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The Relationship between Sustainable Development and Corruption:
An Empirical Study of Indonesia

Introduction

- Sustainable development is regarded as a non-decreasing component of the intertemporal social welfare (Aidt, 2011).
- Corruption is viewed as the potential aspect of governance that may obstruct that value.
- This study aims:
  - to investigate the connection between sustainable development and corruption in 33 provinces in Indonesia during 2004-2012
  - to draw policy implications for sustainable development in Indonesian regions

Link between Corruption and Economic Development

- Pros:
  - At the micro-level, corruption may avoid the strict and evade inelastic bureaucracies, and it may speed up the economic performance (Leff, 1964; Huntington, 1968)
- Cons:
  - Corruption may deter the economic growth (Myrdal, 1968; Mauro, 1995; Habib and Zurawicki, 2002; Gupta et al., 2002; Butler, 2004)
- Neutral:
  - No effect of corruption levels on GDP growth rate, even though there is a strong inverse relation between corruption levels and genuine wealth per capita (Aidt, 2009).

Comparison of Cost of Corruption and Cost for the Accused

Provinces	Cost of Corruption (Real 2015) (Billion IDR) (CC)	Cost for the Accused (Real 2015) (Billion IDR) (CA)	Ratio Cost for the Accused Over Corruption (CA/CC) (%)
Jakarta Special Region	89,176	16,148	18.11
North Sumatera	41,862	781	1.87
West Java	41,429	696	1.68
Jambi	20,506	140	0.68
Banten	17,885	209	1.17
Riau	2,452	782	31.91
East Kalimantan	1,825	172	9.42
Gorontalo	1,146	15	1.32
East Java	1,134	424	37.40
South Kalimantan	756	24	3.19
North Sulawesi	622	259	41.72
Maluku	575	497	86.42
Central Java	507	203	40.00
Aceh	407	44	10.76
Papua	141	68	48.33
Bengkulu	137	24	17.13
Central Sulawesi	108	28	25.67
East Nusa Tenggara	100	47	46.70
West Kalimantan	82	25	29.93
Riau Islands	70	69	98.85
Yogyakarta Special Region	65	12	18.21
West Nusa Tenggara	57	10	18.41
West Sulawesi	52	7	13.60
West Papua	24	20	83.26
Bangka Belitung Islands	21	17	79.43
Indonesia	222,729	21,166	29.39

Source: University of Gadjah Mada (2016)

Sustainability vs Corruption

	Low Corruption	High Corruption
Low Sustainability	Jambi	Aceh
	Lampung	Bengkulu
	Central Java	South Kalimantan
	West Nusa Tenggara	North Sulawesi
	West Kalimantan	South East Sulawesi
	Central Sulawesi	Gorontalo
	Papua	West Sulawesi
		Maluku
		North Maluku
		East Nusa Tenggara
High Sustainability	West Sumatera	North Sumatera
	South Sumatera	Riau
	Riau Islands	Bangka Belitung Islands
	Jakarta Special Region	Banten
	West Java	Central Kalimantan
	Yogyakarta Special Region	West Papua
	East Java	
	Bali	
	East Kalimantan	
	South Sulawesi	

FE baseline models – *dep. var =SDI2*

SDI2	Pooled OLS Regression Models				Fixed Effect Models			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Log Loss per Expenditure	-0.0215***		-0.0132***		-0.0086***	-0.0052***		
	[-9.60]		[-3.45]		[-4.88]	[-3.87]		
Log Loss per Capita		-0.0099***		-0.0079**			0.0026	-0.0019
		[-4.71]		[-3.01]			[1.43]	[-1.42]
GRP non-Oil and Gas per Capita			0.0055***	0.0061***		0.0119***		0.0125***
			[16.30]	[16.95]		[10.54]		[10.79]
Log Density			-0.0107***	-0.0134***		0.0373**		0.0436**
			[-5.16]	[-5.47]		[2.80]		[3.20]
Enrolment Ratio: Primary			0.0288	0.0374*		0.0104		0.0093
			[2.20]	[2.44]		[1.11]		
Investment per GRP			-0.0308	-0.0227		0.0006		0.0055
			[-1.46]	[-0.93]		[0.04]		[0.37]
Java			0.0257**	0.0328***		(omitted)		(omitted)
			[4.49]	[3.85]				
Oil and Gas Producer			0.0053	0.0059		-0.0052		-0.0063
			[1.54]	[1.34]		-0.29]		[-0.34]
Constant	0.4893***	0.6996***	0.5126***	0.6562***	0.5640***	0.3065***	0.5916***	0.3209***
	[36.82]	[37.93]	[37.43]	[26.52]	[54.50]	[5.35]		[5.48]
Observations	294	295	288	289	262	257	263	258
Adjusted R-squared	0.2359	0.0669	0.6284	0.5900	-0.0322	0.4275	-0.1168	0.4001
Hausman Test						82.19***		82.49***
						[0.00]		[0.00]

Conclusion

- No consensus about the relationships between corruption and sustainability in the literatures.
- Findings in this study :
  - Negative relationship between sustainability and corruption in Indonesia.
  - The anti-corruption initiatives should focus on improving governance and maximizing the social value of natural resources exploitation
  - The government should address the issues of productivity as well as sustainable population growth to assure the sustainability of economic development