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The Republic of Indonesia: Between a Gecko and a Crocodile

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Introduction

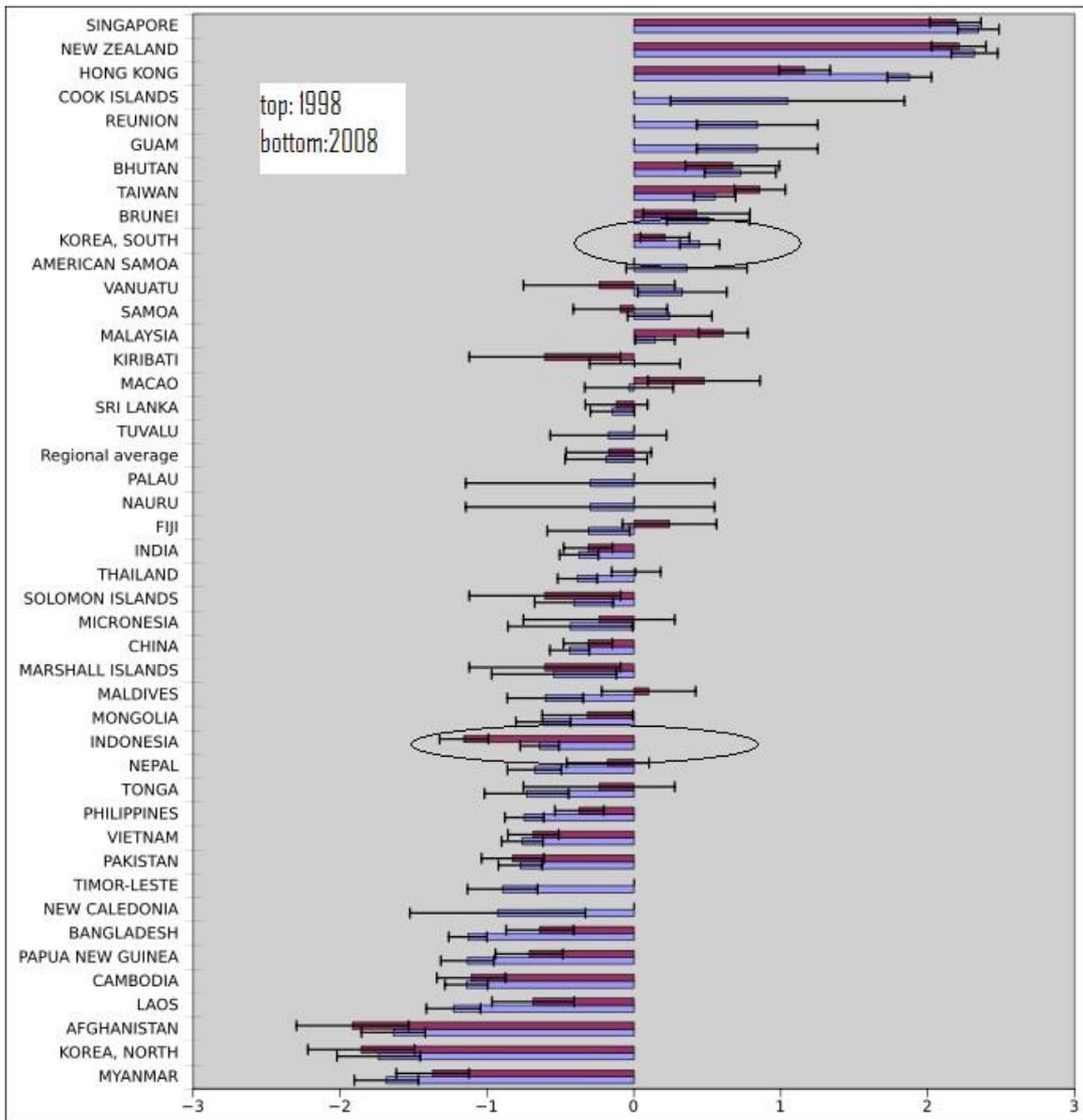
Asia is an incredibly diverse region consisting of both some of the most (Myanmar¹) and least (Singapore and New Zealand²) corrupt countries in the world. Further, these countries span an enormous range of difference in GDP (Japan vs. Kiribati), political stability (Australia vs. Afghanistan), and population size (China vs. The Maldives). However, despite the scale of variance, the World Bank Governance Indicator on the control of corruption reveals that the regional average regarding corruption nevertheless tends towards the negative, as displayed in Table 1 of the region below.

There is one country in the table, however, that stands out in particular, neither for how bad or well it's doing, but rather for the extreme improvement this particular country shows over time when control of corruption is compared between 1998 and 2008. That country is Indonesia, (followed by South Korea, with much less significant improvement), as can be seen in the circled portions of the table below.

¹ According to Transparency International's 2009 Corruption Perceptions Index (TI-CPI 2009), Myanmar ties Afghanistan (both ranked at 176) as being the second most corrupt countries in the world, followed by Somalia (at 178).

² Singapore and New Zealand tie Denmark for first place as the least corrupt countries in the world (TI-CPI 2009).

Table 1: Control of Corruption in Asia, 1998-2008



Indonesia is a country consisting of over 17,500 islands in the South East Asia / Oceania region. With a population of 231,626,979, it is the fourth most populous country in the world, and the largest Muslim country in the world. It is an electoral democracy, formally characterized as a presidential republic. Although corruption continues to be a severe problem in Indonesia, as indicated in Table 1, whereby Indonesia finds itself placed on the negative end of the spectrum, the comparison over time indicates that Indonesia has greatly improved at curbing corruption over the past decade – more so, in fact, than any other country in all of Asia. Clearly, something remarkable is going on in the country. In order to determine what these determining factors might be, it is important to first examine the region quantitatively. Thus, the following hypothesis was tested:

- Free trade reduces corruption

- Less regulation reduces the possibility for corruption
- Smaller states and lower expenditure reduce the availability of rents and thereby reduces corruption
- Pluralism, press freedom, and checks on government reduce corruption
- Adoption of UNCAC should provide momentum to reduce corruption

The results obtained from quantitative analysis of the above independent variables against control of corruption can be seen in the table below.

Table 2: Policy indicators plus control

Source	SS	df	MS			
Model	12.6126461	5	2.52252922	Number of obs =	13	
Residual	2.00052474	7	.285789248	F(5, 7) =	8.83	
Total	14.6131708	12	1.21776423	Prob > F =	0.0062	
				R-squared =	0.8631	
				Adj R-squared =	0.7653	
				Root MSE =	.53459	

wbgi_cce	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
fi_reg	.5989083	.2845037	2.11	0.073	-.073836	1.271653
fh_press	-.0030453	.0124425	-0.24	0.814	-.0324672	.0263766
uncac2008	-.0293469	.0716477	-0.41	0.694	-.1987669	.1400731
tdfree_g	.0063428	.0295447	0.21	0.836	-.0635193	.0762048
wdi_lifexp	.0745648	.0570264	1.31	0.232	-.0602813	.2094108
_cons	-8.963612	2.30536	-3.89	0.006	-14.41492	-3.512302

Together, these indicators explain up to 86.31% of corruption in Asia. Analysis of this table finds that countries, when controlled for life expectancy, have a lower rate of corruption from policies that encourage freedom of press, low financial regulation, free trade, and have ratified the United Nations Convention Against Corruption (UNCAC).

These findings are in keeping with Peter Evans' theory, stated in Paul Hutchcroft's essay on rents and corruption in Asia, that "[b]ecause rent-seeking is said to be 'directly related to the scope and range of governmental activity in the economy and to the relative size of the public sector... the state's sphere should be reduced to the minimum, and a bureaucratic control should be replaced by market mechanisms wherever possible.'"³

In light of these findings regarding the region, this paper will focus on the evolution of corruption in the Republic of Indonesia – the country to have made the most pronounced and recent progress in

³ Hutchcroft, P. D. (2001), *The Politics of Privilege: Rents and Corruption in Asia*, in Heidenheimer, A.J; Johnston, M. (2001). *Handbook of Political Corruption. Concepts & Contexts*, Transaction Publishers, p. 490.

Asia – exploring what factors, including these policy indicators, have had the greatest impact in curbing corruption in the country.

The State of Corruption in Indonesia

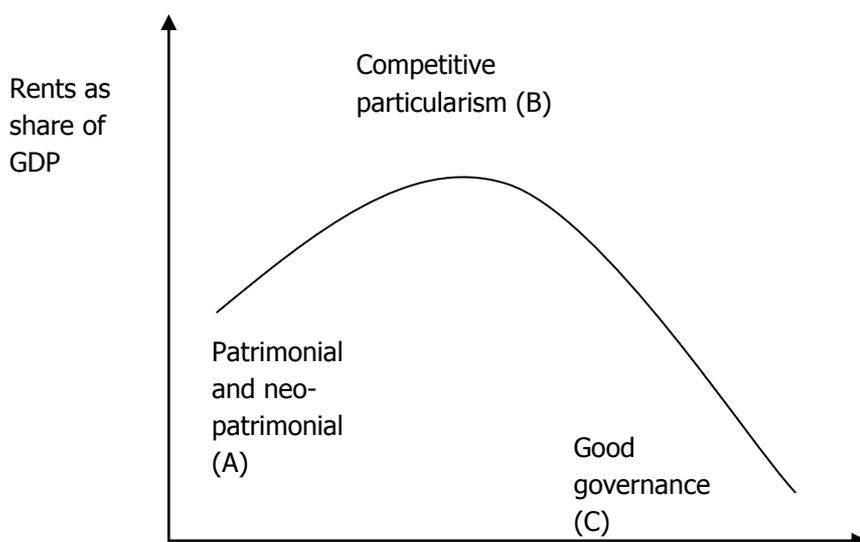
Although Indonesia is making more progress in the fight against corruption compared to any other country in Asia, the country ranks below the regional average on indicators evaluating the perceived prevalence of corruption, namely control of corruption as measured by the World Bank and perception of corruption as measured by Transparency International's Corruption Perception Index (TI-CPI). For the year 2009, the World Bank estimated that Indonesia performed in the 26th percentile with a score of -0.8, as compared to a regional average of -0.2, whereas TI ranked Indonesia as the 110th most corrupt country in the world out of 178 countries, with a score of 2.8. This is compared to a regional average of 4.1.

Table 3: Indonesia's scores in the Asia regional model

Indicator	Indonesia	Regional Average (SE)
WGI corruption	-0.64	-0.22 (1)
WGI stability	-1.69	0.05 (1)
WGI voice	-0.14	-0.24 (1)
GDP p.c.	1159	4555 (8200)
Education	49.5	45.48 (19.8)
Gini	30.3	36.48 (6.5)
Regulation (FI)	4.7	5.98 (1)
Press freedom	54	49.58 (24.15)
Trade freedom	69	62.53 (17.8)
Political control	0.5	0.56 (0.29)
Ethnic fragmentation	0.73	0.35 (0.25)

While the Asia regional model may provide some clues as to levels of corruption in the region – including in Indonesia – these indicators do little to explain the full picture of why corruption occurs in Indonesia, and, especially, what the main source of change is. Thus, in order to target recommendations as to how to fight corruption in Indonesia more efficiently, an individual diagnosis is first required. Examining the nature of the country as a regime is an important first step. One way to examine regimes in terms of corruption is to categorize them according to the following labels: “patrimonialism/pure particularism,” “competitive particularism,” or “universalism.”⁴ On an x/y axis, these variables can be thought of as representing corruption in terms of rents as share of GDP, and the development of pluralism as measured by a Freedom House indicator such as political rights.

Table 4: Evolution of Corruption by Regime Type



Despite its remarkable progress for the region, corruption in Indonesia remains the norm – as indicated by the TI-CPI – and the country continues to face corruption at both the political and administrative levels. Historically, Indonesia was firmly entrenched in patrimonialism – or pure particularism – until the end of President Suharto’s authoritarian rule in 1998. This patrimonialism was a deliberate attempt, led by Suharto, to collect rents above all from private sector business.⁵

⁴ Mungiu-Pippidi A. (2006), *Corruption: Diagnosis and Treatment*, Journal of Democracy, 17(3), p.89.

⁵ McLeod, R. (2000), p.102.

Thus, as the gathering of rents was a calculated and conscious effort on the part of the president, it should not be surprising that a change in regime could greatly alter the practice of corruption. This is reflected in the dramatic decrease of corruption in Indonesia in such a relatively short time span (1998-2008).

At the same time, despite the severe autocracy, unfettered foreign investment as well as an inflow of foreign aid allowed Indonesia to dramatically improve its standard of living under Suharto.⁶ As supported by the Asia regional model, such economic growth can be seen as a pre-condition allowing for the later more effective control of corruption after Suharto's fall.

In determining the current position of Indonesia on the above "corruption curve," the following typology will be examined:⁷

Table 5: A typology of governance

Regime	Power Distribution	Ownership of the State	Distribution of Public Goods	Social Acceptability of Corruption	Public/Private Distinction
Patrimonialism/ Pure Particularism	Monopoly	One or few owners	Unfair but predictable	Moderate	No
Competitive Particularism	Uneven and Disputed	Contested	Unfair and unpredictable	Low	Poor
Universalism	Relatively Equal	Autonomous	Fair and predictable	Very Low	Sharp

Adapted after Mungiu-Pippidi (2006)

Power distribution: Under President Suharto, no meaningful political contestation was allowed. Power was maintained through military and bureaucratic control, which was partially legitimized through perceived economic growth. This changed in June 1999, when the first genuinely democratic elections were held after the fall of the Suharto regime in the wake of the Asian Financial Crisis of 1997. The 1999 elections saw 93% of the electorate participating and the rise of 45 new parties. Despite the widespread creation of new parties, however, the Global Integrity Index – Indonesia 2009 has found that laws governing the financing of political parties are particularly

⁶ McLeod, R. (2000), p.100.

⁷ Mungiu-Pippidi. (2006), p. 94.

weak. Since 1999, constitutional amendments affecting all branches of government have been enacted, including mechanisms of checks and balances as well as term limitations. Beginning in 2001, new decentralization laws shifted power from the central to local governments, leading to a degree of decentralization of corruption. Today, the government can be thought of as moving from competitive particularism to universalism. Although the former political and business elite continue to seek influence through informal networks, new opportunities for direct elections with high participation are leading to a system that is “relatively equal.”⁸

“Ownership” of the State: Historically, the majority of rents collected by Suharto were from the private corporate sector. As Ross McLeod puts it, “[i]t is helpful to think of an autocrat such as Soeharto became as having the power to *privately* tax economic activity in general... the private corporate sector provided the primary medium through which Soeharto generated his family’s enormous wealth and maintained his own power.”⁹ Thus, given the extent to which the system was tied to Suharto as an individual, it should be of little surprise that such practices would not be particularly sustainable following his 1998 resignation. Now, according to the World Bank and IFC *Enterprise Surveys 2009*, only 14.6% of surveyed companies expect to pay bribes, with 14% finding corruption as a “major problem” for doing business in Indonesia. Further, TI’s Global Corruption Barometer 2009 found that only 3% of household respondents perceive the business sector to be the most corrupt, in comparison to the parliament/legislature (47%) and judiciary (20%). In further support of the Asia regional model, Indonesia has a relatively open foreign investment system with an emphasis on improving the business climate, as reflected in Table 3 with Indonesia’s score (4.7) from the Fraser Institute. Thus, figures such as these suggest that business in Indonesia today is near “autonomous.”

Distribution of Public Goods: One of the most commonly cited locales of corruption is within the Indonesian judiciary, causing a major problem to the distribution of public goods. The Supreme Court remains the slowest of the country’s judicial institutions to reform. Low salaries for judicial officials and impunity for illegal activity perpetuate the problems of bribery, forced confessions, and interference in court proceedings at all levels.¹⁰ In general, the Indonesian public lacks confidence in the police. The Global Integrity Index 2008 portrays the law enforcement bodies in Indonesia as inefficient and Freedom House 2009 reports that corruption remains endemic in the police. In

⁸ Business Anti-Corruption Portal, *Indonesia Country Profile*.

⁹ McLeod, R. (2000), p. 100.

¹⁰ Freedom House, *Freedom in the World – Indonesia* (2010).

addition, the same source emphasizes that no investigations have led to convictions of police officers. A further public good where corruption is thought to play a major role is road construction. According to the World Bank and IMF Enterprise Surveys 2009, 22% companies surveyed expect to give gifts in order to obtain a water, 16% for telephone connections and 23% for an electrical connection. Thus the distribution of public goods remains somewhat “unfair and unpredictable.”

Social Acceptability of Corruption: As testament to the change taking place regarding the control of corruption in Indonesia, a full 74% of Indonesians found the government effective in fighting corruption according to the TI Global Corruption Barometer 2009. This is compared to 47% who found the government *ineffective* as of 2007. Clearly a dramatic shift is occurring. More importantly, these responses are not due to ambivalence on the part of the public. In reflection of the public’s intolerance of corruption, the first ever direct presidential elections in 2004 were won by current President Yudhoyono with a landslide victory of 61% due to a largely anti-corruption platform. In a further notable display of the civil non-tolerance of corruption, thousands of protestors took to the streets of Jakarta in late 2009 and early 2010, showing their support for the Corruption Eradication Commission (KPK) (described in more detail in below), and demanded that the President stick to the anti-corruption stance on which he had been elected. These protests have since spread into the movement known as “Saya Cicak” (I am Gecko), referring to the fight of a gecko against a crocodile, or, the KPK against the police. The Freedom House 2009 Freedom in the World report calculated Indonesia as the only “free” country in the entire 10-country ASEAN bloc, and one of 16 free countries out of 32 in Asia Pacific. However, under Article 311 of the 2007 criminal code, defamation is punishable by four years in prison, causing some reporters to self-censure.¹¹ Nevertheless, social acceptability of corruption can be perceived to be “very low.”

Public/Private Distinction: An important example of the growing public/private distinction in Indonesia is the recent conviction of the father-in-law of President Yudhoyono’s son of corruption – something that would have been unthinkable under Suharto, whereby family members were significant shareholders in firms granted privilege by the government.¹² This conviction was possible due to the creation of the Corruption Eradication Commission (KPK) – the primary agency fighting corruption in Indonesia. The KPK has had success in multiple high-profile cases in 2008 and 2009, raising public expectations that acts of corruption, even by senior officials, would be punished. Regarding procurement, new transparency laws have led to a Global Integrity Report 2009 rating of

¹¹ Freedom House, Freedom in the World – Indonesia (2010).

¹² McLeod, R. (2000), p. 100.

“strong.” Nevertheless, the same report finds patronage and nepotism to be strong among selection and promotion of civil servants. Thus, while there is a private/public distinction, it cannot yet be classified as “sharp,” despite major improvements.

In conclusion Indonesia may be characterized as a regime of competitive particularism with some strong aspects of universalism. With this diagnosis in mind, the following recommendations may be taken into account in further combating corruption.

Recommendations for continued progress

Available instruments:

As noted throughout this paper, there seem to be a few main instruments of change that have been accounting for the enormous positive increase of control of corruption in Indonesia. The first and most obvious factor allowing for this shift is the collapse of the Suharto kleptocracy and the occurrence of largely free and fair elections. The reasons behind Indonesia’s ability to move from autocratic rule to relatively peaceful democracy should be the subject of further research and are beyond the scope of this paper, although it is worth noting that fair and free elections seem to be the first major milestone allowing for the combating of corruption in the Indonesian context.

While the fall of Suharto and the country’s first fair and free elections are important steps in the decrease of corruption, change can even more markedly be pinpointed as having begun in 2004 with the election of President Yudhoyono in the country’s first direct presidential elections. Yudhoyono’s landslide victory of 61% of the vote is largely credited to his anti-corruption campaign, and once in office Yudhoyono had – at least in the beginning – done a fair job of upholding his promises.

From a policy point of view, the following legislation could be said to have had the biggest impact on corruption:

- 2001: Law No. 20 on Eradication of Corruption criminalizes active and passive corruption
- 2002: Creation of KPK – Corruption Eradication Commission
- 2006: UNCAC ratification

Today, the single most useful tool for fighting corruption in Indonesia is the legislation passed in 2002 creating the KPK. The KPK consists of five commissioners and two advisors, with staff of 639, and very importantly is independent from the executive, legislature, judiciary, or any other powers.

The KPK is audited by the Indonesian Supreme Audit Board, which is responsible to the public. It has the authority to supervise and coordinate the Attorney General's Office and National Police in handling corruption cases.

In testament to the power of the KPK, police arrested two deputy chairmen on charges of extortion and abuse of power in October 2009, but wiretap recordings quickly revealed a conspiracy in which police and the attorney general's office framed the two KPK members in order to discredit the commission. It was this scandal that triggered the *Saya Cicak* protests, causing the president to force the resignations of a senior police official and the deputy attorney general. In the wake of this scandal and "success," however, a new anticorruption bill was passed by the parliament and signed into law in September 2010, diluting the authority and independence of the KPK as well as the Anticorruption Court. The new legislation effectively decentralizes anticorruption efforts, placing them under the jurisdiction of district courts. Importantly, original articles revoking the KPK's wiretapping and litigation powers – key instruments of the KPK's success – were removed by President Yudhoyono before signing the bill into law. Thus the most important tool has been somewhat diluted.

Recommendations:

As outlined by Jon S.T. Quah in his paper "Responses to Corruption in Asian Societies," the following recommendations can be applied to the Indonesian context as well:

- *Commitment of political leadership* – As has already been reflected on, a major factor in curbing corruption in Indonesia has been due to political commitment, above all by President Yudhoyono. Thus, further support of Yudhoyono and other proponents of the KPK is crucial.
- *Comprehensive strategy* – Although the KPK is comprehensive in that it is independent, extending its arm to all branches of the state, there are few mechanisms curbing corruption beyond this agency and the president's political will. Thus a comprehensive strategy is needed for all aspects of political life.
- *Incorruptible anti-corruption agency* – While the KPK is the strongest institution combating corruption, the previously noted recent legislative changes have weakened it. Future legislation should focus on reversing these changes and strengthening the commission further.
- *KPK removed from police* – This relates to the previous suggestion in that – although the KPK is removed from the police – further weakening of the institution (such as the near removal of warrantless wiretapping) may cause the institution to come to rely on the police.
- *Reduce opportunities for corruption in vulnerable agencies* – The most vulnerable agency appears to be the judiciary and mechanisms to decrease impunity should be implemented.

This includes increased transparency, as well as replacement of the many judges remaining from the Suharto era.

- *Raise salaries of public officials* – Given that the judiciary is one of the most corrupt institutions, it should be of little surprise that it is also one of the most underfunded. Raising of salaries within the judiciary could be one important step in this regard.¹³
- *Increase access to information* – As there is little public tolerance of corruption and public opinion regarding corruption seems to hold great sway in Indonesia, not only reflected in the pro-KPK protests but also in terms of directly affecting elections, increased access to information and a protected civil society can continue to play significant roles in curbing corruption.

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¹³ Quah, J. (2001), pp.528-529.

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