

ABSTRACT

In economics literature, corruption is a form of rent-seeking activities in which private agents attempt to get preferential treatment from the government by doing activities such as bribing government officials. These corrupt activities lead to misallocation of public budgets, and thus, might worsen the poverty rate. This study attempts to investigate the relationship between corruption and poverty rate using a cross-sectional data from districts across Indonesia. This study measures corruption using the index of transaction costs provided by Komite Pemantauan Pelaksanaan Otonomi Daerah (KPPOD). The results show that correlation between corruption and poverty is not instantaneous. The effect appears in the long run, that is today's corruption affects future's poverty.

Keywords: *Corruption, Poverty*

JEL: D72, I31, P37