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**Recovering the costs of power:
Corruption in local political and civil service positions in Indonesia**

Ladies and gentlemen,

My presentation is mainly divided into three parts. The first is a brief overview of recent devolution reforms and costs of buying oneself into powerful public positions in Indonesia. The second is a practical discussion of illicit means to recover the costs. The last part deals with potential policies to curb political and bureaucratic corruption.

I. Devolution reforms and how to buy local power

Structures of political and bureaucratic power in Indonesia underwent dramatic changes by the fall of the New Order in 1998 and decentralization reforms in 2001. Managerial and financial responsibilities were decentralized from central government, mostly to local government at the district level. There are now 473 districts, representing the third layer of a five-tier government hierarchy. Regional heads, which are the provincial governors and the district *bupati* and *wali kota*, are now elected directly by their respective constituencies and held formally responsible to them. Three-quarters of the 4 million members' civil service are now assigned to local governments, mostly under the formal authority of district heads. When deducting state subsidies and national debt servicing, one finds that a major share, approximately 60 percent, of the total Indonesian government budget is now handled at local levels.

After the reforms, there are strong tendencies to political capture by local elites, and the further democratic development is threatened by people's lack of trust in local political institutions and in the civil service. Local parliaments and political parties are actually ranked among the most corrupt institutions in the country, and the role of public servants may have changed from serving the ruler to serving themselves.

At the top of the local public power pyramid are the provincial and district heads. In spite of their low formal salaries, a Governor earns 8-9 million rupiah per month and a Bupati 6-7 million (600-900 USD), the positions are apparently worth huge investments. The price for a Governor post seems to vary between 10 and 400 billion rupiah, or between 1 and 20 million USD.¹ For a district head position, candidates typically seem willing to pay between 5 and 20 billion rupiah, or between half a million and 2 million USD.² It is common to pay at least 2-3 billion rupiah just for the nomination by a political party for a district head election.³

The gap between costs, say 10 billion rupiah to gain a Bupati's position, and his formal salary through 5 years duty (6.5 x 12 x 5), is around 9.6 billion rupiah, more than 1 million USD, which has to be recovered in one way or another.

There are similarly huge gaps between investment costs and formal earnings in civil service positions. Fresh bureaucrats typically pay between 30 and 100 million rupiah to gain employment as local government officers, which could be as much as 8 times the value of their annual salary. The rate is significantly higher in the wet departments, like public works and religion for instance, and also higher in central areas.⁴

For advancement to more senior civil service positions, payment requirements are much higher. For a department head position, *kepala dinas*, prices may well reach 1 billion rupiah (100,000 USD) in relatively wealthy districts.⁵ To get a senior position in the police, like *Kapolda*, which is the provincial police head, one may have to pay 100 billion rupiah (10 million USD) in a vibrant economic setting.⁶

In conclusion of this first part, there are certainly high costs of getting into and holding political and senior civil service offices in Indonesia, costs that need to be recovered, often by illegal means as we shall see in the next section.

II. Means to recover the costs of positions

Current practices of illicit income generation by power holders in political and civil service positions may be grouped into four. They may be by the involvement in public procurement, by tapping the treasury, by sale of political influence, and by the sale of public services.

o Firstly on public procurement

Limited competition and transparency allow for substantial mark-ups and kickbacks in public procurement in Indonesia, maybe at an average of 20 percent of contract values but certainly often 40-50 percent and even more in certain geographical and business areas.

A new national regulation of public procurement, Keppres 80, 2003, should make local purchasing more efficient and less prone to corruption. General international public procurement principles are emphasized but many paragraphs are still ambiguous and allow for omitting the rules. There are mainly three ways that competition is limited to allow for the continued substantial mark-ups and kickbacks, and all are based on the lack of public insight.

The first is direct pointing of suppliers, which may be grounded on 'emergency'. District heads have the authority to define what emergency is. The head of *Bappeda* (the planning department) in one district confessed in our interviews that '*our district makes some tricky and sly tactics (akal-akalan); the Mayor issues a principal permit saying that because of certain urgent reasons direct pointing should be used.*' Direct pointing is also

allowed for projects worth less than 50 million rupiah, and larger projects are typically broken into pieces of that size to avoid free competition.

The second is limited announcement of tenders. As an example, in our interviews, a member of a local business association admitted that *'tender announcements that should have been in the national media, have never been there'*. Some tenders are published only on the districts' web pages but observers complain that *'the website cannot be accessed.'* The heads of Bappeda in many districts also admit that announcement time is too short, often only three days.

Lastly, local enterprises take turns winning contracts by the *Arisan* principle. An interviewed parliament member in one district explains that *'Gapensi [a business association] usually instructs their members to make certain bids and others to wait'*. The system seems to be supported by the executive and their leaders, who follow the *'the concept of sharing the local cake'*, as expressed by one leading bureaucrat.⁷

Enough on recovering costs by public procurement corruption, and now ...

- Secondly on tapping the treasury

According to one of our interview respondents, a rural district head, budget leakages in his region exceed 30 percent, *'especially in the beginning of my term'* as he added. There is no reason to believe that the figure is exaggerated or that conditions are any better in other districts. Means of tapping district budgets include signature fees, false invoicing, funds diversion, and ghost employees.

Budgetary leakages are facilitated by decision makers' discretionary power and the lack of external accountability. District heads and their bureaucrats use various means to keep illicit financial channels open and public insight closed. For instance, detailed annual budgets are unavailable to the public. *'We don't spread APBD information in detail'*, says one *Sekda* in an interview. *'The community is not ready yet to think about matters related to financial government policy'*, says another leading bureaucrat. Also, public insight and control over district financial affairs are hindered by incompatibility between items in district budgets and annual accounts, and finally, there is no publishing of detailed annual district accounts.

Thirdly and fourthly, without taking the time now to go into detail, there is an abundant illegal sale of political influence and public services by the political elite, administrative leaders, and the rank and file of the civil service at local level. All the four means of illicit income generation contribute to making investments in public office highly profitable, in spite of low formal salaries. And all means are based on some kind of moral justification and an almost total lack of real public insight and control.

III. Policies to curb local-level corruption in Indonesia

The executive bodies at the district level share revenues with members of the legislative to smoothen corrupt procedures. '*Bagi-bagi duit*', or a system of distributing money on conditions of reciprocity, may contribute to explaining the process of collusion and collective corruption, where members of the executive and the legislative bodies, and even local business communities and members of civil society organizations, join forces for private gain. Power holders tend to find good reasons to legitimize - and strong mechanisms to hide - illicit financial practices. Policies to curb local-level political and bureaucratic corruption should, in my opinion, focus on 1) reducing reasons to legitimize and 2) limiting opportunities to hide.

1) Weakening the individual rationale for illicit financial behavior can be made either by a substantial hike in formal salaries, especially for leading public positions, or by reduced entrance costs to power. Entrance costs could possibly be reduced by

- increased state funding of political parties, like we saw in Indonesia from 1999 to 2005,⁸
- or by setting legal limits on political election campaign costs,
- and in addition by emphasizing real professional merits instead of ability and willingness to pay for civil service recruitment and promotions.

2) A demand driven improvement of local financial transparency may potentially be encouraged by the newly passed Freedom of Information Act. It still remains, however, to be seen how this controversial law will be interpreted and implemented. Anyway, enhanced transparency and requests for a stricter external financial accountability could be grounded in various parts of the society:

- Civil society representatives, like academics, journalists, and NGO activists could make up a much stronger controlling power against the local establishment. But the civil society is generally weak and few are educated, knowledgeable, and willing to speak up. Opponents are also easily threatened to silence or bought to join the elite.
- Business enterprises and associations with national market interests could speak up against local bureaucrats and politicians, especially in cases of public procurement corruption.
- Finally, the central government in Jakarta could possibly regain a stronger monitoring and controlling role in regional financial affair and create a better balance of power.

Thanks for your attention.

Notes

¹ <http://www.riaumandiri.net/indexben.php?id=21483>
<http://www.suara-daerahonline.com>
<http://www.pemilu-online.com/pilkada/252.html>
<http://www.medanbisnisonline.com/rubrik.php?p=96285&more=1>.
<http://www.beritabali.com/?reg=&kat=&s=news&id=200804200011>
http://www.reformasihukum.org/konten.php?nama=Pemilu&op=detail_politik_pemilu&id=266
http://www.reformasihukum.org/konten.php?nama=Pemilu&op=detail_politik_pemilu&id=266
<http://www.kompas.co.id>
 Waspada Online, May 12, 2008

² http://www.ireyogya.org/ire.php?about=f23_sorot2.htm
<http://www.komunitasdemokrasi.or.id/article/pilkada.pdf>
http://www.depdagri.go.id/konten.php?nama=BeritaDaerah&op=detail_berita_daerah&id=62
http://wisnuhuhu.multiply.com/journal/item/32/Uang..Uang...Dan_Uang
<http://www.solok-selatan.com/content/view/244/91/>
 Gatra online: <http://www.gatra.com/panduan.php>

³ <http://www.kendariekspres.com/news.php?newsid=6252>
http://www.ireyogya.org/ire.php?about=f23_sorot2.htm
<http://www.tempinteraktif.com>
<http://www.gatra.com/>
http://www.suara-daerahonline.com/rubrik_daerah2.php?id=207
<http://www.tribun-timur.com>

⁴ Kristiansen, S., Ramli, M. 2006 Buying an income: The market for civil service positions in Indonesia, *Contemporary Southeast Asia*, 28, 2: 207-233.

Kompas Cybermedia, July 4, 2006

⁵ Kompas Cybermedia, February 27, 2004

⁶ Banjarmasin Post, August 4, 2005

⁷ Kristiansen, S., Dwiyanto, A., Pramusinto, A., Putranto, E.A. 2008 Mark-ups and kick-backs: Public procurement in Indonesian districts. Mimeo, Program Magister Administrasi Publik, Gadjah Mada University.

⁸ Mietzner, M. 2007 Party financing in post-Soeharto Indonesia: Between state subsidies and political corruption, *Contemporary Southeast Asia*, 29, 2: 38-263.