

U4 Expert Answer



Corruption Challenges at Sub-National Level in Indonesia

Query:

Please provide an overview of anti-corruption challenges at the sub-national and local levels in Indonesia, with a particular emphasis on challenges within basic service delivery.

Purpose:

Donors are increasingly working in complex operating environments where decentralisation brings many new challenges. One of those challenges includes ensuring the effectiveness of service delivery at the sub-national and local level.

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Summary:

Since the fall of General Suharto's regime, Indonesia has embarked on a comprehensive and unprecedented process of decentralisation, devolving almost overnight enormous responsibilities to regional, provincial and local governments. In spite of considerable achievements, the Indonesian decentralisation process continues to face major challenges of state capture by the local elites, a deeply entrenched patronage system and widespread petty and bureaucratic corruption. The emergence of stronger civil society and a free media constitute promising trends that, combined with further reforms aimed at promoting transparency, community participation as well as reinforcing upwards and downward accountability mechanisms, could ensure that decentralisation fully yields the intended benefits.

Part 1: The Context of Decentralisation in Indonesia

To fully understand the nature of corruption challenges at the local level, it is important to analyse the successes and failures of Indonesia's unprecedented

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decentralisation process, that transferred rapidly complete responsibility for most public services to the sub national level. The fast transition from a highly centralised to a largely decentralised system has created specific accountability challenges that significantly affect corruption risks at the local level.

The Process of Decentralisation in Indonesia

Indonesia's decentralisation process has been described and analysed in several papers, including "The making of Democratic Governance in Indonesia", "Implementing Decentralized Local Governance" and "Combating Corruption in a decentralised Indonesia".

After 32 years of General Suharto's rule, Indonesia has a long tradition of a patrimonial governance system, lack of accountability and transparency, state interventionism and systematic undermining of local initiative. Since General Suharto's fall from power in 1998, the country has been trying to break with its past experience of centralised power vulnerable to oligarchic abuse, by implementing transparent and accountable forms of local governance. The legal framework for decentralisation was enacted in 1999 and implemented from 2001 with the passage of law 22 and law 25 representing major steps towards political and expenditure decentralisation to local governments. The responsibility for most public services such as health, education, culture, public works, land management, manufacturing and trading has been transferred to districts, cities and villages, while provinces have been given a relatively minor coordinating role.

Indonesia now consists of thirty-three provinces which all have their own political legislature and governor. The provinces are subdivided into regencies, sub districts and again into village groupings. Regencies and cities have become the key administrative units, while village administration level is the most influential on a citizen's daily life, and handles matters of a village through an elected village chief.

The legal framework also makes provision for change in village government to promote downward accountability and citizen participation. In the past, village headmen were the instruments of the regime and reported to district or sub-district governments. In exchange for their subordination to the system, they

were given almost unlimited powers to run their village with access to higher authorities, government projects and funds. In the spirit of promoting democratisation at the local level, the law introduced village councils, whose members are directly elected by villagers and can hold village heads accountable through village accountability meetings. These changes are intended to shift decision making to the local level, providing greater opportunities for voice and choice and making public service delivery more accountable and responsive to citizens' needs. The transition has been supported by the emergence of free press, free speech and a stronger civil society. Considerable progress has been achieved in a very short period of time on the path to local democratisation.

The Weaknesses of the Decentralisation Process in Indonesia

However, the democratisation of local governance remains a slow and demanding process that requires a cultural shift of values and attitudes and continues to face major challenges.

Persistent Patterns of Behaviour and Resilient Corrupt Networks

Only the top layers of the bureaucracy have been replaced while most state officials remain influenced by the work patterns and attitudes of the previous regime's extremely centralised and hierarchical system of patronage. Many public officials have not yet embraced new procedures and attitudes, and continue to operate using top down approaches in a relative lack of transparency and accountability.

Decades of collusion between the private and the public sectors have also created a relatively stable, but highly unaccountable system. According to some specialists, the previous oligarchic networks have survived and managed to reconstitute themselves by building new alliances and informal networks at the local and national levels. They've extended their sphere of influence to regions and provinces where they strive to capture democratic institutions by taking control over regional parliaments and political parties or building alliances with the local businesses. ([Understanding the political economy of corruption at the local level: the case of Indonesia](#)).

Limited Bottom Up Accountability

To promote good governance, effective decentralisation should not only empower local governments but also ensure that they are held accountable and deliver social services to their constituency. As a result, decentralisation must be accompanied by more effective and democratic management of public affairs and establish appropriate mechanisms for citizen participation. In other words, decentralisation can only work when citizen – including those traditionally excluded from both social and political participation - are systematically involved in policy formulation, decision making and programme oversight and evaluation. In the absence of such mechanisms, there is a strong risk of state capture by the local elites.

In Indonesia, the process of decentralisation primarily focused on granting local autonomy without simultaneously promoting accountability of local governments to their citizens. Even if the spirit of the decentralisation laws was promoting local democratisation, in practice, there have been little opportunities to open up local decision making to public participation due to few specific guidelines for implementation, instances of collusion with local governments and failure to provide incentives for local governments to be accountable and responsive to their citizens. In addition, past social arrangements - which were essentially hierarchical in nature - have bred a long tradition of not questioning those in power. As a result, civil society remains relatively weak at the local level and does not always have the capacity to exert effective public control over local governments.

Limited Tax Decentralisation

The funding modalities of local governments further weaken the principle of downward accountability. Government accountability is incomplete unless politicians have to justify tax rates and public spending to their constituency. Local government are mainly funded in the form of unconditional transfers from the central government. Limited tax decentralisation implies that local government do not have to raise taxes, which weakens their accountability and responsiveness to their citizens, raises cost efficiency concerns and creates incentives for mismanagement of public spending.

Pace of Decentralisation Reforms

The shift from a highly centralised system to the devolution of virtually all public services to the local level was also achieved in a very short period of time, with little consideration given to the appropriateness of service devolution, the pace and sequencing of reform, and the operational and economic capacity of local governments. This originally led to the deterioration of public service delivery, a reduction of state expenditure for social services such as public hospitals and schools, and the exacerbation of inequalities, with wealthier regions being in a better position to mobilise and retain resources for themselves. ([The making of Democratic Governance in Indonesia](#)).

In addition, the past concentration of powers at the central level with an accountability system exclusively based on hierarchical controls had fuelled a rent seeking culture where services were delivered with little concerns for citizens' needs and preference. Some authors consider that decentralisation contributed to shift such dynamics from the central to the local level, where governance institutions are often very weak and parliamentary controls still in their infancy. Changes in this regard require a deep and profound cultural shift in governance values and attitudes as well as long term efforts to build the local capacity to implement effective mechanisms for strengthening citizens' accountability.

The Impact of the Decentralisation Process on Corruption in Indonesia

By bringing government activities closer to the people, decentralisation is expected to make public services more responsive and accountable to the citizens. In principle, local agencies are in a better position to tailor services to the needs of the local users and deliver them at lower costs. Decentralisation is also believed to offer greater opportunities for public participation in decision making and oversight, bringing more transparency in the allocation and use of public resources. In principle, competition between the various layers of government can also result in efficiency and accountability gains, reducing the amount of services for which public officials can demand bribes. With decentralisation, elected officials may also try to deter corruption with the view to attracting local investment, in a context of inter-regional competition to attract businesses. Citizens are theoretically better informed of

government performances and can sanction corrupt or incompetent leaders through local elections.

These intended benefits greatly rely on effective coordination among the various layers of government as well as the nature and effectiveness of the accountability mechanisms in place. In the case of Indonesia, there is contradictory evidence on the impact of decentralisation on levels of corruption. Only a few studies indicate positive trends in terms of control of corruption such as a [study looking at firm level data set from 2001 and 2004](#) to investigate whether local democratisation reduced corruption in the post-Suharto era. Findings suggest that local corruption dropped substantially between 2001 and 2004 in some districts. Transparency International's [Global Corruption Barometer 2009](#) also indicates promising trends in terms of government anti-corruption reforms, with 74% of the respondents perceiving the government's efforts to fight corruption as effective, compared to 37 % of the respondents in the [Global Corruption Barometer 2007](#).

Nonetheless, in spite of Indonesia's rapid achievements on the path to local democratisation, most studies suggest that decentralisation does not seem to have fully materialised in less corruption or more efficiency in public service delivery. According to most experts, while corruption used to be centralised in Jakarta, the Indonesian wave of decentralisation has contributed to spread it out to the local and regional levels, leading to more fragmented forms of corruption. [Transparency International Indonesia's Corruption Perceptions Index¹](#) for example, indicates that, although progress has been made in some cities such as Jogjakarta, Palangkaraya, and Banda Aceh, corruption in local government in Indonesia is still perceived to be high in most cities, with an overall average score for the 50 cities surveyed of 4, 42. The Indonesian Chamber of Commerce also complained on the rise of corruption soon after the enactment of the

¹ The CPI is produced based on two variables, the total average of the score for each city on local government corruption, plus the average of the score on local government effort to curb corruption. Scores range between 6, 43 (Jogjakarta) and 2, 97 (Kupang), with the vast majority of cities scoring below average.

decentralisation law in 2001. Many citizens also feel that decentralisation has largely failed to bring more transparent and accountable public services in Indonesia. A [2008 survey](#) conducted in 39 cities to investigate public satisfaction towards their local governments finds that the majority of respondents are disappointed with their local government's commitment to eradicate corruption, and report practices of corruption, collusion and nepotism.

There is also abundant anecdotal evidence of major corruption scandals occurring at the local level, such as a high-profile corruption case involving the West Sumatra Legislative Council in 2002 that was followed by similar corruption cases in South East Sulawesi, West Kalimantan, and Lampung. According to a [2007 World Bank study](#), there were 265 corruption cases involving local legislative bodies with almost 1000 suspects handled by prosecutorial offices across Indonesia in 2006.

However, the fact that local corruption regularly hits the headlines could also be seen as positive emerging trend in the country. The public disclosure of corruption cases is a new phenomenon in the country. Some authors interpret the publicity of such corruption scandals - many of which are even going to trial through the local courts - as a sign that local governance and law enforcement at the local level are improving, as in the past, such cases would never have come to light in the first place. ([Combating corruption in a decentralised Indonesia](#)).

Part 2: Overview of Corruption Challenges at the Local Level

The expected benefits of decentralisation can be undermined by a number of factors generating a new set of corruption vulnerabilities at the local level. There are not many studies specifically looking at corruption challenges in Indonesian service delivery at the local level, but most of the challenges associated with decentralisation more generally identified in the literature cut across government functions including service delivery. The [World Bank's 2005 study](#) of the Ketaman Development Program highlights some of the major corruption challenges donors are confronted to in decentralised Indonesia as well as how to address these through community driven approaches.

New Patterns of Incentives

In Indonesia, there are new incentives for corruption at the local level that have been created by the shifts of power between the centre and the regions as well as between the branches of government at the local level. Decentralisation profoundly transformed the power relationships at the local level with the various actors and layers of government competing for local resources and power. For example, district heads may seek to gain and maintain support from the local legislature by dubious means and money politics, while new local politicians may be tempted to take control over whatever resources are locally available either for personnel enrichment or to secure adequate funding for their political parties. ([Combating corruption in a decentralised Indonesia](#)).

State Capture by the Local Elite

One of the biggest challenges associated with decentralisation is the risk of state capture by the local elite. With decentralisation, local elite and politicians suddenly gain access to regional resources they can divert to benefit influential groups and individuals whose money or vote count rather than the public at large. When civil participation in local government is low, as it seems to be the case in most Indonesian provinces, there is a greater chance of interest groups and local elite capturing and directing resources towards their own priorities rather than towards poverty alleviation and improved service delivery ultimately undermining the responsiveness of public services to the needs and preferences of the citizens. At project level, as the Indonesia state's administrative structure tends to concentrate power in village elites, there is a risk of the local elite taking over the project implementation to secure opportunities to collect kickbacks.

Local Networks of Patronage

Stakeholders also tend to develop stable and closer links and relationships at the local level, increasing risks of collusion, favouritism, nepotism, patronage, etc. Citizens and public officials come more often in close and direct contacts, creating more opportunities for corrupt networks to develop. At the local level, public officials also tend to have both greater discretionary powers and longer office tenure, which is also likely to reinforce the risks of collusion between the various

local stakeholders. Long office tenure facilitates the development of corrupt and unethical relationships with the local elites or interested groups.

Local politicians are also more vulnerable to pressures exerted from influential individuals or interest groups, while local bureaucrats are more likely to lack independence from local politicians. In addition, in Indonesia, the various powers of the state tend to be concentrated in the village elites that usually maintain close and personal relations, increasing the risks of collusion between key stakeholders to pursue vested interests. This overlap of social and political functions and relations at the local level affects public and private sector hiring practices, business relationships, the award of contracts with widespread practices of nepotism and cronyism.

Social dynamics are also deeply rooted in complex cultural, religious, ethnic and kinship ties as well as elite and power relationships. These forms of relationships can be especially strong at the local level and further strengthen an entrenched system of patronage among local officials that infuse all levels of the government hierarchy.

Red Tape and Bribe Extortion

High level of bureaucracy provides multiple opportunities for rent seeking at sub national level, with involved public officials having large discretionary powers as well as monopoly over these procedures. Bribes paid by firms in Indonesia mostly arise from red tape, in particular in **permits and licences** imposed by local government officials. Several studies indicate that decentralisation has led many local governments in Indonesia to deliberately create such regulations as an opportunity to collect supplementary direct revenues as well as extort indirect revenues in the form of bribes.

It is widely acknowledged that revenues from tax and transfers sources after decentralisation are insufficient to maintain minimum public service levels. Local governments need to seek alternative sources of revenues. Local red tape such as licenses and levies provides direct revenues as well as indirect revenues (bribes) that compensate for low salaries and are critical to local finances. The extent of corruption and bribe extortion greatly varies across jurisdictions, the average of bribes ranging between 0,56% and 31 % across localities. Research indicated that red tape and

bribe extortion tend to decrease in better funded localities and with increased education of local officials. ([Corruption in Indonesia](#)).

This can affect long term local economic development as increased red tape and bribe extortion contribute to make a locality unattractive to firms, lead to a high cost economy and ultimately lower the tax base of the district. Some firms choose to become less visible by shifting to “informality” with the view to escaping the burden of paying local taxes and levies and avoiding bureaucratic harassment from public officials. ([Decentralisation and corruption in Indonesia: Manufacturing Firms Survival and Decentralisation](#)).

Lack of Local Capacity

Corruption risks are further increased by the lack of capacity of local governments to manage increased responsibility and powers. Local governments often lack the human and material resources to perform government duties in a transparent and accountable manner as well as the operational and economic capacity to run competitive and efficient public services. Untrained local officials, weak administrations and limited financial management capacity are likely to increase risks of abuse and mismanagement of public resources. Corrupt practices are also less likely to be uncovered and adequately sanctioned.

Misuse of Local Public Resources

In many Indonesian regions, levels of local corruption strongly affect the efficiency of public spending on service delivery, as confirmed by a recently published study looking at corruption, public spending and education outcomes in Indonesia. The study finds that public spending on education in Indonesia has a negligible effect on education outcomes in highly corrupt regions, while it has a statistically significant positive and relatively large effect in less corrupt regions. The study concludes that while corruption seems to have negligible direct effect on education outcomes, it indirectly adversely affects the education system through reducing the effectiveness of public spending. ([Corruption, public spending and education outcomes](#)).

Local budget manipulations constitute an obvious way to divert public spending from their intended purpose.

The enactment of inconsistent local regulations governing local budgets by national and regional parliaments, combined with the lack of local capacity to review budget documents and monitor budget formulation and execution have opened many opportunities for corruption and misuse of public resources. The general lack of information on budget processes and disbursements makes budget abuse relatively easy. Regulations governing the submission and channelling of local budgets can be easily breached to divert resources from their intended purpose and serve the interests of vested groups or individuals in relative impunity.

Common practices of budget manipulation include funnelling the regional budget to fictitious bodies or charities, inflating travel expenses or increasing the numbers of items on the budget. There have also been instances where the disbursement of local funds has been abused and unspent budgets have been used inconsistently with the existing procedures. A further relatively common type of corruption also involves budget mark-ups, which usually imply some element of collusion at the local level. In the KDP program for example, this mainly involves so-called reverse budget mark-ups, whereby budgets are not inflated in advance but the implementation teams substitute sub-standard materials for those originally specified and budgeted and pocket the difference.

Public Procurement

Local procurement is another area especially vulnerable to corruption due to the persistent culture of favours and patronage at the local level. In addition, with decentralisation, the number and type of stakeholders involved in procurement utilising public funds has become more complex.

As a result, local procurement offers many opportunities for corrupt practices, including collusion of suppliers, bid-rigging, bribes and kickbacks and favouritism in contracts' award. Some of these practices such as giving gifts or collusion to ensure that contracts are granted to local firms are not necessarily locally perceived as corruption.

At the contract's implementation stage, fraud may involve a wide range of practices such as executing and concealing substandard quality work, fraudulent invoicing, overbilling, falsification of accounts, kickbacks to avoid compliance with specification, failure to meet contractual deadlines, etc. All these forms of

corruption affect service delivery, whether it is in the building of schools or hospitals or the procurement of drugs, hospital supplies or text books.

Facilitation and Other Informal Payments

Informal payments remain highly pervasive in the post Suharto era, including payments to speed up the issuance of certificates, permits and licences or to access public services that are supposed to be free of charge. Cutting across all sectors of service delivery, there are also opportunities for extorting money for so-called "services" such as school or hospital admissions, shoes or school uniforms (that are sold by the teachers), private tutoring or bribes for good grades. Although they disproportionately affect poor households, such practices are usually justified and tolerated locally as a compensation for the low level of public officials' salaries.

Lack of Efficient Controls and Oversight Mechanisms

In the decentralisation process, building upwards accountability of local governments to higher tiers of government is essential to prevent corruption and mismanagement of public resources. Local governments need to have a transparent system of accounting and reporting as well as clear government structures that allow tracking responsibilities within the public policy chain, as shown by a [field experiment conducted in Indonesia in 2007](#). The study found that an increased probability of external government audits in over 600 village road projects resulted in a substantial reduction of missing expenditures, both with regard to unaccounted-for material procured and unaccounted-for labour related expenditures².

Monitoring and auditing mechanisms are usually better developed and more effective at the central rather than the local level and administrative decentralisation often results in a reduction of controls of higher levels of government over lower level administrations.

² The experiment also indicated a subsequent increase in project jobs given to family and relatives, providing suggestive evidence that those alternatives forms of corruption may be substitutes.

In Indonesia, in the urge of moving away from the old autocratic regime, reforms failed to establish effective monitoring and evaluation mechanisms that can hold local governments accountable to the central government. Current existing public mechanisms have not proven to be the most effective to uncover corruption cases in Indonesia. A [World Bank study of ten corruption cases](#) in five Indonesian provinces shows that, almost without exception, all corruption cases studied had been uncovered and reported by NGOs, community groups, social activists, individual villagers or affected parties rather than oversight, audit or justice institutions.

Culture of Impunity

Indonesia's long tradition of authoritarian rule has left a legacy of **impunity for perpetrators** of corruption, which combined with **weak protection of whistleblowers**, provide fertile ground for rent seeking behaviours. Sanctions have been rarely enforced, which tends to make corruption a low cost and high benefit activity, with little likelihood of redress. The traditional hierarchical structure of Indonesian villages also limits the propensity of citizens to question those in power.

Persistent **judicial corruption**, with judicial decisions being sold to the parties paying the highest bribe or with the most influential network of connections further breed the impunity of the perpetrators of corruption. At the local level, the relationships between the legal and local government officials are very close, especially in rural areas, eroding the necessary separation of powers that guarantees the independence of the judiciary. The chief of the local court often takes part in informal consultations of the regional leaders, where local government officials, the prosecutor, police and military officers have the opportunity to exert pressures for judicial decisions to be made in accordance with their interests.

In addition, at the village level, citizens appear to have **little awareness of their rights**, entitlements, as well as of legal processes and resources. In 2001, a survey conducted by the Asia Foundation found that only 56 % of respondents – and only 33% in rural areas - were able to identify a single right they were entitled to. ([Village Corruption in Indonesia: Fighting](#)

Corruption in the World Bank's Kecamatan Development Program (KDP).

However, this situation seems to improve slowly, as documented in several studies, with the culture of impunity being undermined by the various corruption scandals that recently came to light.

Part 3: Further Reading

Combating corruption in a decentralised Indonesia (2007)

The Justice for the Poor Program in Indonesia published a report on combating corruption at the local level in the framework of decentralisation policy. This report is based on case studies conducted in five provinces studying the efforts of local level actors to expose corruption by regional executive and legislative bodies and have them settled.

<http://www.eldis.org/go/display&type=Document&id=38110>

Monitoring Corruption: Evidence from a Field Experiment in Indonesia (2007)

This paper presents a randomized field experiment on reducing corruption in over 600 Indonesian village road projects. It finds that increasing government audits from 4 percent of projects to 100 percent reduced missing expenditures, as measured by discrepancies between official project costs and an independent engineers' estimate of costs, by eight percentage points. By contrast, increasing grassroots participation in monitoring had little average impact, reducing missing expenditures only in situations with limited free-rider problems and limited elite capture.

www.nber.org/~bolken/corruptionexperiments.pdf

Sick of Local Governments? Vote Islamic (2006)

By looking at firm level data sets from 2001 and 2004, this paper finds that, overall, corruption declines between these time periods. But specific politics matter. The data shows that voting patterns reflect the belief that Islamic parties in Indonesia are perceived as being anti-corruption with some degree of accuracy.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=892135

Village Corruption in Indonesia: Fighting Corruption in Indonesia's Kecamatan Development Program (2005)

This paper explores what enables corruption to flourish at the village level, and looks at the context of

corruption in terms of village politics and government. The Kecamatan Development Program (KDP) is a World Bank-funded community driven development project in Indonesia that funds infrastructure and small loans in over 20,000 villages nationwide. The paper evaluates the kinds of anti-corruption measures that are likely to succeed in locally based projects, which may operate in a corrupt environment. It also uses corruption as a way to look at social and political change in Indonesian villages.

http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000160016_20051110171745

Understanding the Political Economy of Corruption at the Local Level: the Case of Indonesia (2004)

This paper approaches Indonesia's decentralisation process by focusing on selectivity of the context and viewing corruption as political economic phenomena, drawing lessons and assessing the possible role that could be taken by donors. This paper also attaches a brief anatomy of 2004 corruption at local level in Indonesia.

www.oecd.org/dataoecd/41/25/34097312.PDF

Implementing Decentralised Local Governance: Treacherous Road with Potholes, Detours and Road Closures (2004)

In this paper on decentralisations, the authors evaluate Indonesia's 1999 "big bang" decentralization program. The program should be commended for its achievements over a short period of time. However, incentives are lacking for local governments to be accountable and responsive to their residents.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=610397

Indonesia Rapid Decentralisation Appraisal (2004)

The purpose of this fifth report of Indonesia Rapid Decentralisation Appraisal (IRDA) that has been conducted by the Asia Foundation is to monitor and assess Indonesia's decentralisation process of political and fiscal responsibilities. It looks more specifically at four dimensions: 1) the impact of national elections on local governments; 2) the prospect of direct elections of heads of local governments; 3) formation of new regions and 4) the politics of bargaining interests at the local level.

<http://asiafoundation.org/publications/pdf/397>

