0.141*** (0.012)
Year 2022	-0.236*** (0.031)	-0.236*** (0.031)	-0.272*** (0.318)	-0.272*** (0.316)
Time fixed effect	Yes	Yes	Yes	Yes
Constant	5.742*** (0.157)	5.742*** (0.215)	5.571*** (0.313)	5.571*** (0.337)
R-squared	0.256	0.256	0.401	0.401
Adj. R-squared	0.250		0.389	
F statistic	44.00***	30.38***	34.26***	32.77***
Obs	903	903	679	679

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 2 and Model 4 are robust.

Table 6.3 shows that the interaction between local anti-corruption efforts and fiscal independence affects local economic growth, with varying impacts across different sectors. Initially, the relationship between anti-corruption in local planning and budgeting and fiscal independence was negative and insignificant, with a one-unit increase in anti-corruption efforts decreasing economic growth by approximately 0.01%. The interaction between anti-corruption in procurement and fiscal independence showed a more pronounced negative effect, with each unit increase in procurement anti-corruption efforts reducing economic growth by 0.1%. This is attributed to increased vigilance in procurement leading to funds being allocated disproportionately to qualified partners from Java Island, limiting economic benefits to non-Javanese regions. Conversely, anti-corruption measures in licensing demonstrated a positive

but insignificant correlation with economic growth, suggesting that improving licensing frameworks might reduce corruption and promote growth. Overall, the findings confirm hypothesis H2b for the licensing sector but reject the hypotheses for planning and budgeting and procurement.

Table 6.4 Interaction with local political party affiliation: time fixed effects

Variable	Model 1	Model 2	Model 3	Model 4
log AC1	0.130**	0.130**	0.220***	0.220***
	(0.063)	(0.063)	(0.071)	(0.073)
log AC2	-0.008	-0.008	0.026	0.026
	(0.052)	(0.066)	(0.061)	(0.059)
log AC3	0.384***	0.384***	0.212***	0.212**
	(0.070)	(0.075)	(0.133)	(0.089)
log AC1 x P3	-0.080	-0.080	-0.110	-0.110
	(0.002)	(0.090)	(0.094)	(0.094)
log AC2 x P3	-0.094	-0.094	-0.176**	-0.176**
	(0.079)	(0.089)	(0.090)	(0.080)
log AC3 x P3	0.171*	0.171	0.283***	0.283***
	(0.090)	(0.105)	(0.106)	(0.109)
log E1			0.014	0.014
			(0.009)	(0.008)
log E2			0.026***	0.026***
			(0.006)	(0.006)
log E3			-0.027	-0.027*
			(0.018)	(0.016)
log D1			-0.027***	-0.027**
			(0.010)	(0.010)
D2			-0.006***	-0.006***
			(0.002)	(0.002)
D3			0.162***	0.162***
			(0.012)	(0.012)
Year 2022	-0.238***	-0.238***	-0.285***	-0.285***
	(0.032)	(0.033)	(0.033)	(0.033)
Time fixed effect	Yes	Yes	Yes	Yes
Constant	5.399***	5.399***	5.011***	5.011***
	(0.160)	(0.215)	(0.316)	(0.343)
R-squared	0.189	0.189	0.367	0.367
Adj. R-squared	0.183		0.355	
F statistics	29.82***	20.09***	29.71***	33.57***
Obs	903	903	679	679

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 2 and Model 4 are robust.

Table 6.4 explores how local anti-corruption measures interact with the political affiliations of local leaders. In Indonesia, where local leaders affiliated with the president's party often influence local government programs, the interaction between local anti-corruption efforts and political party affiliations shows mixed effects. Specifically, anti-corruption in planning and budgeting appears to hinder local economic growth due to conflicts of interest between local leaders and central coalition parties. This is evidenced by a negative impact where increased anti-corruption efforts in procurement correlate with a 17.6% decline in local growth, suggesting that political affiliations with national coalitions can be detrimental. Conversely, anti-corruption measures in licensing have a positive effect, showing a 21.2% increase in growth regardless of political affiliation and a 28.3% boost when pro-government parties are involved. This indicates that strict anti-corruption measures in licensing can enhance

local development, supporting hypothesis H2c and rejecting the null hypothesis for planning and procurement.

Table 6.5 Interaction with incumbent status: time fixed effects

Variable	Model 1	Model 2	Model 3	Model 4
log AC1	0.097* (0.057)	0.097* (0.058)	0.169*** (0.066)	0.169** (0.075)
log AC2	0.054 (0.054)	0.054 (0.051)	0.008 (0.058)	0.008 (0.064)
log AC3	0.355*** (0.067)	0.355*** (0.076)	0.254*** (0.088)	0.254*** (0.099)
log AC1 x P4	-0.032 (0.083)	-0.032 (0.091)	-0.016 (0.093)	-0.016 (0.097)
log AC2 x P4	-0.216*** (0.079)	-0.216*** (0.080)	-0.149 (0.095)	-0.149** (0.082)
log AC3 x P4	0.241*** (0.090)	0.241** (0.100)	0.159 (0.111)	0.159 (0.111)
log E1			0.015* (0.009)	0.015* (0.009)
log E2			0.026*** (0.006)	0.026*** (0.006)
log E3			-0.027 (0.018)	-0.027 (0.016)
log D1			-0.025** (0.010)	-0.025** (0.011)
D2			-0.006*** (0.002)	-0.006*** (0.002)
D3			0.162*** (0.012)	0.162*** (0.012)
Year 2022	-0.229*** (0.032)	-0.229*** (0.032)	-0.269*** (0.033)	-0.269*** (0.033)
Time fixed effects	Yes	Yes	Yes	Yes
Constant	5.399*** (0.160)	5.399*** (0.208)	5.123*** (0.316)	5.123*** (0.326)
R-squared	0.195	0.195	0.362	0.362
Adj. R-squared	0.188		0.350	
F statistics	30.92	22.30	29.09	34.16
Obs	903	903	679	679

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 2 and Model 4 are robust.

Table 6.5 examines the effects of the anti-corruption programme and its interaction with the incumbency status of local leaders. The data shows that anti-corruption efforts in local planning and budgeting have a positive but statistically insignificant impact on economic growth when combined with incumbent status. Specifically, a one-unit increase in anti-corruption efforts in this area results in a 1.6% decrease in growth with incumbents. In contrast, controlling corruption in public procurement significantly harms local economic growth by 14.9% when interacting with incumbent status, as incumbents may become more corrupt during their second term due to their focus on maximizing profits (Purwaningsih & Widodo, 2020). Conversely, anti-corruption measures in licensing positively impact local growth by 15.9% when local leaders are incumbents, challenging the hypothesis that incumbency reduces growth through corruption. These results support hypothesis H2d for procurement and planning but accept the null hypothesis for licensing. Summary Table 6.6 provides a comprehensive overview of these interactions and their implications.

Table 6.6 The summary table of hypotheses

Variable	Coefficient	Status
AC1	0.157*** (0.050)	Accepted H1a
AC2	-0.046 (0.044)	Rejected H1b
AC3	0.329*** (0.076)	Accepted H1c
AC1 x P1	0.003 (0.002)	Rejected H2a
AC2 x P1	-0.006** (0.003)	Accepted H2a
AC3 x P1	0.003 (0.003)	Rejected H2a
AC1 x P2	-0.001 (0.003)	Rejected H2b
AC2 x P2	-0.006** (0.003)	Rejected H2b
AC3 x P2	0.003 (0.005)	Accepted H2b
AC1 x P3	-0.110 (0.094)	Accepted H2c
AC2 x P3	-0.176** (0.003)	Accepted H2c
AC3 x P3	0.283** (0.005)	Rejected H2c
AC1 x P4	-0.016 (0.097)	Accepted H2d
AC2 x P4	-0.149** (0.082)	Accepted H2d
AC3 x P4	0.159** (0.111)	Rejected H2d

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$.

Table 6.6 shows that AC1 and AC3 are consistent with the Hypothesis, while only AC2 x P1 is consistent with the hypothesis in the interaction between the anti-corruption variables and political concentration. In the interaction between the anti-corruption variables and fiscal responsibility, only AC3 x P2 is consistent with the hypothesis. In the third interaction, between anti-corruption variables and political affiliation of regional heads, both AC1 x P3 and AC2 x P3 are consistent with the hypothesis. Finally, in the interaction between anti-corruption variables and incumbent status, both AC1 x P4 and AC2 x P4 are consistent with the hypothesis.

6.3 Difference-in-differences analysis

6.3.1 Simple differences model

This research employs a straightforward approach to estimate differences to uncover discrepancies between the two periods. The method, known as the simple difference method, was introduced by Kiel & McClain (1995) and few of literatures such as Bauer et al. (2017), Bui & Mayer (2003), Davis (2011) and Espey & Lopez (2000). This study provides a comprehensive analysis of the outcomes of an anti-corruption programme implemented by local governments in Indonesia (Table 6.7). The programme is expected to result in differences between the two periods under examination.

Table 6.7 Robust estimation of simple difference

	Dependent variable: log of real Local Gross Domestic Product (LGDP) per capita			
	Before Programme	After Programme	Before Programme	After Programme
Variable	Model 1	Model 2	Model 3	Model 4
Anti1	0.059***	0.015	0.079***	0.048**
	(0.022)	(0.026)	(0.023)	(0.025)
Anti2	0.001	0.042***	-0.035*	0.042*
	(0.021)	(0.024)	(0.019)	(0.023)
Anti3	0.129***	0.137***	0.089***	0.078**
	(0.023)	(0.030)	(0.025)	(0.030)
log E1			0.011**	-0.002
			(0.005)	(0.006)
log E2			0.010***	0.013***
			(0.003)	(0.004)
log E3			0.003	-0.059***
			(0.024)	(0.025)
log D1			-0.036**	-0.024
			(0.014)	(0.015)
D2			-0.002	-0.004**
			(0.001)	(0.002)
D3			0.070***	0.073***
			(0.007)	(0.007)
Constant	3.145***	3.058***	2.813***	2.930***
	(0.017)	(0.022)	(0.133)	(0.154)
R-squared	0.138	0.110	0.355	0.324
F-Statistics	19.95***	12.55***	18.39***	18.09***
Obs	456	456	313	369

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$

In the study, models 1 and 2 included 456 observations of districts and cities with anti-corruption indices above the national average in 2019, while model 3 had 313 observations for 2022. The data set varied with the introduction of control variables and the implementation of anti-corruption programme. Table 6.7 illustrates that districts and cities with anti-corruption indices above the national average experienced a 7.9% higher economic growth before the programme. Regions with higher anti-corruption indices in licensing saw an 8.9% greater growth, whereas intensified anti-corruption efforts in procurement led to a 3.5% decline in growth. Post-implementation, districts with high anti-corruption efforts in planning and budgeting had a 4.8% higher economic growth, while those with robust anti-corruption measures in procurement and licensing experienced increases of 4.2% and 7.8%, respectively.

6.3.2 Difference-in-differences model

This study utilizes a difference-in-differences model as the second estimation method, which calculates the difference before and after the implementation of the anti-corruption programme.

Figure 6.1 Causal effect

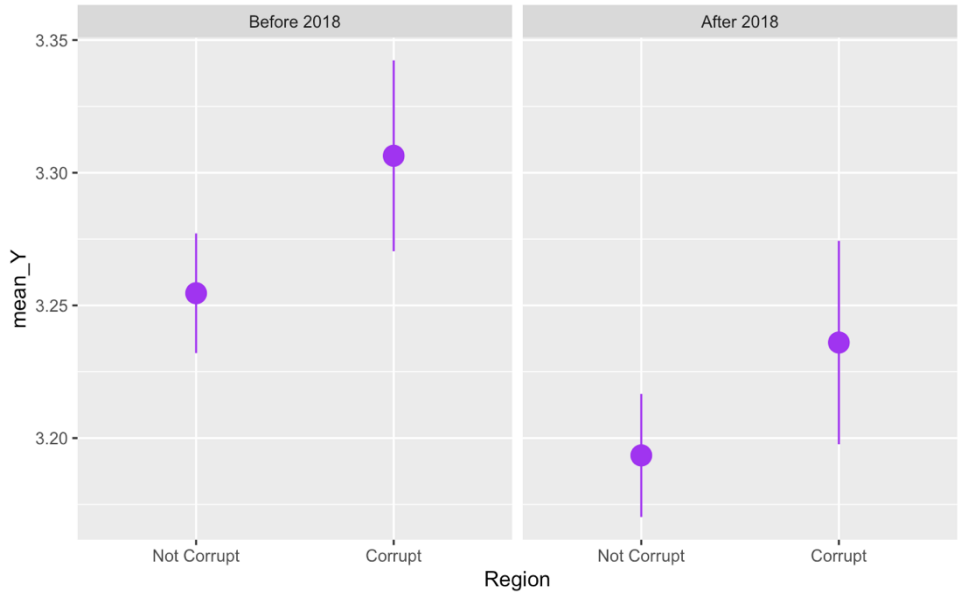


Figure 6.2 Anti-corruption effect

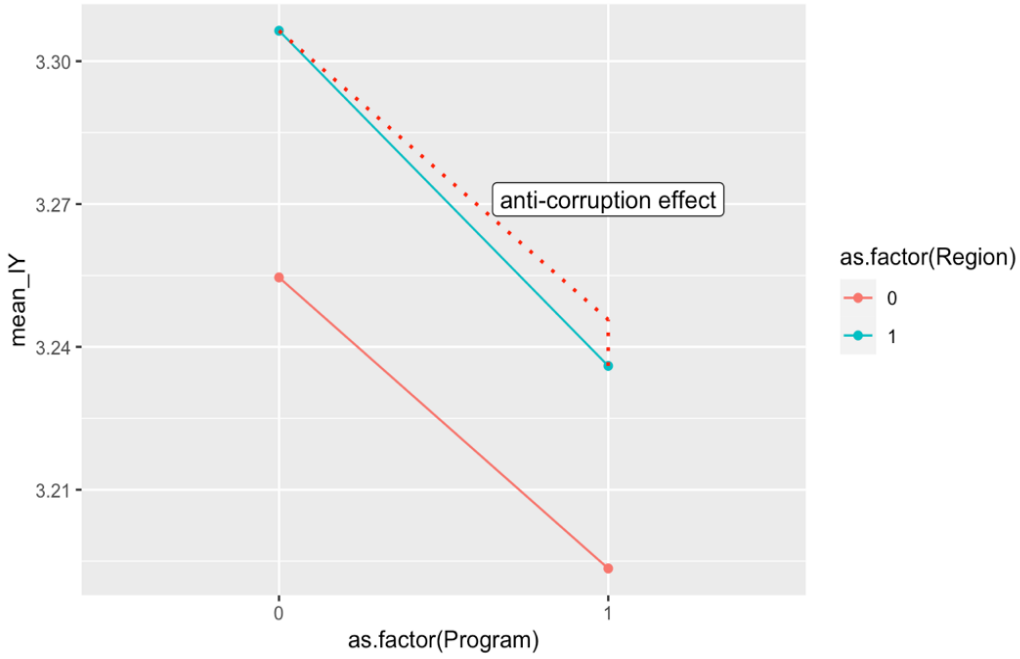


Figure 6.2 presents the impact of the programme implementation on local economic growth in both corrupt and non-corrupt districts-cities. The figure depicts a decline in the average economic growth observed in both corrupt and non-corrupt districts-cities. Figure 6.2 specifically illustrates the decrease in growth attributable to anti-corruption measures in the corrupt region. This aligns with the previous model's findings, attributing the decline to corrupt practices in planning and budgeting, as well as procurement areas. These results also support the findings of prior literature, which posits that corruption in developing countries acts as a lubricant (Afonso & Rodrigues, 2022; Das et al.). However, several scholars argue that

controlling corruption positively affects system efficiency (Dokas et al., 2023; Hamdi and Hakimi, 2020; Malanski and Póvoa, 2021; Qureshi et al., 2021; Trabelsi and Trabelsi, 2021; Urbina and Rodríguez, 2022; Zeeshan et al., 2022). To validate these findings, an additional estimation was carried out with the outcomes described in Table 6.12, demonstrating the consequences of anti-corruption measures in the treatment districts-cities.

Table 6.12 Estimation difference-in-differences

Variable	Model 1	Model 2
After Programme	-0.061*** (0.017)	-0.099*** (0.016)
Corrupt	0.052** (0.022)	0.018 (0.021)
After Programme x Corrupt	-0.009 (0.031)	-0.005 (0.029)
log E1		0.009** (0.004)
log E2		0.010*** (0.003)
log E3		-0.008 (0.018)
log D1		-0.012 (0.010)
D2		-0.002** (0.001)
D3		0.070*** (0.005)
Constant	3.254*** (0,012)	2.930*** (0.104)
R-squared	0.032	0.300
Adj. R-squared	0.029	0.290
F-Statistics	9.95***	32.02***
Obs	912	682

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$. Model 3 and Model 4 are robust.

Table 6.12 shows that the difference-in-differences estimation indicates a negative, though not statistically significant, effect of the anti-corruption programme on average economic growth, with a 9.9% decrease observed. Post-programme, growth in the treatment region declined by 0.5%. Although corrupt regions initially showed a significant 5.2% positive effect on growth, this effect became positive but statistically insignificant (1.8%) when control variables were included in Model 2. These results support the hypothesis that the anti-corruption programme adversely affects corrupt districts and cities, validating hypothesis H3. Table 6.13 further explores the interaction between the anti-corruption policy and corrupt region variables.

Table 6.13 Robust estimation of anti-corruption

Variable	Model 1	Model 2	Model 3	Model 4
Anti 1	0.121*** (0.017)			0.060* (0.034)
Anti 2		0.025* (0.014)		-0.066** (0.032)
Anti 3			0.168*** (0.020)	0.083** (0.036)
Corrupt	0,080***	0.082***	0.107***	-0.107***

	(0.031)	(0.032)	(0.033)	(0.038)
Anti 1 x Corrupt	-0.064* (0.036)			-0.010 (0.039)
Anti 2 x Corrupt		0.043 (0.032)		0.082** (0.035)
Anti 3 x Corrupt			-0.094** (0.038)	0.049 (0.041)
Constant	3.150*** (0.015)	3.144*** (0.016)	3.104*** (0.018)	3.198*** (0.033)
R-squared	0.067	0.070	0.10	0.119
F-statistics	18.70***	14.34***	26.73***	13.24***
Obs.	912	912	912	912

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$.

Table 6.13, particularly Model 4, reveals that the first and third anti-corruption measures have positive and statistically significant coefficients, while the second measure has a negative and significant coefficient at $\alpha < 0.05$. Interaction effects show no significant interaction for the first and third measures but a positive and significant interaction for the second measure. This indicates that anti-corruption policies, especially in local procurement, positively impact economic growth as the number of corrupt municipalities increases, with a one-unit increase in anti-corruption in procurement leading to an 8.2% rise in economic growth.

Table 6.14 Estimation of relaxation model

Variable	Model 1	Model 2	Model 3	Model 4
Anti 1	0.095*** (0.019)			0.055* (0.030)
Anti 2		-0.017 (0.024)		-0.046* (0.024)
Anti 3			0.059** (0.030)	0.068** (0.033)
Corrupt	0.050* (0.030)	-0.058** (0.023)	-0.058* (0.034)	-0.064* (0.038)
Anti 1 x Corrupt	-0.053 (0.034)			0.004 (0.035)
Anti 2 x Corrupt		0.079*** (0.029)		0.071** (0.029)
Anti 3 x Corrupt			0.057 (0.037)	0.010 (0.040)
After Programme	-0.099*** (0.013)	-0.108*** (0.014)	-0.108*** (0.013)	-0.105*** (0.013)
West Region	0.025* (0.014)	0.038*** (0.014)	0.020 (0.014)	0.017 (0.014)
log E1	0.007* (0.004)	0.008** (0.004)	0.006 (0.004)	0.005 (0.004)
log E2	0.010*** (0.003)	0.019*** (0.003)	0.011*** (0.003)	0.011*** (0.003)
log E3	-0.0239 (0.016)	-0.019 (0.016)	-0.021 (0.016)	-0.030* (0.016)
log D1	-0.031** (0.012)	-0.027** (0.012)	-0.026** (0.012)	-0.034*** (0.013)
D2	-0.003*** (0.001)	-0.003** (0.001)	-0.002** (0.001)	-0.003** (0.001)
D3	0.074*** (0.005)	0.071*** (0.005)	0.070*** (0.005)	0.072*** (0.005)
Constant	2.940***	3.003***	2.947***	2.975***

	(0.098)	(0.102)	(0.105)	(0.103)
R-squared	0.336	0.321	0.339	0.356
F-statistics	32.87***	31.66***	32.04***	26.05***
Obs.	682	682	682	682

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$.

Table 6.14 displays the outcomes of the estimation process that takes into account the adjustments or additions of control variables. The effects of the main variables are consistent with those in the previous table. Upon relaxation, a slight variation appears in the results of the second anti-corruption factor concerning local public procurement. Specifically, a one-unit rise in local anti-corruption public procurement leads to a 7.1% increase in economic growth. Furthermore, most of the control variables included in Model 4 showed statistical significance, except domestic investment (E1).

6.3.3 Difference-in-differences: an interaction with political aspect

The outcomes in Table 6.15 demonstrate that the anti-corruption programme, particularly in the first and third areas, consistently exerts a favorable and significant influence on economic growth. In contrast, anti-corruption efforts in the local procurement of goods and services have a detrimental and significant impact (Model 6). Moreover, the estimation results illustrate the varying effects of local anti-corruption measures in each area when interacting with four local political variables.

Table 6.15 Relaxation model of local political interaction

Variable	Model 1	Model 2	Variable	Model 3	Model 4	Variable	Model 5	Model 6
Anti 1	0.041*	0.086***	Anti 1	0.044***	0.072***	Anti 1	0.044***	0.073**
	(0.024)	(0.028)		(0.015)	(0.017)		(0.016)	(0.017)
Anti 2	-0.012	-0.027*	Anti 2	0.027	0.012	Anti 2	-0.012	-0.028*
	(0.013)	(0.014)		(0.022)	(0.023)		(0.014)	(0.014)
Anti 3	0.119***	0.080***	Anti 3	0.117***	0.078***	Anti 3	0.103***	0.075**
	(0.018)	(0.020)		(0.019)	(0.020)		(0.029)	(0.034)
Anti 1 x P1			Anti 2 x P1			Anti 3 x P1		
0 1	-0.070**	-0.059*	0 1	-0.052**	-0.046*	0 1	-0.070*	-0.018
	(0.029)	(0.032)		(0.024)	(0.027)		(0.039)	(0.047)
1 1	-0.013	-0.013	1 1	-0.014	-0.010	1 1	-0.022	-0.026*
	(0.017)	(0.017)		(0.018)	(0.017)		(0.015)	(0.016)
Anti 1 x P2			Anti 2 x P2			Anti 3 x P2		
0 1	0.289**	0.206***	0 1	0.346***	0.236***	0 1	0	0
	(0.127)	(0.072)		(0.043)	(0.036)			
1 1	0.263***	0.179***	1 1	0.243***	0.163***	1 1	0.263***	0.179***
	(0.031)	(0.033)		(0.035)	(0.037)		(0.030)	(0.032)
Anti 1 x P3			Anti 2 x P3			Anti 3 x P3		
0 1	-0.008	0.010	0 1	0.011	0.021	0 1	-0.024	-0.026
	(0.026)	(0.028)		(0.022)	(0.023)		(0.032)	(0.037)
1 1	-0.014	-0.012	1 1	-0.031*	-0.023	1 1	-0.006	-0.001
	(0.015)	(0.015)		(0.017)	(0.016)		(0.014)	(0.014)
Anti 1 x P4			Anti 2 x P4			Anti 3 x P4		
0 1	0.013	0.018	0 1	0.027	0.026	0 1	0.005	0.005
	(0.026)	(0.532)		(0.021)	(0.022)		(0.030)	(0.035)
1 1	-0.010	-0.015	1 1	-0.029*	-0.028*	1 1	-0.005	-0.009
	(0.015)	(0.015)		(0.017)	(0.016)		(0.014)	(0.015)
log E1		0.001	log E1		0.002	log E1		0.001
		(0.004)			(0.003)			(0.004)
log E2		0.008***	log E2		0.008***	log E2		0.009***
		(0.002)			(0.002)			(0.003)
log E3		-0.025	log E3		-0.019	log E3		-0.026
		(0.017)			(0.017)			(0.017)
log D1		-0.044***	log D1		-0.043***	log D1		-0.044***

		(0.012)			(-0.043)			(0.012)
D2		-0.003*** (0.001)	D2		-0.003*** (0.001)	D2		-0.003*** (0.001)
D3		0.060*** (0.005)	D3		0.059*** (0.005)	D3		0.060*** (0.005)
Constant	3.133*** (0.022)	3.055*** (0.107)	Constant	3.112*** (0.020)	3.037*** (0.102)	Constant	3.142*** (0.026)	3.075*** (0.106)
R-squared	0.176	0.327	R-squared	0.182	0.333	R-squared	0.175	0.325
F-statistics								
Obs	912	682		912	682		912	682

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$.

In Model 2, interactions between anti-corruption measures in local planning and budgeting with political variables show a negative impact on economic growth with increased political concentration but a positive effect with higher fiscal independence. However, interactions with political affiliation and incumbency status are negative but statistically insignificant. Model 4 presents mixed results for anti-corruption in public procurement, with negative impacts on growth when interacting with political concentration, party affiliation, and incumbency status, but a positive impact with increased fiscal independence. Model 6 shows that anti-corruption in local licensing negatively affects growth with changes in political affiliation or incumbency status, and reduces growth by 2.6% with increased political concentration, but enhances growth by 17.9% with greater fiscal independence. The results support hypotheses H2a, H2c, and H2d, indicating negative effects on growth from interactions with certain political variables and positive effects with fiscal independence.

Table 6.16 The summarize of result and hypothesis status

Variable & Model	Coefficient	Status
Simple differences		
Anti1	0.048** (0.025)	Accepted H1a
Anti2	0.042* (0.023)	Accepted H1b
Anti3	0.078** (0.030)	Accepted H1c
Relaxation		
Anti1 x P1	-0.013 (0.002)	Accepted H2a
Anti2 x P1	-0.010 (0.017)	Accepted H2a
Anti3 x P1	-0.026* (0.016)	Accepted H2a
Anti1 x P2	0.163*** (0.037)	Accepted H2b
Anti2 x P2	0.243*** (0.035)	Accepted H2b
Anti3 x P2	0.179*** (0.032)	Accepted H2b
Anti1 x P3	-0.012 (0.015)	Accepted H2c
Anti2 x P3	-0.023* (0.016)	Accepted H2c
Anti3 x P3	-0.001** (0.014)	Accepted H2c
Anti1 x P4	-0.015 (0.015)	Accepted H2d

Anti2 x P4	-0.028* (0.016)	Accepted H2d
Anti3 x P4	-0.009 (0.015)	Accepted H2d
Difference-in-difference		
After programme	-0.099*** (0.016)	Accepted H3a
After Programme x Corrupt area	-0.005 (0.029)	Accepted H3b

*** sig at $\alpha < 0.01$; ** sig at $\alpha < 0.05$; * sig at $\alpha < 0.10$.

Table 6.16 above is the result of all models in the quasi-experiment. The results of each model show that all the hypotheses are accepted. However, some results still appear insignificant, but the direction of the relationship is sufficient to answer the hypothesis.

6.4 Discussion of interaction anti-corruption programme and political institutions

Corruption in developing countries costs an estimated $1000 billion annually (World Bank, 2004) and severely hampers economic growth. In Indonesia, the Corruption Eradication Commission (KPK) has noted widespread bribery among bureaucratic officials, which can sometimes ease bureaucratic procedures but also highlights the complex role of institutions. The KPK's Monitoring and Control Programme (MCP) has had mixed effects: while it positively impacted economic growth in areas like planning and budgeting, anti-corruption efforts in procurement have had a negative effect. Research shows varying impacts of corruption control on economic growth across regions, with positive effects in the Western Balkans (Nedić et al., 2020), South Asia (Singh & Pradhan, 2022), and the EU (Akıncı et al., 2022), but negative effects in Eastern Europe (Avdulaj et al., 2021), similar to Indonesia's procurement sector. Studies in China (Rodríguez-Pose & Zhang, 2019) and Spain (Balaguer-Coll et al., 2022) also confirm that effective governance and anti-corruption initiatives can boost local economic growth, despite varying methodologies across studies.

6.4.1 Local anti-corruption and political concentration interaction on local economic growth

The role of political institutions in fostering local growth is significant. Jackman and Montinola (2002) found that corruption is often higher in democracies compared to authoritarian regimes, with increased political competition leading to greater corruption. Gerring and Thacker (2004) suggested that longer exposure to competitive, multiparty elections tends to reduce corruption. Indonesia, despite its nascent democracy and recent experience with four direct multiparty elections, may not fully align with these expectations. Jackman and Montinola (2002) also noted that corruption is prevalent in low-income countries with poorly paid public sector employees. Rezki (2022) corroborates this, showing that heightened political competition in Indonesia led to a 0.7% increase in local economic growth, though the impact of corruption on such competition remains a concern.

Local planning and budgeting

Anti-corruption programs often struggle against local political dynamics, as political power concentration within LHR undermines efforts in planning, budgeting, procurement, and licensing, ultimately stifling economic growth. Key issues include the dominance of political oligarchies, lack of transparency, and ineffective monitoring systems. Political concentration fosters oligarchies that control key processes, leading to corruption and budget manipulation for personal or group benefits. Oversight bodies are weakened, often becoming tools for

suppressing dissent rather than ensuring accountability. This corruption is evident in cases from Malang, Medan, and West Papua, where funds are diverted from essential sectors to private interests. The Indonesian Corruption Watch (ICW) highlights motives such as bribery for budget approvals and illicit income for parliamentarians, with political corruption manifesting in authority abuse and vote buying, undermining good governance and eroding public trust despite legal measures.

Local public procurement

The findings align with Titl and Geys (2019), who observed that company donations to political parties in the Czech Republic led to favoritism in procurement contracts, with donations over 10% increasing contract values by 0.5-0.65%. Similarly, Straub (2015) highlighted how political connections influenced procurement in Paraguay post-Colorado Party era, where penalties against companies affiliated with the previous regime caused growth issues due to project delays or cancellations. In Hungary, Fazekas et al. (2015) found that political connections raised the likelihood of winning public tenders by 2% from 2005 to 2012. Popa (2021) also noted that kickbacks for local politicians are a common practice in public contracts, with contractor selection often dependent on payment considerations.

Local licensing

Table 6.16 investigates the interaction between local anti-corruption measures in licensing and political concentration, revealing that high political concentration in LHR leads to licensing decisions based more on political interests than technical criteria, fostering nepotism and corruption. Although stringent anti-corruption measures can challenge political oligarchs by enforcing regulations, they also introduce policy uncertainty, which may deter long-term business investments due to perceived risks. Corruption in licensing has been widespread over the past decade, with numerous cases handled by the KPK, including high-profile bribery incidents. Despite the implementation of electronic systems, corruption persists due to loopholes and opportunities for corrupt practices during face-to-face interactions. The 2018 ICW report highlights that licensing corruption commonly affects sectors such as mining, tourism, and industrial business licenses.

6.4.2 Local anti-corruption and fiscal independency interaction on the local economic growth

Local planning and budgeting

The positive and significant relationship between anti-corruption measures and local economic growth underscores their importance in promoting development (Balaguer-Coll et al., 2022). Anti-corruption efforts enhance public fund efficiency, support infrastructure and services (Ebel & Yilmaz, 2002; Canavire-Bacarreza et al., 2020), foster private sector trust and investment (Kusuma & Badrudin, 2016; Sasana, 2019), and improve residents' quality of life and economic productivity. While some studies show fiscal independence's inconsistent impact on local economic growth (Kusuma & Badrudin, 2016; Sasana, 2019), the general trend supports that effective fiscal management contributes positively to local development.

Local public procurement

The interaction between anti-corruption measures in public procurement and fiscal independence significantly contributes to local economic growth, as revealed in Table 6.16. This positive effect stems from several factors. Firstly, fiscal independence improves the

quality of public services by curbing corruption in procurement, ensuring better infrastructure and services, ultimately enhancing the quality of life for local communities and reducing costs associated with inadequate infrastructure. Secondly, it enhances market accessibility by reducing corruption, allowing more local businesses to participate in procurement, fostering entrepreneurship, job creation, and increasing local income. Thirdly, fiscal independence promotes the development of local capacities and skills through transparent procurement processes, boosting competitiveness in the global market. Lastly, it mitigates economic inequality by ensuring a fairer distribution of benefits from public contracts and development projects, thereby reducing disparities and fostering inclusive local economies.

Local licensing

The integration of anti-corruption measures in licensing with fiscal independence emerges as a catalyst for local economic growth. Firstly, it promotes investment and business development by establishing a transparent and fair licensing process, instilling confidence among investors and entrepreneurs and catalyzing private sector growth through the utilization of fiscal resources for infrastructure development. This, in turn, creates employment opportunities and drives local economic expansion. Secondly, it reduces transaction costs by eliminating bribery and extra fees associated with obtaining licenses, facilitating a better business environment and fostering economic growth. Thirdly, it encourages innovation and competition by providing a transparent and fair platform for businesses to compete and innovate, thereby enhancing efficiency and productivity in the economy.

These findings challenge previous research such as Bonet's study in Colombia, which highlighted uncertainties regarding the role of fiscal decentralization in income inequality. While Bonet suggested widening income gaps due to fiscal decentralization policies, our results indicate a positive contribution to local economic growth, especially when complemented by effective governance and anti-corruption measures. Similarly, studies in Spain and South Korea underscore the importance of local autonomy and decentralization in fostering economic development, aligning with the notion that robust economic growth necessitates effective fiscal management and governance practices at the local level.

6.4.3 Local anti-corruption and political party affiliation interaction on local economic growth

In this section, we analyze the outcomes of estimating the interaction between anti-corruption programme in the three areas and the political party affiliation of the local government leaders and their negative impact on local economic growth.

Local planning and budgeting

In this section, we delve into the adverse effects of the interaction between anti-corruption programmes and the political party affiliation of regional leaders on local economic growth. Firstly, the affiliation of local leaders with coalition parties linked to the president often fosters nepotism and collusion in local planning and budgeting processes, prioritizing political interests over community needs. Secondly, these leaders may prioritize projects aligned with the political agenda of the coalition party, neglecting infrastructure development and economic initiatives crucial for local economic growth. Lastly, excessive ties to coalition parties can lead to disproportionate allocation of resources to areas supporting these parties, exacerbating regional disparities and hindering equitable economic development across the region.

Local public procurement

In examining the repercussions of anti-corruption measures in public procurement amid political alliances between local leaders and the national coalition, a downturn in local economic growth becomes evident. Firstly, the decline is attributed to deteriorating service quality and infrastructure, as leaders aligned with presidential allies engage in nepotism and favoritism in procurement, leading to inefficient resource allocation and prioritization of projects that may not benefit local communities optimally.

Secondly, the lack of transparency stemming from these political affiliations erodes trust in local governance and procurement processes, deterring both local and foreign businesses from participating in procurement activities. This loss of trust, coupled with policy and investment instability driven by national political directives, further dissuades long-term investments in local economic development. Moreover, the unequal distribution of resources exacerbates regional disparities, as politically favored regions receive more investment, leaving politically disconnected areas underdeveloped and hindering overall economic growth. Additionally, heightened corruption risks stemming from political pressure lead to the misappropriation of public funds intended for development, exacerbating the challenges faced by local economies.

Local licensing

Our comprehensive analysis unveils the detrimental impact of anti-corruption licensing measures on economic growth, particularly concerning the political affiliations of local leaders aligned with the president's coalition party. Firstly, opaque licensing practices foster favoritism among local leaders, potentially leading to corrupt practices like nepotism and collusion during the licensing process (Asher & Novosad, 2017; Ankamah & Khoda, 2018). Secondly, extortion and coercion may occur, as businesses feel pressured to pay additional fees for permits or approvals, hindering economic growth (Bernhard et al., 2018). Moreover, legal uncertainties stemming from political affiliations and misallocation of public funds further impede sustainable economic development (Syarif & Faisal, 2019; Acemoglu et al., 2005, 2018).

Contrary to some research suggesting a strong party may monopolize policies detrimental to growth, our findings highlight the intricate interplay between political affiliations and anti-corruption measures, shedding light on the significant institutional barriers hindering economic progress in Indonesia (Bernhard et al., 2018). The prevailing democratic system in Indonesia appears extractive, with political parties wielding considerable influence over governance, often to the detriment of public welfare and economic growth (Ankamah & Khoda, 2018; Syarif & Faisal, 2019). As such, fostering political will and combating corruption emerge as indispensable steps towards achieving sustainable economic growth and fostering an environment conducive to development (Ankamah & Khoda, 2018).

6.4.4 Local anti-corruption and incumbent status on local economic growth

In this section, we present an analysis of three areas of anti-corruption efforts: local planning and budgeting, local public procurement, and licensing. Each element provides a unique perspective on what occurs at the local level in Indonesia.

Local planning and budgeting

The discussion centers on the intersection of anti-corruption measures and the incumbency status of local leaders, contrasting the Indonesian context with findings from Brazil. Incumbency status, particularly in the second term, is associated with diminished economic growth at the local level. Firstly, second-term incumbents may prioritize maintaining the status quo over implementing reforms conducive to economic growth, potentially

stagnating development efforts. Secondly, entrenched incumbents may foster patronage networks, leading to collusion in local planning and budgeting, hindering the efficient use of public funds and discriminating against new businesses or political opponents.

Thirdly, the consolidation of power during second terms may elevate corruption risks, as incumbents become less accountable to voters and more susceptible to engaging in corrupt practices for personal or political gain. Fourthly, long-standing incumbents may face challenges in implementing reforms due to bureaucratic resistance or political risks associated with significant changes, limiting opportunities to rectify inefficient or corrupt policies. Lastly, prolonged incumbency may result in leaders prioritizing personal and political interests over community needs, leading to suboptimal allocation of public funds for local economic growth.

Local public procurement

The examination shifts to the correlation between anti-corruption efforts in procurement and the incumbency status of local leaders, which correlates with a decline in local economic growth. Firstly, second-term incumbents often prioritize maintaining political stability over reforming procurement processes, inhibiting improvements despite pressing needs for efficiency enhancements. Secondly, entrenched incumbents may exhibit favoritism towards established contractors or suppliers, limiting opportunities for newer businesses and stifling local economic growth.

Thirdly, resistance to change is prevalent among incumbents accustomed to existing procurement methodologies, hindering efforts to enhance transparency and efficiency. Fourthly, incumbent leaders may perpetuate corrupt practices within procurement, leveraging their networks to sustain malpractices over time. Lastly, political and investment uncertainties associated with incumbent leaders' bids for power can deter investors, further hampering local economic growth.

Local licensing

The study delves into the correlation between local anti-corruption measures in licensing areas and incumbent status, leading to reduced local economic growth. Firstly, long-serving incumbents may exhibit apathy towards reforms in licensing systems, prioritizing stability over enhancements for economic growth (Purwaningsih & Widodo, 2020). Secondly, entrenched leaders may resist external scrutiny, limiting oversight and fostering environments conducive to corruption during licensing (Silitonga et al., 2015).

Thirdly, incumbent leaders may prioritize political interests over public service efficiency, hindering investment growth and infrastructure development (Rakhman, 2019). Lastly, prolonged incumbency can lead to authoritarian conduct, consolidating power and stifling community participation, thus impeding inclusive economic growth (Rumayya et al., 2020). Despite the challenges, stringent oversight focusing on electoral recruitment and transparency remains crucial to combat corruption and foster economic impact (Purwaningsih & Widodo, 2020).

6.5 Conclusion

Based on the estimates above, it can be concluded that three things can be determined. Firstly, by using a two-period panel model incorporating the entire sample, two anti-corruption variables of anti-corruption in planning and budgeting, and area licensing, positively impact local economic growth, while strengthening anti-corruption in procurement actually results in negative estimates. Interactions between each anti-corruption variable with local political aspects, when using the entire sample in the panel two-period model, show several interactions

that are consistent with the hypothesis, including 1) anti-corruption procurement × parliamentary political concentration; 2) anti-corruption licensing × fiscal responsibility; 3) anti-corruption planning and budgeting × party affiliation of the head of the region; 4) anti-corruption licensing × party affiliation of the head of the region; 5) anti-corruption planning and budgeting × incumbent status of the regional head; 6) anti-corruption licensing × incumbent status of the regional head.

The second estimate, the difference-in-differences model, shows that there is a difference before and after the anti-corruption programme is implemented, especially in areas or districts-cities that have high corruption levels. The impact of the anti-corruption programme shows negative results, meaning that corruption in corrupt areas acts as a lubricant for local growth.

When the sample studied is district-cities with high anti-corruption index, the programme anti-corruption gives benefits for local economic growth. This indicates that there is efficiency in local governance. However, when local political intervention is stronger, the findings show a negative trend for local economic growth.

Chapter 7
Anti-corruption programme and local politics matter: an institutional perspective

7.1 Introduction

After the fall of the New Order regime in 1998, Indonesia's public demanded political, fiscal, and anti-corruption reforms, prompting the establishment of a corruption investigation commission and strengthened audit institutions (Hamilton-Hart, 2001). Despite these efforts, President Yudhoyono's anti-corruption campaign from 2004 saw mixed results, with ongoing issues in corrupt local governments negatively impacting economic growth (Davidson, 2007). Our analysis in Chapter 6 reveals that persistent corruption and local political dynamics continue to undermine anti-corruption efforts (Yunan et al., 2023). Corruption remains widespread at both national and local levels, with significant cases reported by Indonesian Corruption Watch and KPK (Hamilton-Hart, 2001; Kuncoro, 2004). Although decentralization aimed to improve local governance, conflicts of interest and political power structures often hinder progress, impacting development and the effectiveness of anti-corruption programs like the KPK's Monitoring Center for Prevention (MCP) (Talitha et al., 2020; Dewiyanti et al., 2022).

This study is a leap from the mainstream quantitative studies in most anti-corruption literature. The aim of this study is to fill a significant gap in our qualitatively nuanced knowledge by asking a fundamental questions:

RQ 7. How does the interaction between anti-corruption programme and local politics from an institutional perspective affect the outcomes of programme?

7.2 Design and method

This study employs a qualitative approach using a critical structuralist framework, as outlined by Bronner (2011), which examines not only the emergence of phenomena but also their underlying existence and the critiques of institutional and systematic thinking. The critical paradigm, endorsed by Herbut (2007), allows for exploring multiple interpretations and understanding the complex interplay between local anti-corruption programs and political dynamics impacting economic growth. The focus is on corruption at the executive-legislative level, which is pivotal for local development, while structural analysis aids in uncovering deeper causes and impacts of corruption within power structures.

Data collection involved a guided sampling design, selecting two cities (Bima and Mataram) and three districts (Sumbawa, Lombok Utara, Sumbawa Barat) based on corruption indices and economic factors (Meza & Perez-Chiques, 2021). Between May 2023 and June 2024, 15 semi-structured interviews were conducted with diverse stakeholders, including local government auditors, LHR members, anti-corruption activists, local consultants, and the KPK Indonesia’s MCP director. This approach aimed to gather comprehensive insights on corruption issues, anti-corruption efforts, and their effects on local governance and development (Creswell, 2013; Burrell & Morgan, 2019; Guba & Lincoln, 1994; Lapan et al., 2011).

7.3 Discussion

7.3.1 Design of anti-corruption program in the local government

Institutional design on local planning and budgeting area

The results in Table 6.15 indicate that the interaction between anti-corruption measures in local planning and budgeting and political concentration has a significant negative impact on local economic growth, particularly in corrupt local governments. This adverse effect is observed across local governments with varying anti-corruption indices, suggesting that larger political coalitions within local representative houses tend to monopolize power over local resources. Conflicts of interest in local projects, often managed collectively by the LHR, highlight how political agreements and interests can influence the planning and budgeting processes, further exacerbating the negative impact on economic growth.

"*The process of drafting the annual budget plan, which must be agreed upon by local executives and legislators, typically has a deadline in the third week of August. In recent years, there has been a recurring issue of delays in the submission of local legislators' budget plans. This is usually caused by conflicts of interest regarding the proposed projects put forth by local executive bodies. This also leads to delays in the promulgation of Local Government Regulations on the budget for the following year, which will undoubtedly impact the development process at the local level. This is a common finding in most local governments*." Mr. Andi, MCP coordinator at Mataram City.

Local anti-corruption programs have struggled to reduce corruption in planning and budgeting, mainly targeting the executive branch while neglecting the political corruption within local representative houses (LHR). Despite legal mandates for the LHR to handle legislation, budgeting, and oversight, studies by Nurhasmah & Abdullah (2015) and Subechan et al. (2014) reveal that these functions have been poorly executed. The lack of effective oversight by local parliamentarians has contributed to delays in approving the Local Government Budget (LGB) and gaps in detecting corruption within the interactions between local executive and legislative institutions.

The Table 7.1 below illustrates some indicators and sub-indicators used to uncover corruption in the planning and budgeting processes in local government.

Table 7.1 Indicators and sub-indicators of monitoring corruption in local planning and budgeting

No	Area	Indicator	Sub Indicator
1	Planning and budgeting	• Standard unit price (SUP)	• Implementation of SUP • Determination of SUP
		• Analysis of budgeting standard (ABS)	• Determination of ABS • Implementation of ABS
		• Budgeting of local planning	• LHR approval • Publication of Local Budget • Submission of draft General Budget Policy (GBP) and Temporary Budget Ceiling Priorities (TBCP) • Submission of draft Local Budget • Agreement on the draft of GBP & TBCP
		• Supervision	• Follow-up review of Local Development Work Plan (LDWP) • Follow-up review of SUP and ABS

Indicator one focuses on unit prices to cross-check the alignment between program plans and budgets, similar to standard budget analysis. Corruption often arises at the sub-indicator level of LHR approval, with evidence of political transactions emerging during Local

Government Budget (LGB) discussions. These transactions usually occur informally, where executives offer political support in exchange for backing from the LHR on government projects. The legislative role is to supervise and validate executive plans, but local legislative bodies often fail to effectively oversee these projects (Stapenhurst, 2020). Given the low oversight capacity of local legislatures, the KPK should also monitor LHR activities to address potential abuses of power. The decline in the Corruption Perception Index (CPI) reported by VDem and PERC in 2021 underscores the need for political parties to address corruption. The KPK has sanctioned 430 politicians up to 2021, highlighting the need for political parties to enhance their public service rather than erode trust through corrupt practices. Table 6.15 shows that local governments with low anti-corruption indices and high political concentrations in parliament experience poorer economic performance. Despite a slight reduction in low anti-corruption indices from 166 to 159 by 2022, regions like Sulawesi, Maluku, and Papua still lag behind, necessitating further efforts to boost development and human resources in these areas.

Figure 7.1 Index of anti-corruption in planning & budgeting, 2019

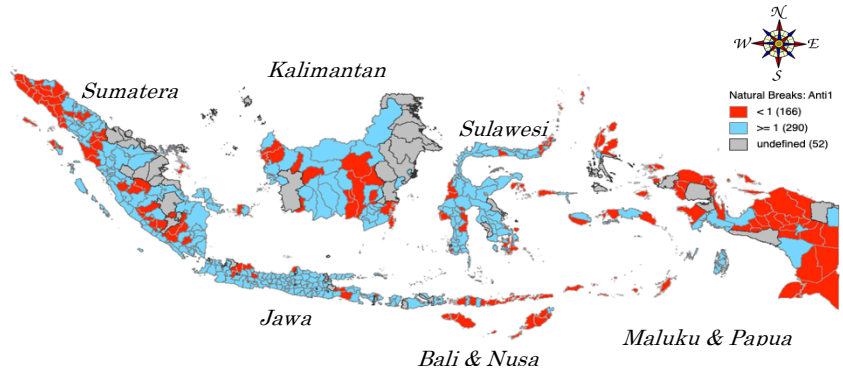
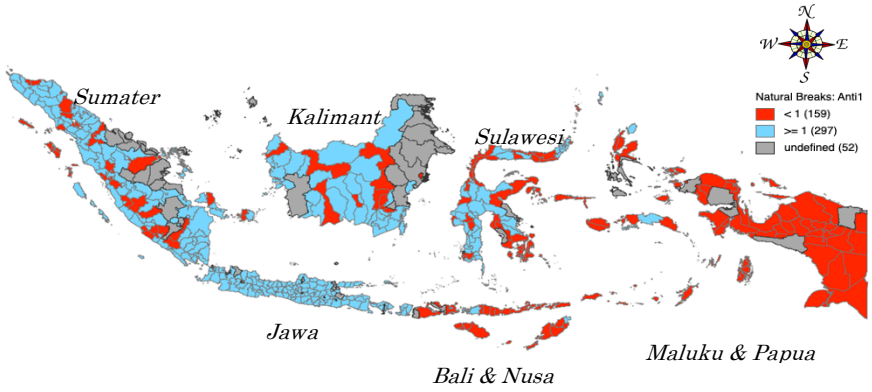


Figure 7.2 Index of anti-corruption in planning & budgeting, 2022



While on the other hand, from the perspective of a local auditor serving as a coordinator at the local level, it is stated that:

> "*The MCP programme in the area of goods and service planning is excellent and crucial. This programme is capable of closing the corruption loopholes at the local level. However, this is only administrative in nature. In fact, the interest of LHR members to intervene in the planning and budgeting areas is very strong. They look for reasons not to approve the Local Government Budget (LGB) when the "Basic Thinking Allocation" has not been accommodated. As a result, the entire planning and budgeting process for*

the LGB becomes stalled." (Mrs. Indri, MCP coordinator at North Lombok District; Mr. Azis, MCP coordinator MCP at Sumbawa District; Mr. Andi, MCP coordinator at Mataram City; Mr. Firdaus, MCP coordinator at Bima City).

Design of institution on local procurement area

The estimation results reveal a significant negative impact of anti-corruption initiatives in procurement on local economic growth due to local political factors. These factors undermine the effectiveness of anti-corruption campaigns in this area, as shown in Table 7.2.

Table 7.2 Indicators and sub-indicators of monitoring corruption in local procurement

No	Area	Indicator	Sub Indicator
2	Goods and services procurement	• Human resources on goods and service procurement work unit (GSPWU)	• Permanent GSPWU working group. • Availability of human resources in GSPWU • Availability of GSPWU functional worker group
		• Implementation of main duties and functions	• Evaluation of GSP activities • Advocation of GSP • Planning review of GSP • Vendor management system
		• Supporting devices	• GSP code of ethics • SOP of GSP • Special Additional Employee Income of GSP
		• Screening of "General Procurement Plan Information System" (GPPIS)	• Percentage of GPPIS views
		• Control and supervision	• Review of Own Estimated Price (OEP) • Follow-up on GSP governance Review

Figure 7.3 Index of anti-corruption in local procurement, 2019

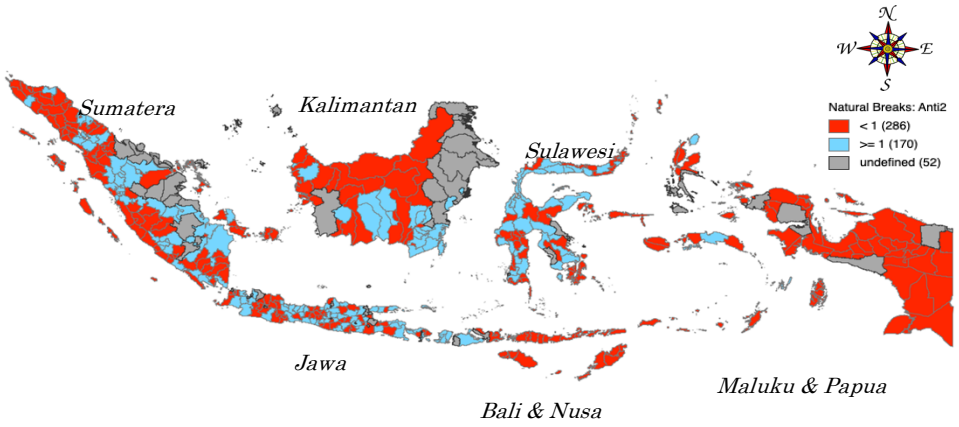
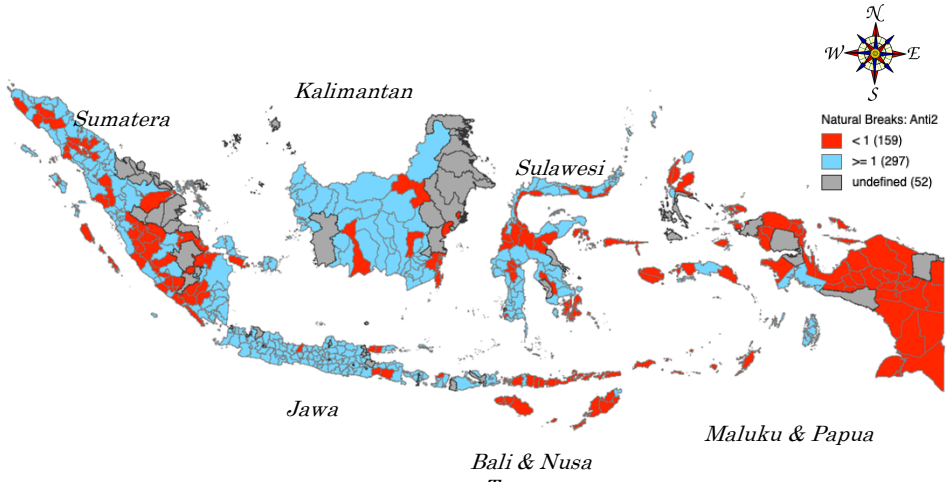


Figure 7.4 Index of anti-corruption in local procurement, 2022



Estimation results indicate that local political factors—such as LHR concentration, party affiliation, and the incumbent status of local leaders—negatively impact local economic growth when interacting with anti-corruption programs in procurement. These elements undermine anti-corruption efforts, highlighting the need for oversight of both executive and legislative branches. Improving governance requires assessing legislative institutions' performance to ensure procurement serves the public interest.

Some local governments, each local unit of MCP provides different explanations related to the challenges faced in the procurement of goods and services at the local level.

> "*Electronic tenders are very detailed, and the possibility of corruption from the administration's side is highly unlikely. But for some reason, the circle of power at the local level can determine who the winner of the tender will be. This may happen in all local governments*" (Mrs. Indri, MCP coordinator at North Lombok District).

Meanwhile, some surprising information about corruption gaps:

> "*Electronic tenders may only be 30% of the Local Government Budget (LGB). The most vulnerable to corruption, collusion, and nepotism are tenders directly worth less than 200 million rupiah. These tenders are spread throughout the departments. The interests of local officials and members of the LHR are very strong in this case. Almost 70% of the LGB is allocated for tenders without auctions. This is clearly systematic and widespread corruption*". (Mr. Andi, MCP coordinator at Mataram City).

Institutional background of licensing

Efforts to combat corruption in the licensing sector are struggling to boost local economic growth, particularly due to political interference within local legislative bodies (LHR). As shown in Table 6.15 (Chapter 6), this interference has led to a 0.7% decline in local economic growth in areas with low anti-corruption indices and a 2.6% drop in areas with high indices. To address corruption in the executive branch, the KPK employs various indicators, detailed in Table 7.3.

Table 7.3 Indicators and sub-indicators of monitoring corruption in local licensing

No	Area	Indicator	Sub Indicator
3	Licensing	• Regulation	• Regulations on the delegation of licensing authority • Local regulations regarding licensing management • Local regulations regarding spatial planning
		• Regulation infrastructure	• Location and place of service • Publication media • Local online licensing system
		• Control and supervision	• Public satisfaction index • Follow up on licensing governance review • Supervision

The analysis of KPK's indicators in Table 7.3 reveals that the permit sector remains highly susceptible to corruption due to the involvement of businessmen, executives, and legislators. Despite KPK's efforts, corruption persists, particularly in investment permits, highlighting the need for more comprehensive measures. Nieto-Morales et al. (2024) argue that corruption is prevalent in bureaucratic interactions, especially in countries with weak institutions. While local legislators lack budgetary power, their role in drafting and influencing local policies makes them crucial in combating corruption. Persson and Tabellini (2002) note that local political institutions can significantly affect decision-making, often leading to alliances between executives and legislators with varied interests, complicating anti-corruption efforts.

Figure 7.5 Index of anti-corruption in local licensing, 2019

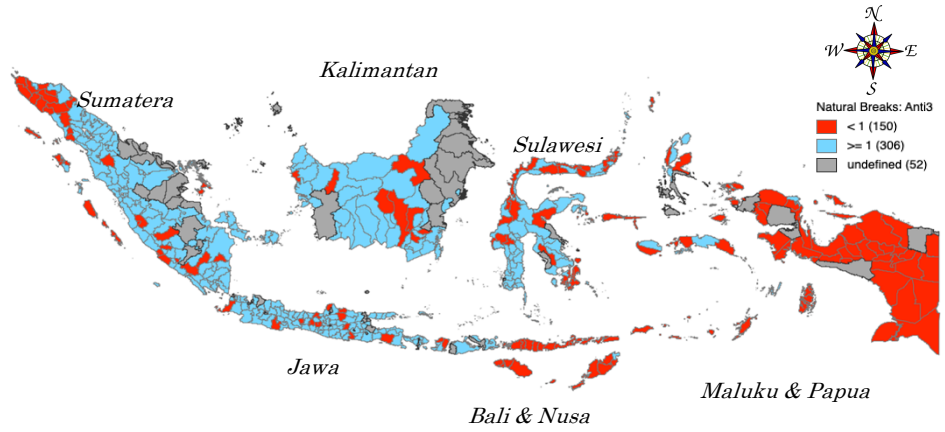
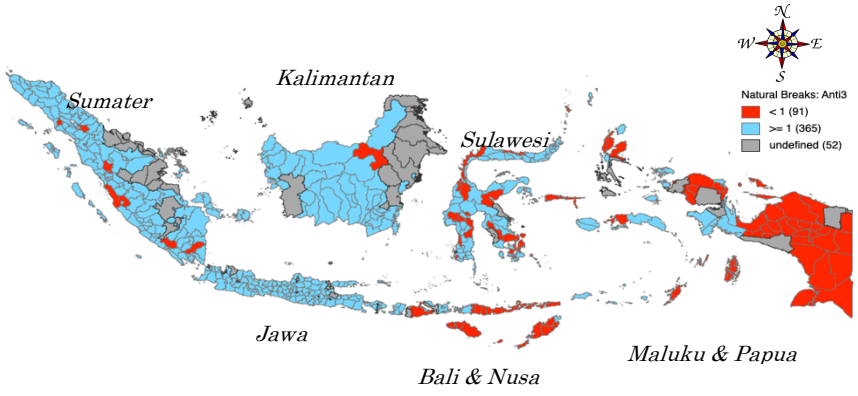


Figure 7.6 Index of anti-corruption in local licensing, 2022



Obtaining a business license through private parties can be slow due to local bureaucracy, often leading to the use of petty corruption to expedite the process. Political lobbying at the local leadership level further complicates this, creating additional opportunities for corruption, as noted by Nieto-Morales et al. (2024). Therefore, the anti-corruption program in the licensing sector requires significant attention to address these issues effectively:

> *"For the licensing area, we lack some essential infrastructure, such as suitable meeting rooms for licensing purposes, and CCTV cameras to monitor the license-making process. It appears that applicants often provide bribes to expedite administration*." (Mr. Azis, MCP coordinator at Sumbawa Districts)

This seems to be aligned with what is happening in other local governments.

> "*Bribes for business licenses still occur frequently. However, for large-scale investments, they usually must go through local political circles and meet local officials first. Bribes for large investments are likely to occur, especially in our area, which is attractive for tourism*." (Mrs. Indri, MCP coordinator at North Lombok region).

Moreover, we argue that the MCP programme in some areas provides warnings to corrupt offenders. This is also conveyed by the Director of the MCP Programme at the KPK.

> "*This programme provides attention to local corruption crimes. The programme is dynamic. If there are indicators that need to be added or reduced, then we are ready to do so according to the needs of the field. However, our efforts to eradicate corruption in our records require several elements, including strong political will, the integrity of local leaders, infrastructure readiness, and local political quality*." (Director of Coordination & Supervision, KPK Indonesia)

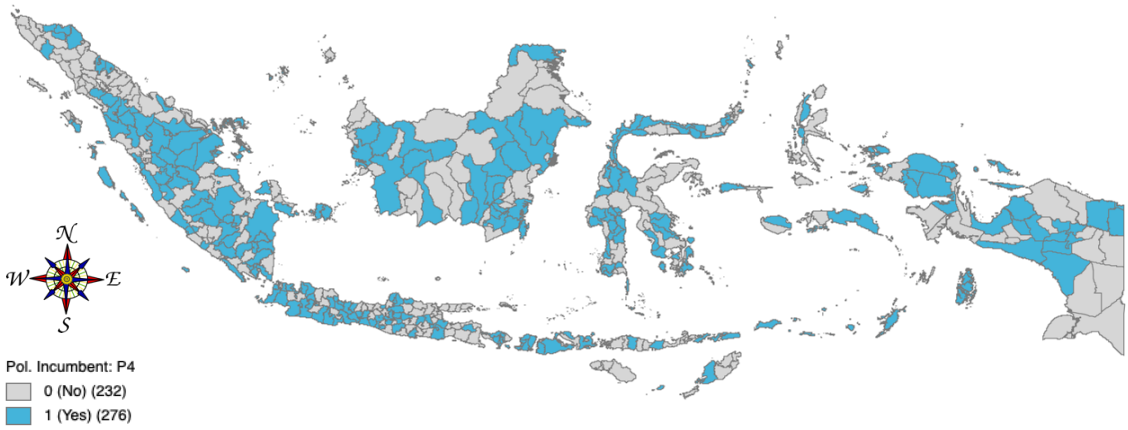
7.3.2 Political consideration and institutional misalignment

LHR plays a pivotal role in Indonesia's local political and economic landscape. Beeri and Navot (2013) highlight that political corruption at the local level is deeply ingrained in government structures and politics. This study, through a critical structuralist lens, examines how entrenched local power structures, dominated by political elites, obstruct anti-corruption efforts and hinder economic progress. By focusing on the relationship between local politics and anti-corruption, we analyze the power dynamics and hegemony that sustain corrupt practices.

The obstruction of anti-corruption initiatives is attributed to the misalignment between formal mechanisms, such as national anti-corruption laws and KPK's MCP program, and informal local power structures characterized by patronage, clientelism, and weakened oversight. This misalignment leads to resistance from local political actors who fear losing power or resources gained through corruption. Local political power often sustains elite dominance and patronage networks, concentrating resources and influence among a few families (Aspinall, 2013; Blunt et al., 2012). Additionally, the political elite's control over media and social institutions shapes public perception and normalizes corrupt practices, making the public more accepting of unjust power structures and hindering reform (Shin, 2018).

The following incumbent status visualization is a reflection of their power and hegemony in various locals government of Indonesia.

Figure 7.7 Incumbency status of local head in 2022



Source: Indonesian General Election Commission, 2022

Local leadership turnover in Indonesia is slow, with more than 50% of local governments still led by political elites from previous administrations. While this continuity can ensure policy stability, it often entrenches political power and perpetuates extraction-based institutions, leading to poor governance, low per capita income, and increased inequality. This weak governance hinders economic performance and undermines anti-corruption programs, damaging the investment climate and bureaucratic efficiency. Structural corruption, rooted in the development planning phase, particularly since the decentralization era, is further complicated by conflicts of interest between local governments and the Local House of Representatives (LHR), which obstructs effective governance and sustainable development policies.

Figure 7.8 Stages of preparing LGB draft

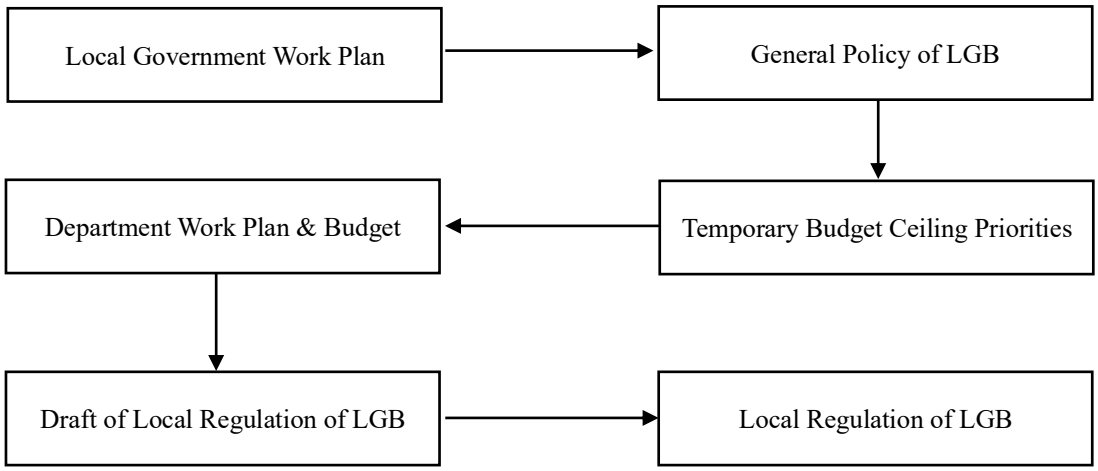


Figure 7.9 Conflict of interest between LHR and local government

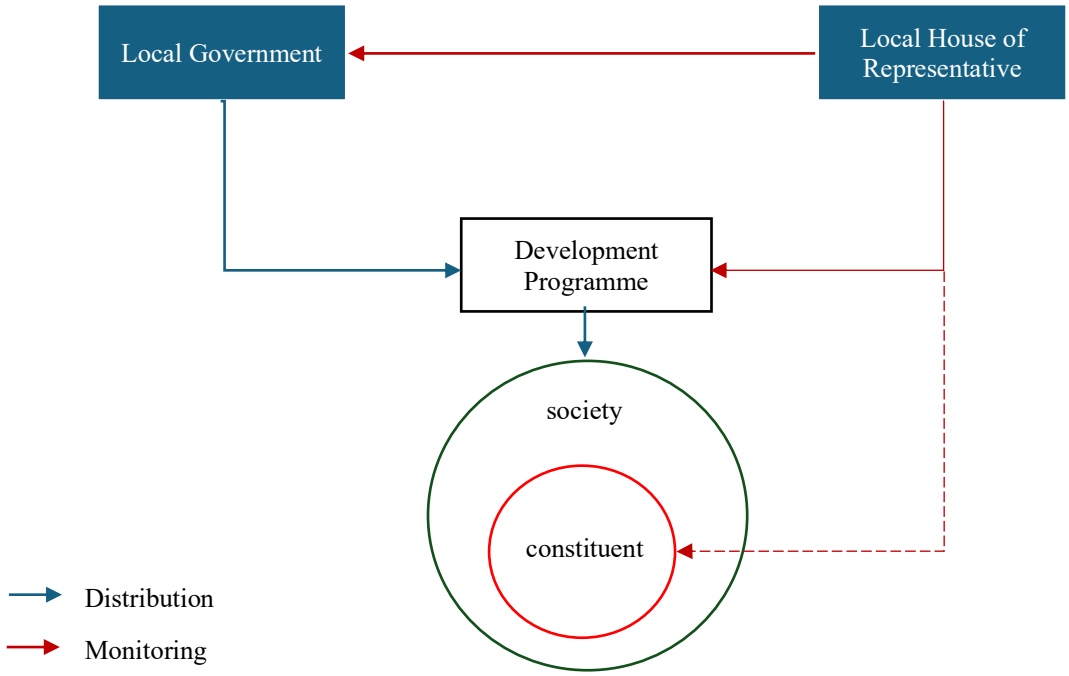


Figure 7.9 illustrates conflicts of interest between executive and legislative members. These conflicts arise due to the interests of parliament members toward their constituents in society. Local development programme proposed by local governments usually originate from the needs of the constituents in specific areas. This is based on the interests of LHR members in local government programme are often intertwined. Local parliament member from one of the local governments revealed:

"*Our (LHR members') interests in local government programme are enormous. We want to ensure that the programme reach our constituents. We think it as a political investment for the upcoming period.*" (M. Aminurlah, member of parliament Bima District, PAN Party Leader)

Meanwhile, another LHR member added:

"*We usually oversee those programme intensively. It is not uncommon that programme of that nature, which are direct-award projects without tenders, create corruption gaps where one project usually leaks 40% with a detail of 12% tax, 10% for council members, and 10-18% for local officials." (Merliza, Deputy Chairman of Parliament Sumbawa Barat District, Secretary of Gerindra Party*)

Development planning at the local level is heavily influenced by political elites and party leaders, who play a critical role in decision-making and resource management. Through the lens of hegemony, two key elements emerge: coercive consent and the reproduction of power. Coercive consent involves local elites controlling media narratives and targeting dissenters with legal action, while the reproduction of power manifests through patronage, where economic and social assistance are used to secure political loyalty and maintain leadership. This patronage culture, exemplified by practices such as pork barrel politics, discourages public criticism and perpetuates the existing power structure. Such dynamics obstruct anti-corruption

efforts by reinforcing local hegemonies and limiting public engagement in challenging corrupt practices.

1. Strengthening patronage and clientelism

   Dependence on local political elites is one of the factors that hinders the anti-corruption process at the local level. Political power based on patronage networks, where politicians and officials build support bases by exchanging favors, is often used by influential local officials to allocate local budgets for projects that provide direct benefits to their supporters rather than more transparent and public interest-oriented projects. This creates a cycle of dependency that reinforces the power of the political elite and makes it more difficult to report or address corruption.

   In our study, we often found instances of clientelism by local officials and politicians. For example, in projects that are considered "Basic Thinking Budget," they are often manipulated by officials together with local politicians. These projects are worth less than Rp. 200,000,000 or US$ 12,511. Since the project is worth more than that amount, it is required to go through a tender process. Our informant provided the following explanation:

   "*Projects with values below 200 million rupiah are in great abundance. This is also done to accommodate the interests of local officials and politicians. These projects are usually shared with their loyalists. The role of council members is usually as project brokers because they have influence over executives. That role is valued at 10-15% of the total project value. These projects are spread almost throughout the departments of the local government. Government officials also become "players" in this regard. They usually channel it to community organizations. However, it can be said that those projects are usually used to enrich themselves and the elite officials."* (Luhur, member of LHR of Mataram City, member of PAN party)

2. Impairment of supervisory institutions

   The dominance of political elites in power structures can weaken institutions that are supposed to oversee and enforce anti-corruption laws. Local bureaucracy, legal institutions, and regulatory bodies are often co-opted or intimidated by corrupt officials.

   Heads of oversight departments, in this case the local Inspectorate Office, are usually filled by those who have close ties to local power circles. This closeness will make it easier for the rulers to control the executive's activities and at the same time serve as a shield if they ever engage in corrupt practices. In this case, it is true that the Inspectorate Office is not an independent institution. Our key informant has revealed facts about the control of power over anti-corruption oversight bodies at the local level.

   "*Developing an anti-corruption programme that covers areas prone to corruption is a great initiative. However, it is still normative. The most important thing is the role of authorities, or political will. We, at the Inspectorate Office, are usually used as a tool to target political enemies. Both political opponents within and outside the executive branch are typically blackmailed with various corruption cases we are investigating. However, if a corruption case involves a relative or people within the circle of power, we usually receive direct intervention by stopping investigation attempts."*. (Siswandi, Head of Auditor, Coordinator Region of MCP Programme of KPK, West Nusa Tenggara Province).

3. Barriers to public participation

   The hegemonic structure of power often hinders public participation in political processes and decision-making. Society tends to be passive due to the strength of local political elites' networks and pressures. The efforts and resources expended to challenge local political power tend to end up as victims of that power. In some areas, intimidation towards anti-corruption activists come from local officials and political elites. They often use the law enforcement apparatus (police) to suppress activists. Additionally, more subtle approaches are usually taken by local political officials by inviting activists to join their circles of power. Many of these activists become submissive when they enter these circles of power. Therefore, anti-corruption efforts initiated by the community often go unheard. A local anti-corruption activist provided an explanation regarding this matter.

   "*If we are overly critical of the government, we may run the risk of being jailed due to police using intimidation and thuggery to suppress anti-corruption practices. However, we are changing our approach to one that involves direct involvement in monitoring the local government's budget use. This new approach has proven beneficial for the public as they are now better informed, and the local government is more aware that transparency efforts can lead to improved governance. This, in turn, will positively impact the community's economy through the transparent and efficient use of the development budget."* (Ervyn, Coordinator of Forum Transparency in Local Budgeting FITRA).

   Therefore, we believe that this pragmatic and opportunistic local political structure is not consistent with Gramsci's hegemony, where, according to Bates (1975), humans are not only governed by force, but also by ideas. In this case, the main criticism of the pervasive and strong power of certain classes at the local level actually gives rise to dynasties and small kings in certain areas. The dominance of this class, in turn, gives rise to inequality in society (Woolcock, 1985).

7.4 Conclusion

This chapter extends the previous analysis on the impact of anti-corruption policies on local economic growth, revealing that local political factors negatively affect these efforts. It examines the causes behind blocked anti-corruption channels at the local level, using institutional theory and a qualitative approach to highlight two main issues: institutional capacity and misalignment between formal and informal institutions. While regions like Java exhibit better institutional capacity and public oversight, areas like eastern Indonesia face challenges. The misalignment is driven by entrenched local political practices, such as patronage, and weak oversight institutions, which reinforce local political hegemony and diminish public engagement in anti-corruption efforts. The chapter argues for urgent, comprehensive anti-corruption measures, including stronger national-level political will, improved anti-corruption education, and independent oversight bodies to address these entrenched issues effectively.

Chapter 8
Conclusion

This dissertation covers five significant aspects: a systematic literature review, literature theory, methodology, and two empirical study results. The five findings aim to examine the impact of the anti-corruption programme in Indonesia on local economic growth, which is also influenced by local political factors.

8.1 Results and theses

Chapter 2

In Chapter 2, our systematic literature review explored anti-corruption efforts in Indonesia, revealing a complex history of anti-corruption initiatives beginning with the KPKPN established in 1999 under President Habibie. This was followed by the formation of the Anti-Corruption Commission under President Gus Dur and later, the Corruption Eradication Commission (KPK) in 2002. Despite improvements until 2019, the KPK faced significant resistance, culminating in a 2019 law revision that limited its powers and independence. The KPK currently runs two main anti-corruption programs: the National Strategic Prevention and Eradication of Corruption (Stranas-PK) and the Monitoring Center for Prevention (MCP), targeting various corruption-prone areas including procurement and permits.

Our review also highlighted the entanglement of corruption with political issues in Indonesia. The Local House Representatives emerged as particularly corrupt, with political interference often obstructing anti-corruption efforts. The prevalence of patronage and the misuse of campaign funds exacerbate corruption, especially when regional heads seek to recoup campaign expenses during their second term. This dynamic undermines local anti-corruption programs. Additionally, although anti-corruption measures have been implemented, studies show that economic performance has been inconsistent, with some evidence suggesting that corruption may have acted as an economic lubricant due to structural weaknesses, thus challenging the effectiveness of anti-corruption policies.

Chapter 3

> Chapter 3 provides a comprehensive review of growth theory and the role of institutional theory in economic development, forming a theoretical foundation for subsequent empirical studies. We traced the evolution of economic growth theories, starting with Adam Smith's classical view that labor division and market self-regulation drive progress. David Ricardo added the need for market regulation to protect the working class, while Malthus warned of potential famines due to population-resource imbalances. The neoclassical model, led by Robert Solow, highlighted technological change as crucial for long-term growth, though it faced criticism for its "Solow Residual." Paul Romer advanced the discourse by arguing that technology is endogenous, generated through investment in R&D, and emphasizing the role of knowledge and human capital.

In reviewing the institutional trap, we examined why some countries lag despite growth theories. North and Thomas highlighted that innovation, education, and capital are central to growth, but institutional differences are crucial. Acemoglu and Robinson classified institutions into inclusive, which support broad participation and growth, and extractive, which perpetuate

inequality. In Indonesia, anti-corruption programs reflect the principles of inclusive institutions by aiming to reduce corruption and enhance governance to foster economic growth.

Chapter 4

Chapter 4 analyzes the institutional design and performance of the KPK, focusing on its history, challenges, and anti-corruption programs at the local government level. Initially, the KPK was established with strong powers for investigation and prosecution, remaining unchanged until the 2019 revision of its law, which introduced the Supervisory Board. This board, appointed by the President and DPR, has powers that potentially undermine the KPK's independence, such as authorizing wiretaps and dismissing KPK staff, leading to concerns that the revision aimed to weaken the KPK's effectiveness.

Despite these challenges, the KPK has demonstrated strong performance in combating corruption, handling significant cases involving both national and local officials, and collaborating with other agencies like the Police and Public Prosecutor's Office. The KPK's performance has been notable despite its centralization and limited regional presence. The MCP KPK program, introduced in 2018, targets corruption in local government through interventions in areas such as planning, procurement, and asset management, aiming to enhance transparency and accountability within local administrations.

Chapter 5

Chapter 5 focuses on the data requirements and models used in the study to analyze anti-corruption and political variables. It presents the indicators for anti-corruption, including planning and budgeting, procurement of goods and services, and licensing, as identified by the KPK due to their significant corruption gaps in local governments. For local political aspects, the study incorporates variables such as political concentration, fiscal dependency, party affiliation, and incumbent status.

To analyze these variables, the study employs two-panel period and difference-in-differences (DiD) methods. The basic model estimates local economic growth using only anti-corruption variables, while an interaction model examines the relationship between anti-corruption efforts and local politics. The DiD method helps assess changes in local governments before and after the implementation of anti-corruption programs.

Chapter 6

Chapter 6 analyzes the impact of the KPK's anti-corruption programme (MCP) on local economic growth and evaluates how political aspects mediate this impact. Using a unique dataset across Indonesian districts and cities, the study examines the effects of anti-corruption measures on economic growth. It finds that reducing corruption in planning and budgeting, as well as authorization areas, positively impacts economic growth, while increased anti-corruption efforts in procurement areas negatively affect growth. Additionally, high anti-corruption indices correlate positively with local economic growth, but increased anti-corruption measures in highly corrupt areas can be detrimental.

The study also explores the interaction between local politics and anti-corruption efforts. It reveals that political concentration in local house representatives positively impacts economic growth in planning, budgeting, and permit areas but negatively affects procurement areas. Fiscal autonomy shows a negative impact on economic growth in planning and procurement areas but a positive impact on permits. Major mayors affiliated with national coalition parties negatively influence economic growth in planning and procurement but

positively in permits. Finally, incumbent status generally has a negative effect on economic growth across anti-corruption variables, except for permits, where it has a positive impact.

Chapter 7:

Seventh chapter delves into the causes of obstructed anti-corruption channels. To answer how does the interaction between anti-corruption programme and local politics (RQ 7), this study, using institutional theory to analyze the design and inconsistency of institutions. It was found that institutional capacity in the areas of planning, budgeting, and procurement is better in Java than in other regions, while permits are better in Java, Sumatra, and Kalimantan. The imbalance between formal and informal institutional arrangements, such as a culture of patronage and complex political structures, impedes anticorruption efforts and strengthens local political oligarchies. To address this issue, national political will at the highest level, anticorruption education for legislators and local government officials, and improvement of the independence of the Internal Audit Agency (Inspectorate) are needed.

Theses

The results of our first empirical study (**Chapter 6**) are consistent with our first hypothesis, suggesting that the role of anti-corruption at the local level can boost local economic growth.

Thesis 1: Strengthening anti-corruption measures in local government planning and budgeting can better direct revenue to support economic growth and boost investor confidence through improved oversight of local business permits. However, strict oversight in procurement may hinder growth due to the cash-based nature of 70% of local budgets allocated through tenders, which highlights the negative impacts of corruption in this sector.

Thesis 2: Political factors adversely affect the effectiveness of local anti-corruption programs and local economic growth. High political concentration in Local House Representatives (LHR) and their vested interests in 'Representation Allowance' allocations undermine the programs. Additionally, regional heads often exploit their status for personal gain, and alignment between national coalition parties and local mayors can further disrupt anti-corruption efforts.

Thesis 3: The text reveals a negative trend in local economic growth, both before and after implementing the anti-corruption program, especially in corrupt local governments. Strengthening anti-corruption measures in planning, procurement, and licensing sectors can inadvertently reduce economic growth, indicating the program's failure in corrupt areas. This supports the notion that, in corrupt developing countries, corruption may act as a "grease the wheels" for economic activity.

The second empirical study (Chapter 7), using institutional theory, examines how local political roles negatively affect anti-corruption channels and local economic growth, revealing issues with institutional capacity and inconsistent arrangements.

Thesis 4: Anti-corruption institutions show varying capacities at the local level, with Java performing better in planning, budgeting, procurement, and public oversight, while licensing capacity is stronger in Java, Sumatera, and Kalimantan compared to eastern Indonesia.

Thesis 5: Efforts to eradicate corruption are often hindered by the incompatibility between formal and informal institutions, where complex cultural patronage and political networks

weaken the effectiveness of oversight and public participation, reinforcing local political oligarchy.

8.2 Limitation and future research agenda

The study has limitations including a narrow data scope, focus on the Indonesian context, and reliance on institutional theory, which may not fully address the complexity of corruption. Additionally, political dynamics and policy changes post-research period could affect the findings' relevance. Future research should include cross-national comparisons, detailed investigations of corruption's economic impact, local political dynamics, and longitudinal studies on institutional reforms post-2019 KPK law revision, as well as exploring civil society's role in anti-corruption efforts.

The second empirical study faces limitations such as limited generalizability and challenges in measuring the long-term impact of anti-corruption programs. It may also overlook external factors affecting local economies. Future research should focus on regional variations, long-term effects of anti-corruption policies, and the interplay between local political and economic factors. Additionally, cross-national studies could test the "grease the wheels" hypothesis in other developing contexts for a broader understanding of corruption's impact on economic growth.

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- 2022: Development trap in Central Eastern Europe – European Commission, Brussel – Belgium.
- 2022: A network analysis of foreign aid actors in Indonesia – European Regional Science Association (ERSA)
- 2023: The Impact of anti-corruption programme in Indonesia – Univesitat Oberta de Cataluna – Barcelona

Publications:

- 2021: Rebound effect with energy efficiency determinants: a two-stage analysis of residential electricity consumption in Indonesia – Published. *Journal of Sustainable Productions. Elsevier.*
- 2022: The Miracle of anti-corruption efforts and regional fiscal independence in plugging budget leakage: evidence from western and eastern Indonesia – Published. *Heliyon. Elsevier.*
- 2023: The Catastrophe of corruption in the sustainability of foreign aid: a prediction of artificial neural network method in Indonesia. – Published. *Fudan Journal of Humanities and Social Sciences. Springer Nature.*
- 2023: Identification of factors influencing entrepreneurial behaviour: unveiling start-up business initiative in Indonesia – Published. *Humanities and Social Science Communications - Nature.*
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