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“Decentralization Dilemma in Indonesia: Does Decentralization breed Corruption?”

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ISP PAPER

“Decentralization Dilemma in Indonesia: Does Decentralization breed Corruption?”

To what extent has Indonesia’s decentralization process post-1998 & the change in corruption levels affected the ability of public officials to deliver public services and bring about a higher socio-economic development?

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November 19, 2014

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Abstract

Given the pervasiveness of corruption, collusion and nepotism during Suharto's rule (1967-1998), many people assume that the *Reformasi* era (1998-present) would introduce a new wave of liberal democratic values, which would consequently reduce corruption in Indonesia. This paper seeks to look at the changes in people's socio-political incentives to corrupt given the changes in political and legal structure, analyzing it in the context of its contribution to Indonesia's socio-economic development. Specifically, it centers on how decentralization has affected corruption in the regional districts, legislative, judiciary, and other civil society groups. It is the prominence of the corruption issue in the anti-decentralization arguments - in saying that transferring autonomy would also transfer along uncontrollable corruption to the local levels - that makes this issue worthy to be explored in further details. This paper intends to analyze critical junctures of Indonesia's democratization process and evaluates the status of democracy and corruption in Indonesia today. By drawing on general theories on the relationship between democratization and corruption, as well as qualitative research conducted by prominent scholars on Indonesia's democratization process, this paper concludes that democratization has led to more available channels through which actors in society can abuse their newfound power, which has affected Indonesia's progress in achieving higher socio-economic development.

Keywords: Indonesia, democratization, decentralization, corruption, economic development

Abbreviation List

Bawaslu – Badan Pengawas Pemilu, Election Monitoring Committee

DAU – Dana Alokasi Umum, General Fund Allocation

DAK – Dana Alokasi Khusus, Specialized Fund Allocation

DPR – Dewan Perwakilan Rakyat, People’s Representative Council

Golkar – Golongan Karya, Suharto’s political party

KKN – Korupsi, Kolusi dan Nepotisme (Corruption, Collusion and Nepotism)

KMP – Koalisi Merah Putih

KPK – Komisi Pemberantas Korupsi (Corruption Eradication Commission)

SBY – Susilo Bambang Yudhoyono, Indonesia’s 6th president

Preface

As the third largest democracy and the fourth most populous nation, Indonesia has been the shining model for a civil and peaceful Islam, and a beacon for democracy in Southeast Asia – a region where authoritarian figures have been on the rise. Its geographical features as a wide sprawling archipelago with a wide range of ethnicities and customs make it an improbable nation to have a thriving democracy, but against all odds, Indonesia has proven that democracy is here to stay.

2014 has been a momentous year for Indonesia as it has made positive strides towards the consolidation of democracy as shown through successful third direct presidential and legislative elections. It is also a year where democracy was challenged; as the new parliament brought with it a contentious political atmosphere with the passing of the bill in the legislative to remove direct elections for regional leaders, which was countered with a presidential decree by Susilo Bambang Yudhoyono (SBY) to restore direct elections.

While it is generally presumed that democratization would bring about political institutions that would provide sufficient checks and balances mechanism, as Indonesia goes through decentralization, it has not necessarily proved to be successful in reducing corruption and delivering better public services to the people. The weak implementation of decentralization in Indonesia lacked the mechanisms to constrain the incentives for old and new political elites to partake in corrupt, collusive and nepotistic activities.

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This paper would not be possible without the help of the people I interviewed. They have graciously opened up their busy schedule for approximately 1-hour long conversations with me. In no particular order, these people are: Dr. Felix Heiduk, Dr. David Camroux, Dr. Alexander Freire, Dr. Manuel Schmitz, Ms. Candice Tran Dai, Dr. Patrick Ziegenhain, Mr. Hernan Vales, Mr. Yandry Setiawan, Dr. Krisztina Kis-Katos, Dr. Günther Schulze, Dr. Christian von Lübke, Ms. Linggawaty Hakim, Dr. Jean-Luc Maurer, Mr. Gerrit Gonschorek and Dr. Vicente Yu.

I am also thankful for the guidance of the School for International Training (SIT)'s academic coordinators and directors, namely, Mrs. Aline Dunant, Dr. Gyula Csurgai and Dr. Oksana Myshklovska, who have guided, supported and mentored me throughout the process. I would also like to thank the secondary resources made available to me through the Graduate Institute's library resources on recent periodicals on Indonesia.

Moreover, I would like to thank my home institution, Claremont McKenna College, for providing me a solid understanding in International Relations and piquing my interest in Economic and Political Development.

Last but not least – *Soli Deo Gloria*. For from Him and through Him and for Him are all things.

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I. INTRODUCTION

Literature Review

Since 1999, there has been quite a number of publications written on Indonesia's democratization and decentralization process, though not necessarily with a focus on its effect on corruption. Some of the existing literatures focus on how decentralization and corruption have affected a specific field (i.e. parliament, local leaders), but this paper is beneficial in providing a thorough overview on the decentralization process in Indonesia, and offers a more balanced view by considering and synthesizing many viewpoints. It also provides a qualitative account of how it has impacted corruption in various actors and sectors and socio-economic development in Indonesia. Nonetheless, despite extensive sources that were used for this paper, this paper would be stronger and more credible if it had included a wider variety of quantitative research and first-hand accounts from fieldwork conducted in Indonesia. As such, this paper does not intend to be the most encompassing report on the effects of decentralization on corruption in Indonesia, but rather, as a modest starting point to give readers a broader view on the issue at hand.

Firstly, to supplement the paper with theoretical framework on democratization and corruption, several sources were used, but the most helpful ones were "Political Corruption and Democracy" by Susan-Rose Ackerman, "Decentralization Dilemma" by Chanchal Kumar Sharma, and "Corruption in Southeast Asia: a survey of recent research" by Krisztina Kis-Katos and Günther Schulze and "Corruption and Democracy" by Michael Rock. Furthermore, some of the most helpful sources on democratization in Indonesia come from prominent scholars on Indonesia's political development, namely the collection of essays found in "Problems of Democratisation in Indonesia" edited by Marcus Mietzner and Edward Aspinall and "Local Power and Politics in Indonesia" edited by Edward Aspinall and Greg Fealy. Additionally, several recent periodicals such as *Ekonomi dan Keuangan Indonesia*

Vol.52 dan 53, and INDONESIA no.96, which included works written by Jeffrey Winters, Vedi Hadiz, and Richard Robinson, were also extremely helpful in forming the analysis of this paper. There are relatively few quantitative field research works that specifically look at democratization and corruption, but findings from “Decentralization and Rent Seeking in Indonesia” by Akhmad Rizal Shidiq, “Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts” by Kristiansen, Dwiyanto, Pramusinto and Putranto and “Administrative Overspending in Indonesian Districts: Role of Local Politics” by Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze” were particularly helpful in offering first-hand accounts of how decentralization has impacted corruption activities at the local level.

Research Methodology

The study utilizes secondary sources by prominent scholars and political scientists on Indonesia's economic, historical and political development. The secondary sources on the general theories on democratization and corruption were made available through JSTOR, which was accessed through my home institution, Claremont McKenna College. As for the secondary sources on Indonesia's democratization were purchased online through the Institute of Southeast Asian Studies' website, and lastly, the periodicals (i.e. *INDONESIA*, *Ekonomi dan Keuangan Indonesia*, and *Contemporary Southeast Asia*) consulted were made available from the Graduate Institute's library in Geneva.

The secondary sources used were also complemented well by anecdotal evidences and firsthand experiences given from the interviewees whom I had a one-hour long discussion with. The interviewees' professional background and experiences also range from professors (7), think tank researchers (4), UN human rights officer (1), and PhD candidate (1), who are based either in Geneva, Bern, Brussels, Paris, Freiburg (Germany), and Trier. The interviewees were found through a meticulous Internet search of scholars who have the research and experience in the field of Indonesia's economic and political development, as well as through references from previous interviewees. The wide range and various backgrounds of the interviewees would hopefully enhance the depth in perspective and give a more balanced dimension of the topics being discussed at hand. Some of the interviewees, such as Dr. Patrick Ziegenhain, Dr. Christian von Lübke, and Ambassador Linggawaty Hakim, also shared their firsthand experiences in training local leaders, which gave valuable insight to the paper.

With regards to ethical considerations, the study did not undergo serious ethical considerations, as the topic does not deal with a sensitive group of the population. When the

study does discuss rather sensitive issues, which are still debatable, the study hopes to give a more balanced perspective and does not include any unresolved facts. Finally, the study also respects the privacy issues of the interviewees by informing them of the purpose of the research project and refraining from taking notes when they said things were off the record.

In terms of limitation, the author was unable to conduct her own field research since the project undertaken was completed in less than one month while the author was based in Geneva. Thus, the author was limited to other readily available quantitative and qualitative research on this field which are accessible online or in libraries in Geneva. Additionally, in terms of data used to measure corruption, the author was once again limited in terms of data access because some data prior to the downfall of Suharto is unavailable online. Even for other data in the period of the post-Suharto era, not all of them are posted online. In terms of secondary sources, the author was also unable to consult some other useful secondary sources such as “Demokrasi” by Hamish MacDonald, and “Indonesia: Towards Democracy” by Taufik Abdullah, “Indonesia: Democracy and the Promise of Good Governance” by H. Ross McLeod and “Democratizing Indonesia: The Challenges of Civil Society in the Era of Reformasi” by Mikaela Nyman because they are not accessible online and in bookstores or libraries in Geneva.

Introduction and Focus of the Study

Early in 2001, after just one and a half years since the downfall of Suharto¹, Indonesia molded its political system from being one of the most centralized to one of the most decentralized in the world. The speed and scope at which it happened had astounded all observers of Indonesian politics, the process has been dubbed as the ‘big bang’ process.² This devolution of power was significant as almost overnight, 473 district heads became responsible for the funding and implementation of socio-economic development including health, education and public works to an average of 500,000 people.³ Despite its unique features and its distinctive democratization process, Indonesia has remained invisible in the global arena and thus few have been written on the subject of Indonesia’s democratization and decentralization process.

Despite a relatively successful decentralization process, the problem of rampant corruption in the country remains. While a World Bank study suggests that an ethnically diverse country does make it harder for states to establish strong, corrupt-free government institutions⁴, this paper seeks to delve deeper into the extent to which Indonesia’s decentralization process post-1998 and the change in corruption levels have affected the ability of public officials to deliver public services and bring about a higher socio-economic development. It will focus its analysis by looking at how changes in legal laws and political structures affected the incentives structure of various actors and sectors and whether it has made them less or more likely to partake in corrupt activities.

¹ Soeharto was Indonesia’s second president, who ruled under an authoritarian regime for 32 years

² Kai Kaiser, “The Making of the Big Bang and its Aftermath: A Political Economy Perspective,” *World Bank*

² Kai Kaiser, “The Making of the Big Bang and its Aftermath: A Political Economy Perspective,” *World Bank* (2002): 2-27.

³ Stein Kristiansen et al, “Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts,” *Contemporary Southeast Asia Vol. 31 No.1* (2008): 66.

⁴ Susan Rose-Ackerman, "Political Corruption and Democracy," *Yale Law School Faculty Scholarship Series Paper 592*: 363-378. http://digitalcommons.law.yale.edu/fss_papers/592

This paper finds a strong relationship between decentralization and corruption in Indonesia because of the context under which it operates in. With the Dutch colonization and authoritarian rule of Suharto in the backdrop, Indonesia has long been burdened with the problems of corruption, which only exacerbated under the fragmentation of the bribe collection system during the decentralization process and affected the ability of public officials to contribute to higher socio-economic development in the country.

II. ANALYSIS

General theories on democratization, decentralization and corruption:

Quite surprisingly, the impact of democratization on corruption produces mixed econometrics evidence. Previous studies conducted by various scholars have shown that while Ades and Di Tella (1998), Goel and Nelson (2005), Chowdhury (2004) and Triesman argue that the more liberal democratic values a state has, corruption level will fall suit; other scholars, such as, Fan et al, De Mello and Barenstein (2001), Fisman and Gatti (2002) and Barenstein have suggested that a decentralized system has a negative effect on corruption.⁵

At first glance, it is easy to come to the conclusion that democratization should lead to a reduction in corruption because the checks and balances mechanism in a democracy should constrain politicians' greed⁶, protect civil liberties and free speech, increase proximity, transparency and accountability between elected leader and its constituents.⁷ Democratization should shift some of the power of the government to the people; and by being accountable to the people, the level of corruption would decrease. In addition, the ability of the people to select and remove the politicians of their choosing should encourage corrupt politicians to weigh in the socio-political cost more of engaging in such actions.⁸ With the election and re-election mechanism, corrupt activities would bear a higher cost on society as it will alienate voters, reducing the chance of corrupt politicians to get reelected.⁹

In practice, the relationship between democratization and corruption might not be as straightforward. Michael Rock pointed out that theory and case show that democratization

⁵ Krisztina Kis-Katos and Günther Schulze, "Corruption in Southeast Asia: a survey of recent research," *ANU: Asian Pacific Economic Literature* (2013): 81-83.

⁶ Susan Rose-Ackerman, "Political Corruption and Democracy," *Yale Law School Faculty Scholarship Series Paper 592: 363-378*. http://digitalcommons.law.yale.edu/fss_papers/592

⁷ Chanchal Sharma, "Decentralization Dilemma: Measuring the degree and evaluating the outcomes," *The Indian Journal of Political Science*, Vol. 67 No.1 (2006): 56. <http://www.jstor.org/stable/41856192>

⁸ Cooper Drury, Jonathan Kriekhaus and Michael Lusztig, "Corruption, Democracy and Economic Growth," *International Political Science Review* Vol.27 No.2 (2006): 124. <http://www.jstor.org/stable/20445044>

⁹ Ibid.

does breed corruption, at least up to a point.¹⁰ This is due to the idea that young democracies suffer from insufficient checks and balances mechanism, and the lack of transparency and accountability in the early stages make it easier for rent seekers to exploit the system and have greater access to public officials without opening them up to public scrutiny. He also found that the turning point in the relationship between corruption and durability of democracy occurs between 4-15 years.¹¹ Moreover, within an electoral democracy, the competitiveness created amongst political candidates is presumed to reduce corruption, however, the increased competitiveness could also bring along money politics involved in campaigning, which would further increase the likelihood of corruption. When a young democracy lacks the appropriate checks and balances mechanism, it opens itself up for greater state capture by local elites.¹²

Decentralization is defined as, “The transfer of responsibility for planning, management and resource raising and allocation from the central government and its agencies to field units of central government ministries or agencies, subordinate units or levels of government, semi autonomous public authorities or corporations, and area-wide, regional or functional authorities.¹³” The decentralization of power is often times one of the most important elements of democratization. As power is delegated from the central government to regional governments, it produces the opportunity for a state to create a more equal balance of power and ensures that no one branch is powerful enough to shape the politics of the country.¹⁴ Decentralization also aims to create more accountability and ensure higher public service delivery, as the elected representative would be closer to the people. Nonetheless,

¹⁰ Michael Rock, “Corruption and Democracy,” *United Nations Department of Economic and Social Affairs Working Papers No. 55* (2007): 3-4. http://www.un.org/esa/desa/papers/2007/wp55_2007.pdf

¹¹ Ibid.

¹² Chanchal Sharma, “Decentralization Dilemma: Measuring the degree and evaluating the outcomes,” *The Indian Journal of Political Science, Vol. 67 No.1* (2006): 56. <http://www.jstor.org/stable/41856192>

¹³ Arellano Colongon, Jr. “What Is Happening on the Ground? The Progress of Decentralisation,” in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 88.

¹⁴ Akhmad Rizal Shidiq, “Decentralization and Rent-Seeking in Indonesia,” *Ekonomi dan Keuangan Vol.51 No.2* (2003): 181.

decentralization does not always reap positive benefits, as the delegation to a very small region would make macroeconomic management a complicated task to do, lead to bigger interregional disparities and would not be successful in maintaining accountability if the mechanism is not there yet. Khan (2002) argues that in order for decentralization to improve governance and accountability at the local level, it has to have an effective general election, the ability of the local politicians to control bureaucrats, and the availability of public indicators to assess government performance.¹⁵ Sadly, these three features are often found missing in developing countries.

Context: chronological account on the downfall of Suharto

While each country's political development is unique to their own, and that a generalized theory often does not apply to all countries in the same way, such example is found in the case of Indonesia following the downfall of Suharto. The downfall of Suharto in May 1998 marked a watershed in Indonesia's history; and a clear understanding of the event is necessary in order to fully appreciate Indonesia's democratic transition.¹⁶ For 32 years, Suharto's grip on power as the second president of Indonesia was unyielding and ruthless. Calling his regime the 'New Order,' Suharto ruled over a military dictatorship, where the army interceded in almost all aspects of life.¹⁷ Although he was often criticized for his many human rights abuses, he was also praised for his ability to remarkably improve Indonesia's economy, education, health and overall living conditions. The 1997 Asian Financial Crisis and the consequences that followed greatly undermined Suharto's power, and ultimately played a momentous role in Suharto's downfall. However, there were also other pre-existing problems that weakened his power, namely, the weaknesses of the New Order government,

¹⁵ Ibid.

¹⁶ Douglas Ramage, "INDONESIA: Democracy First, Good Governance Later," *Institute of Southeast Asian Studies* (2007): 135. <http://www.jstor.org/stable/27913330>

¹⁷ Pete Brown, Indonesia: downfall of a dictator, *Communist Voice*, 1 August 1998, available from <http://home.flash.net/~comvoice/18cSuharto.html>; Internet; accessed 5 January 2011.

nepotism and corruption in the country, Suharto's eroding legitimacy, gradual loss of support from the Army and his ministers and the general discontentment in the country. Simply put, the Asian Financial Crisis sped up the process of his downfall and when the subsidies on consumer goods were lifted, the pressure was too much for Suharto's already frail government to handle.

Unsurprisingly, in an atmosphere where the centralized political structure of the previous regime was challenged, decentralization seemed inevitable and stood like the only choice in a population whose fed up with the concentration of power among Suharto's inner circles and in Jakarta. With the sudden removal of Suharto from power, the cycle of Suharto-centric cronyism and nepotism dissolved as they had lost the figure that had glued them all together.

Indonesia's decentralization process

The overarching feature of Indonesia's democratization process was the unique speed and scope at which it happened. Dr. Christian von Lübke reflected this sentiment, saying that it was surprising that the central government relegated its duties in such a short time to such a low level.¹⁸ The political and administrative devolution of power that took place were at a level previously unheard of, immediately transferring political, fiscal and administrative power to 500 sub-national governments at the district level in only 1.5 years.¹⁹ In accordance to decentralization theories, it was introduced with the aim of fostering democracy and introducing legitimacy in a political system that had just overcome decades of authoritarian rule. The idea of a federalist system was discarded immediately due to fears of disintegration

¹⁸ Christian von Lübke (researcher at the Arnold Bergstrasser Institut in Freiburg, Germany) in discussion with the author, November 4, 2014

¹⁹ Ibid.

and the repulsion towards the Dutch colonization history.²⁰ Marcus Mietzner, a leading scholar on Indonesia's democratization, dubbed decentralization as a "political response towards Balkanization in Indonesia."²¹

The main driving force behind Indonesia's decentralization was political, namely, fear of disintegration in an atmosphere seasoned with secessionist movements in Aceh and Papua.²² Secondly, the other main reason for decentralization was the need to improve people's welfare, as it was hoped that by giving more power to the districts, regional leaders would be able to deliver more appropriate public services to the people.²³ The first reason accounts for why devolution of power was given to districts instead of provinces, as the central government was worried that giving more power to a bigger and more powerful province would further fuel separatist tensions in the country. The central government thus believed that transferring some powers would appease them and forestall future secessionist aspirations.²⁴ However, by doing so, it makes it harder for districts – with more limited resources and capable personnel than provinces – to be able to deliver higher socio-economic development.

Admittedly, the decision to decentralize was not an easy one to make. Having been colonized by the Dutch for 343 years has created a strong nationalism out of the anti-colonial struggle for independence.²⁵ It is the same nationalism that sustained the centralization of the nation-state during Sukarno and Suharto's era, which made the introduction of

²⁰ Gabriele Ferazzi, "Using the 'F' Word: Federalism in Indonesia's Decentralization Discourse," *Publius Vol.30 No.2* (2000): 66. <http://www.jstor.org/stable/3331088>

²¹ Felix Heiduk (researcher at the SWP in Berlin, Germany) in discussion with the author, October 23, 2014

²² Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 268-269

²³ Linggawaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

²⁴ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 268-269

²⁵ Paul Carnegie, "Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics," *Pacific Affairs Vol. 81 No. 4* (2008-2009): 518. <http://www.jstor.org/stable/40377625>

decentralization measures even more of a significant feat in Indonesian politics.²⁶ Looking of it from a geopolitical lens, it also made perfect sense for Indonesia to decentralize as the archipelago is amazingly diverse in terms of geography and ethno-demography.²⁷ Giving the regions autonomy would allow each region to fully express themselves culturally, socially and politically, all the while maintaining national unity.²⁸

The two most crucial decentralization laws that were introduced were Law No.25/1999 on revenue sharing and Law No.22/1999 on regional government, both of which were introduced in 2001. These two laws transferred a great degree of political authority to the district and municipality level of government, leaving the central government with the responsibilities of deciding on matters such as security and defense, foreign policy, justice and religious affairs.²⁹ At the time when these two laws were introduced, there were surprisingly few debates and amendments, which signaled a positive willingness to create genuine reform towards democracy and better governance.³⁰ Ryaas Rasyid, the head of the committee involved with formulating decentralization policies and legislations, recalled that, "Members of parliament generally considered the bills to be too good to be true; for the first time, the government itself had initiated a policy to reduce its own powers and surrender authority to the regions in a significant way."³¹

Law No.25/1999 on revenue sharing outlines a new system of fiscal arrangements between Indonesia's national and subnational political entities. The new law guarantees at

²⁶ Paul Carnegie, "Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics," *Pacific Affairs Vol. 81 No. 4* (2008-2009): 518. <http://www.jstor.org/stable/40377625>

²⁷ Kai Kaiser, "The Making of the Big Bang and its Aftermath: A Political Economy Perspective," *World Bank* (2002): 2-27.

²⁸ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 71.

²⁹ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 267.

³⁰ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 63.

³¹ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 63.

least 26% of net domestic revenue to local governments, of which 90% had to be allocated to districts and municipalities.³² Since local transfers had never reached 25% in the years prior to 1999, the fiscal decentralization policy significantly increases the revenues of local governments.³³ In addition to earning revenues from local taxes and user charges,³⁴ local governments also earn intergovernmental fund transfer from the central government in the form of *DAU* (General Allocation Fund), *DAK* (Specific Allocation Fund), and revenue sharing for taxes and natural resources.³⁵ One unique aspect of Indonesia's fiscal decentralization process is that it only affects the expenditure side of the district budgets, as revenues remain largely centralized.³⁶ An implication of the law is the high share of intergovernmental transfers make for a high budget dependence of the local government to the central government, and makes local government vulnerable to political intervention.³⁷

Law No.22/1999 on regional government spelled out the conditions for the devolution of political authority, initially stipulating that district heads, mayors and governors were to be elected by local parliaments.³⁸ However, when it was found out that local parliaments were using their power for rent-seeking purposes, the central government issued Law No.32/2004 on regional government, which introduced direct, popular elections for district heads, mayors and governors. The introduction of direct election for regional heads in 2004 truly marked Indonesia's leap towards consolidating their democracy, by giving the people, as well as the

³² Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinnall. (Singapore: Institute for Southeast Asian Studies, 2010), 268.

³³ Akhmad Rizal Shidiq, "Decentralization and Rent-Seeking in Indonesia," *Ekonomi dan Keuangan Vol.51 No.2* (2003): 191.

³⁴ Both classified as Local Owned Revenues

³⁵ Syarif Syahril, "Fiscal Decentralization and Government Size: The Case of Indonesia," *Economics and Finance in Indonesia Vol.53 No.2* (2005): 179.

³⁶ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinnall and Greg Fealy. (Singapore: ISEAS, 2003), 68.

³⁷ Syarif Syahril, "Fiscal Decentralization and Government Size: The Case of Indonesia," *Economics and Finance in Indonesia Vol.53 No.2* (2005): 181.

³⁸ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinnall. (Singapore: Institute for Southeast Asian Studies, 2010), 268-269.

subnational governments, as district heads who are now allowed to introduce their own regulations and appoint their own civil servants in local parliament secretariat, more power.³⁹ The new law was introduced with the hopes of reducing the influence of political parties, increasing accountability and strengthening checks and balances mechanism as it put into effect term limits for regents, mayors, governors, presidents and vice presidents to two 5-year terms.⁴⁰

The progress that direct elections have shown in helping the consolidation of Indonesia's democracy is remarkable. Between 2004 and 2009, on average, over 100 subnational elections were run annually, with the average Indonesian voting in seven or eight separate ballots in those five years.⁴¹ Moreover, the replacement of Law No.3/1999 on general elections, which called for a closed list party system, by the new Law No.12/2003 on general elections, which introduces an open list party system helped to boost transparency and accountability at the local level.⁴² To further increase competitiveness among candidates, in December 2008, the Constitutional Court abolished party list rankings and in the 2009 elections, allowed for individual candidates to be put on the ballot regardless of their party ranks.⁴³

However, these new laws come with several dire consequences. Not only is the bar set very high for candidates to appear on the ballots without party support, those who thought they stood a chance of winning a seat in a local parliament often find themselves in massive debt, so much so that some of them had committed suicide or suffered a mental breakdown.⁴⁴

Additionally, the execution of some of the past direct elections was also tainted with

³⁹ Ibid, 277.

⁴⁰ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads (2010)*: 2

⁴¹ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 273.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Ibid.

incidences of vote rigging and other irregularities.⁴⁵ Unfortunately, the introduction of direct elections is not enough to change the corruption patterns. One reason for the increase in corruption scandals in subnational politics is the weak legal and social sanctions against their behaviors, legal loopholes and the weak upholding of the rule of law by the judiciary. In 2006, more than 1,000 local parliamentarians were implicated in corruption-related charges, and in 2008, more than 20 governors, former governors, district heads and mayors were detained or suspected to be involved in corruption cases.⁴⁶ The reason behind these rampant corruption charges could perhaps be explained by the link between introduction of direct local elections and the funding of campaigns by local businesses,⁴⁷ which is also a problem found in mature democracies such as the US because the high cost of congressional races must be raised from private sources.⁴⁸

The challenge then for democratic systems is to find the delicate balance between financing political campaigns without encouraging candidates to depend heavily on private sources to support them.⁴⁹ Another reason is that the rapid fiscal decentralization to 473 regional leaders has made them vulnerable to acts of corruption, collusion and nepotism.⁵⁰ The incidences of corruption have become so common that the term ‘money politics’ has been attached to almost all elections for governors and mayors.⁵¹ This goes to show that some

⁴⁵ Michael Buehler, “Indonesia,” *Freedom House: Countries at the Crossroads (2010)*: 3.

⁴⁶ Michael Buehler, “Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere,” in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 267.

⁴⁷ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), 65.

⁴⁸ Susan Rose-Ackerman, “Political Corruption and Democracy,” *Yale Law School Faculty Scholarship Series Paper 592*: 363-378. http://digitalcommons.law.yale.edu/fss_papers/592

⁴⁹ Ibid.

⁵⁰ Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, “Administrative Overspending in Indonesian Districts: The Role of Local Politics,” *World Development Vol.59* (2014): 169.

<http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

⁵¹ Ibid.

electoral systems are more vulnerable to special interest influences and other means of public oversight are needed for direct elections to be a successful aspect of democracy.⁵²

To respond to this problem, the central government established the Legislative Election Law in 2007, which called for the creation of an election oversight agency, *Bawaslu* (Election Monitoring Agency), tasked to monitor campaigns and election rules violations.⁵³ Additionally, changes in the judiciary – the shifting of authority to arbitrate disputes in subnational executive elections from the Supreme Court to the Constitutional Court – has also helped to build the legitimacy of the elections.⁵⁴ The responsiveness of the central government to these issues and the high level of public involvement in exposing bribery and other corruption acts have helped to increase the credibility of subnational elections.⁵⁵ Furthermore, the public support for direct elections is overwhelming, which was aptly reflected through the direct demands against the recent *UUD Pilkada*⁵⁶ referendum in September 2014.⁵⁷ The general population argued that their participation in the direct elections is a strong political empowerment tool; and taking them away would greatly impair transparency and accountability between them and their regional leaders.⁵⁸ It has been an interesting turnaround of events as Susilo Bambang Yudhoyono signed a presidential decree at the last minute to return the status quo of direct elections. However, it still has to go through the *DPR*, the only chamber with the power to pass laws that defines a legislature.⁵⁹ Currently, the committee session in the *DPR* in charge of processing this issue has not

⁵² Susan Rose-Ackerman, "Political Corruption and Democracy," *Yale Law School Faculty Scholarship Series Paper 592*: 363-378. http://digitalcommons.law.yale.edu/fss_papers/592

⁵³ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads* (2010): 3.

⁵⁴ *Ibid.*, 3.

⁵⁵ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 66.

⁵⁶ *UUD Pilkada* is the regional government law on direct elections, and in October 2014 the legislative approved a tabled bill which calls for the removal of direct elections.

⁵⁷ Felix Heiduk (researcher at the SWP in Berlin, Germany) in discussion with the author, October 23, 2014

⁵⁸ *Ibid.*

⁵⁹ Linggowaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

resumed yet. Therefore, at the point that this paper is written, this issue has not yet been resolved.⁶⁰

When looking at the initial stages of decentralization in Indonesia, one cannot overlook the contribution of Habibie, Indonesia's 3rd president. As a man from Sulawesi, he disliked the Java-centric development and state apparatus, and expedited the decentralization process. In addition, the need to set himself apart from his predecessor and as a reformer also hastened the speed of the special session of the MPR on decentralization.⁶¹ Paul Carnegie dubbed Habibie's period as a 'Gorbachevesque period of political reform,⁶² and indeed it was. Habibie's pragmatism and fear of grassroots insurgencies made for a smoother democratic transition.⁶³ Habibie, who was a technocrat himself, asked Ryaas Rasyid, another technocrat, to create a group called "*Tim Tujuh*" (Team Seven) to formulate policy and legislation⁶⁴ and ensure the establishment of a clear line separating decentralization and federalism.

Nonetheless, the hasty speed at which decentralization took place was done at the expense of effectiveness and efficiency.⁶⁵ In May 1999, the parliament rushed through the regional government and center-region financial relations bills to promise broad autonomy to the regions, noting that this would only apply to districts while provinces should remain limited in their power.⁶⁶ From the initial implementation stage, the bill already proved to contain many inconsistencies, which led to poor implementation and confusion among those trying to implement it. Remnants of the centralistic system of the Suharto regime also had not

⁶⁰ Ibid.

⁶¹ Gabriele Ferazzi, "Using the 'F' Word: Federalism in Indonesia's Decentralization Discourse," *Publius Vol.30 No.2* (2000): 75. <http://www.jstor.org/stable/3331088>

⁶² Paul Carnegie, "Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics," *Pacific Affairs Vol. 81 No. 4* (2008-2009): 520. <http://www.jstor.org/stable/40377625>

⁶³ Ibid.

⁶⁴ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), 11.

⁶⁵ Gabriele Ferazzi, "Using the 'F' Word: Federalism in Indonesia's Decentralization Discourse," *Publius Vol.30 No.2* (2000): 75. <http://www.jstor.org/stable/3331088>

⁶⁶ Ibid.

shed off completely, making it even harder to form new institutional formation and bureaucratic behavior across the archipelago.⁶⁷

To make matters worse, Indonesia had undergone a *Pemekaran* Process, a bottom up process of decentralization, in which the number of districts swiftly blossomed to close to 500 districts; which accounted for a 60% increase in regional autonomy.⁶⁸ The competitions amongst regions made the task of the central government harder, especially in light of the fact that some of these districts do not necessarily have the capacity to be independent and self-sufficient. Instead of creating more accountability to the people, many of the new districts ended up being overpowered by special interests that were only interested in power and the new autonomy their district would receive.⁶⁹

Status of Indonesia's Democracy

The process of consolidating a political system does not happen overnight, and while Indonesia has had successes in its 16 years of democratization, it also still has a long way to go to fully consolidate its democracy. By almost all measures, Indonesia would now be considered as an open democratic system with free and fair elections, decentralization of power away from Jakarta, high voter turnout rates, free press, and the formation of advocacy groups and civil society organizations.⁷⁰ Indonesia has mostly checked off the factors that make up an electoral democracy, however, issues of corruption and weak law enforcement have made it harder for Indonesia to be considered a liberal democracy.⁷¹ Admittedly,

⁶⁷ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 67.

⁶⁸ Linggawaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

⁶⁹ Linggawaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

⁷⁰ Amy Freedman and Robert Tiburzi, "Progress and Caution: Indonesia's Democracy." *Asian Affairs: An American Review*, 39: 135-136.

⁷¹ Edward Aspinall and Marcus Mietzner, "Problems of Democratisation in Indonesia: An Overview," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 1.

compared to its East Asian counterparts, Indonesia's rule of law and quality of governance remain lower, though support for democracy and liberal democratic values compare favorably.⁷² The challenge and threshold for Indonesia now in being classified as a liberal democracy is when it can prove to be formidable against threats of reversal and ensure that democracy becomes 'the only game in town.'⁷³

Even with the strong support for democracy in Indonesia, scholars have started to question the authenticity of Indonesia's democratization due to the strong influence of the old political elites.⁷⁴ Education barriers, financial charges and logistical thresholds have been set in place to bar new candidates to enter the realm of politics. Liberals with the likes of Jeffrey Winters, Vedi Hadiz and Robinson have maintained the view that strong oligarchs remain a powerful force in Indonesia's democracy largely support this view, and local politics have become dominated by predatory elites.⁷⁵ Vedi Hadiz argued that democracy in Indonesia has been "all about elites and wealth and the preservation of power of the powerful conglomerates...[and that] democracy hasn't really changed anything."⁷⁶

Notwithstanding the role that money plays and the political power that these oligarchs hold, scholars like Edward Aspinall and Marcus Mietzner contend that the power of these old political elites have decreased because they have had to subordinate themselves to new elements and principles in Indonesian politics.⁷⁷ They have then adapted themselves to fit the new rules of the game, thereby reducing a significant amount of their previously unrestrained

⁷² Larry Diamond, "Indonesia's Place in Global Democracy," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 46.

⁷³ *Ibid*, 47.

⁷⁴ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 272.

⁷⁵ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), xiii.

⁷⁶ Christian von Lübke (researcher at the Arnold Bergstrasser Institut in Freiburg, Germany) in discussion with the author, November 4, 2014

⁷⁷ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), 43.

influence.⁷⁸ It is hoped that overtime as democratic institutions start to set its roots in Indonesian politics, it would also modify and mold the behaviors of these old political elites to more representative and competitive politics.⁷⁹ Milestones such as the passing of major constitutional amendments in 2002 without the intervention of major intra-elite conflict have also helped to build the legitimacy and authenticity of Indonesia's democratization.⁸⁰ Therefore, given that decentralization goes well, it would stand as an important cornerstone of Indonesia's democratization process.⁸¹

Status of Corruption in Indonesia

Despite several positive progresses, Indonesia's decentralization process has also suffered from challenges of rampant corruption spreading at the local and regional level. Corruption is traditionally defined as breaking of the rules by public officials for private gain that distorts resource allocation and the effectiveness of the economy.⁸² Corruption activities include bribing in exchange for favorable treatment, favoring family members and relatives and giving them preferential treatment (nepotism), and illegal coordination in order to gain an unfair advantage (collusion).⁸³ Some of the negative effects of corruption include: less resource allocation for productive activities, economic and political uncertainties, and increased cost of business.⁸⁴ While corruption could theoretically exist alongside electoral

⁷⁸ David Camroux (professor at the SciencesPo in Paris, France) in discussion with the author, September 26, 2014

⁷⁹ Paul Carnegie, "Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics," *Pacific Affairs Vol. 81 No. 4* (2008-2009): 518. <http://www.jstor.org/stable/40377625>

⁸⁰ Edward Aspinall and Marcus Mietzner, "Problems of Democratisation in Indonesia: An Overview," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 10.

⁸¹ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 63.

⁸² Krisztina Kis-Katos and Günther Schulze, "Corruption in Southeast Asia: a survey of recent research," *ANU: Asian Pacific Economic Literature* (2013): 79.

⁸³ *Ibid*, 81.

⁸⁴ *Ibid*, 79.

politics, corrupt democratic governments hold the power to reform themselves⁸⁵ and are associated with lower confidence in public institutions.⁸⁶

During the New Order regime, the main actors of rent seeking mostly consisted of Suharto's families, cronies, bureaucrats and the military. The degree of nepotism that entrenched Indonesia's social, economy and political sphere has become a public secret, and became one of the fuel for the student demonstrations in May 1998 that brought Suharto's 32-year iron fist rule to an end. These corruption, collusion and nepotism (*KKN*) acts could be found in the way Suharto used Golkar as party vehicle to exploit powerful local aristocrats, and government projects as the main object of kickbacks, payments, and favoritism in the business and investment sector.⁸⁷ Nonetheless, despite the centralized and conspicuous traces of corruption in the country, the New Order era was successful in minimizing rents based on transfer because of central planning and coordination, as well as its ability to minimize political conflicts.⁸⁸ Even with the high costs associated with corruption and bureaucratic red tape, these costs were predictable and calculated as part of transaction costs.⁸⁹ The monopoly of big businesses by Suharto's family members and cronies were also easier to manage than the harassment that may come from many local level bureaucrats.⁹⁰ This political stability then translated to the high economic growth rates and capitalist developments both at the central and local levels.⁹¹ With its strong system of

⁸⁵ Susan Rose-Ackerman, "Political Corruption and Democracy," *Yale Law School Faculty Scholarship Series Paper 592*: 363-378. http://digitalcommons.law.yale.edu/fss_papers/592

⁸⁶ Krisztina Kis-Katos and Günther Schulze, "Corruption in Southeast Asia: a survey of recent research," *ANU: Asian Pacific Economic Literature* (2013): 85.

⁸⁷ Akhmad Rizal Shidiq, "Decentralization and Rent-Seeking in Indonesia," *Ekonomi dan Keuangan Vol.51 No.2* (2003): 187.

⁸⁸ *Ibid*, 179.

⁸⁹ Ari Kuncoro, "Bribery and Time Wasted in Indonesia: A test of the Efficient Grease Hypothesis," *Economics and Finance in Indonesia Vol.52 No.1* (2006): 34.

⁹⁰ *Ibid*.

⁹¹ Akhmad Rizal Shidiq, "Decentralization and Rent-Seeking in Indonesia," *Ekonomi dan Keuangan Vol.51 No.2* (2003): 179.

patronage, the issue of corruption became less detrimental economically in Suharto-era Indonesia than in a politically decentralized system.⁹²

In contrast, decentralization has not brought upon favorable results in terms of nominal economic growth or socio-economic development.⁹³ Despite advocates and opponents of decentralizing agreeing that it would lead to better governance and local accountability, they have failed to take into account that decentralization would bring forth more rent seeking opportunities and higher corruption incidences.⁹⁴ Granted, right after Suharto's regime was toppled, there were various calls and committees created to conduct investigations on the wealth that Suharto's families and cronies had amassed while they were in power,⁹⁵ signaling a positive trend towards the reduction of corruption and nepotism. However, given the weak law enforcement, most of the wealth were never investigated and most of the anger were only directed towards a few people, the most popular being Suharto's son, Tommy Suharto.⁹⁶

In terms of other corrupt activities, they may have even exacerbated in the Reformasi period. With more empowered local leaders and more bureaucratic institutions, there are more loopholes in which special interests could fit themselves in and capture pieces of wealth here and there.⁹⁷ Local elite capture could take place because horizontal accountability still tends to be very weak, despite theories showing that new budgeting system in the *Reformasi* era should have introduced a more accountable and transparent budget policy in local

⁹² Ari Kuncoro, "Bribery and Time Wasted in Indonesia: A test of the Efficient Grease Hypothesis," *Economics and Finance in Indonesia Vol.52 No.1* (2006): 34.

⁹³ Akhmad Rizal Shidiq, "Decentralization and Rent-Seeking in Indonesia," *Ekonomi dan Keuangan Vol.51 No.2* (2003): 179.

⁹⁴ *Ibid*, 178.

⁹⁵ Kees van Dijk, "KKN," in *A Nation in Despair* (Leiden: KITLV Press Royal Institute of Linguistics and Anthropology, 2002), 256.

⁹⁶ *Ibid*, 256.

⁹⁷ Stein Kristiansen et al, "Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts," *Contemporary Southeast Asia Vol. 31 No.1* (2008): 67.

government.⁹⁸ The disarray has also been caused by the blurring of accountability, which can be seen in the way local parliament members are unable to access district budget details and central government's losing control over local governments' financial arrangements.⁹⁹ These alarming corruption patterns lead to an even more alarming conclusion: decentralization of political power also led to new structure of predatory networks of patronage and the decentralization of corruption. McLeod (2005) argued that democratization saw the fall of the franchise system, the rise of money politics and the re-emergence of franchise actors as participants in Indonesia's newly democratic polity, compromising its democratic consolidation.¹⁰⁰

Within a comparative and theoretical framework, there are mixed empirical evidences that show that fiscal, political and administrative decentralization could reduce corruption and improve public service delivery (in countries such as Bolivia, Switzerland, Bangladesh and Albania), and there are those that conclude otherwise (in countries such as China and India).¹⁰¹ One thing that most scholars agree on is that decentralization was a positive force and development towards more stability and fewer separatism movements and regional violence in Indonesia.¹⁰² However, critics have also noted two main criticisms of decentralization, namely, the decline in the quality of governance due to incapacity of local administrators and increasing regional inequality, and the undermining of national cohesion due to constant miscommunication and lack of coordination between the central and regional

⁹⁸ Ibid, 67.

⁹⁹ Ibid, 67.

¹⁰⁰ Michael Rock, "Corruption and Democracy," *United Nations Department of Economic and Social Affairs Working Papers No. 55* (2007): 4. http://www.un.org/esa/desa/papers/2007/wp55_2007.pdf

¹⁰¹ Krisztina Kis-Katos and Bambang Sjahrir, "The Impact of Fiscal and Political Decentralization on Local Public Investments in Indonesia," *The Institute for the Study of Labor (IZA) Discussion paper No.7884* (2014): 2.

¹⁰² Patrick Ziegenhain (professor at the University of Trier in Trier, Germany) in discussion with the author, October 30, 2014

government.¹⁰³ Marcus Mietzner and Edward Aspinall succinctly summarized the outcome of the decentralization process, noting that, “Overall, decentralization has massively transformed the face of Indonesia and its politics, but it has proven to be neither the nemesis feared by its critics nor the savior anticipated by its advocates.¹⁰⁴”

How democratization, decentralization and corruption have affected the ability of different sectors and actors to deliver public goods to the people

The crux of the analysis lies in how decentralization policies have changed the incentives for actors in various sectors to partake in corrupt activities, which would in turn determine their ability to contribute to and improve the country’s socio-economic development. It is important to investigate the incentives faced by various actors as human actors are affected by and affect political culture and institutions.¹⁰⁵ Additionally, since decentralization policies have affected almost all facets of society, it is crucial to carefully analyze the labyrinth of decision-making processes that these different actors undergo.¹⁰⁶ The analysis that follows will focus on how the changes in legal framework and political structures lead to the ability or the disability of different actors to deliver public goods and achieve higher socio-economic development.

Local leaders

Since the main premise of decentralization was to give more power and autonomy to the districts, the main analysis would focus on how it has impacted various district heads. It is the sector where everyone had hoped decentralization policies would help most: by having

¹⁰³ Greg Fealy and Edward Aspinall, “Introduction: Decentralisation, Democratisation and the Rise of the Local,” in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 4.

¹⁰⁴ Edward Aspinall and Marcus Mietzner, “Problems of Democratisation in Indonesia: An Overview,” in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 16.

¹⁰⁵ Paul Carnegie, “Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics,” *Pacific Affairs Vol. 81 No. 4* (2008-2009): 516. <http://www.jstor.org/stable/40377625>

¹⁰⁶ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), 66.

leaders who are closer to the people, transparency and accountability would increase and they would be able to improve socio-economic development of their own respective districts.

Since political and administrative authorities were dissolved to 473 districts with different levels of political culture and institutions, consequently, decentralization policies affected them in various ways, and coming up with a universal conclusion then becomes a complicated task. Additionally, at the time the policies were implemented, the different regions were also at varying states of preparedness, and the vagueness of the law has made them up for interpretation by each respective district.¹⁰⁷ As a result, coming up with generalizations is almost impossible, as some districts have remained in tight oligarchic control while others have completely embraced reformist leaders and ideas.¹⁰⁸ In this regard, scholars are only able to offer anecdotal evidences based on individual cases.¹⁰⁹

Some noticeable strengths of decentralization are evidence suggesting that the increasing probability of external audits by the central government significantly reduced missing funds in the project,¹¹⁰ local governments becoming more responsive to lower levels of local public infrastructure,¹¹¹ and the ability of the people to watch more closely and throw out corrupt or underperforming local officials.¹¹² There are also now more channels for social

¹⁰⁷ Arellano Colongon, Jr. "What Is Happening on the Ground? The Progress of Decentralisation," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 92.

¹⁰⁸ Edward Aspinall and Marcus Mietzner, "Problems of Democratisation in Indonesia: An Overview," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 15.

¹⁰⁹ Ibid.

¹¹⁰ Benjamin Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," *Journal of Political Economy* Vol.115 No.2 (2007): 243. <http://www.povertyactionlab.org/publication/monitoring-corruption-evidence-field-experiment-indonesia>

¹¹¹ Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, "Administrative Overspending in Indonesian Districts: The Role of Local Politics," *World Development* Vol.59 (2014): 5. <http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

¹¹² Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 283.

control and more democratic decision-making processes, which would hopefully help to reduce corruption at the local level.¹¹³

However, people have grown more frustrated over the years as they still find it hard to influence and shape local politics as expected.¹¹⁴ The lack of guidelines from the central government has exacerbated uncertainty and tensions in the regions as each district started to interpret the law whimsically.¹¹⁵ Contrary to the general expectations, there is also a lack of transparency and checks and balances mechanism in all districts.¹¹⁶ Consequently, the conditions make it very vulnerable for political capture, which then furthers the interests of specialized elite groups, threatening the speed and promise of economic and political development.¹¹⁷ A general consensus that seems to be agreed upon by various scholars who have done field research in Indonesia is the lack of relevant experience of the officials in charge. As regional autonomy grows, so do the incentives for local politicians to collude, as they now possess a type of autonomy and power previously unbeknownst to them.¹¹⁸ Incidentally, as the district heads become more powerful, they are also more prone to local elite capture; as they are now able to provide these elites with the privileges that they need to continue their monopolistic and nepotistic ways.¹¹⁹ Furthermore, some clans have also seized the opportunity to turn their district into personal fiefdoms and have secured strategic

¹¹³ Rainer Rohdewohld, "Decentralisation and the Indonesian Bureaucracy: Major Changes, Minor Impact?" in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 273.

¹¹⁴ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 283.

¹¹⁵ Ryaas Rasyid, "Regional Autonomy and Local Politics in Indonesia," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 69.

¹¹⁶ Stein Kristiansen et al, "Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts," *Contemporary Southeast Asia Vol. 31 No.1* (2008): 64.

¹¹⁷ Ibid, 65.

¹¹⁸ Michael S. Malley, "New Rules, Old Structures and the Limits of Democratic Decentralisation," in *Local Power and Politics in Indonesia*, ed. By Edward Aspinall and Greg Fealy. (Singapore: ISEAS, 2003), 109.

¹¹⁹ Patrick Ziegenhain (professor at the University of Trier in Trier, Germany) in discussion with the author, October 30, 2014

government positions for family members and their inner circle, reversing the stronghold of the grassroots democratic movement that helped bring Suharto down from power.¹²⁰

To be fair, the blame for the lack of accountability at the local level cannot be fully put on the central government, as the newly minted regional heads are also trying hard to maintain their regional autonomy in the face of higher levels of the hierarchical executive system.¹²¹ Given this mindset, any attempts by the central government to strengthen vertical accountability and coordinate policies were immediately rejected among leading district bureaucrats.¹²² On the other hand, some districts also recalled the reluctance of the central government to fully pass on their authorities as required by the law, seen through the slowness of the supporting regulations for Law 22 and 25/1999, inconsistencies in law implementation and reactive manner in ratifying regulations.¹²³ The tension between the central and local governments has made it harder for them to work together to reach higher levels of socio-economic development.

Specifically, a main problem of miscommunication and lack of coordination started to become most visible in the environmental protection realm. Firstly, districts were now responsible for issuing its own small and medium scale logging concessions, which has led to collusion amongst local politicians, bureaucrats and businessmen over control of forest areas.¹²⁴ The collusion at the local level has complicated the work of the central government to keep a strong national mandate for reducing deforestation and solving the haze problem.¹²⁵

¹²⁰ Edward Aspinall and Marcus Mietzner, "Problems of Democratisation in Indonesia: An Overview," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 15.

¹²¹ Stein Kristiansen et al, "Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts," *Contemporary Southeast Asia Vol. 31 No.1* (2008): 75.

¹²² Ibid.

¹²³ Akhmad Rizal Shidiq, "Decentralization and Rent-Seeking in Indonesia," *Ekonomi dan Keuangan Vol.51 No.2* (2003): 201.

¹²⁴ Akiko Morishita, "Contesting Powers in Indonesia's Resource Rich Regions in the Era of Decentralization," in *INDONESIA No.86* (Ithaca: Cornell University, 2008), 99.

¹²⁵ Felix Heiduk (researcher at the SWP in Berlin, Germany) in discussion with the author, October 23, 2014

In addition, this implies that decentralization has also led to more deforestation on a large scale as districts are getting 80% of the revenues. The huge financial incentives have often times outweigh the need to stay in line with the central government's commitment to reduce deforestation.¹²⁶

With regards to the fiscal decentralization, all of a sudden district heads are responsible for 40% of the primary and secondary education, health services, environmental protection and infrastructure aspect of their budget.¹²⁷ A study conducted by Krisztina Kis-Katos and Günther Schulze at the University of Freiburg finds that districts spend an overwhelming 33.3% of their entire budget on general administrative spending and not on public services.¹²⁸ To paint a comparison, developed countries such as the US and Norway only spend 3% and 8%, respectively, on administrative expenses. The high administrative spending sheds a light on the lack of incentives on behalf of the district heads to improve public service delivery.¹²⁹ The results also indicate that accountability mechanisms are still weak at the local level and democratization policies have not yet contributed to reduction in wasteful government spending.¹³⁰ Their finding is in line with the idea that corrupt democratic government will not contribute to higher socio-economic development, as they will continuously spend the money on themselves and not on the people.¹³¹ The high incidences of money politics at the local level have also led them to come to the conclusion

¹²⁶ Linggawaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

¹²⁷ Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, "Administrative Overspending in Indonesian Districts: The Role of Local Politics," *World Development Vol.59* (2014): 166.
<http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

¹²⁸ Ibid.

¹²⁹ A quick Google Image search of Bupati offices in Indonesia will give a glimpse on how grandiose their offices are and how nice the cars they drive are

¹³⁰ Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, "Administrative Overspending in Indonesian Districts: The Role of Local Politics," *World Development Vol.59* (2014): 167.
<http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

¹³¹ During the interview with Dr. Krisztina Kis-Katos, she noted that it was hard to tell which spending was superfluous and that there is a puzzle in the conclusion that she came to: there is definitely administrative overspending, yet it is not just because of the splitting up of the districts; and it is not getting better with the introduction of direct elections.

that corruption has not declined significantly under democratization, but rather has become more decentralized and harder to detect.¹³²

The result of the study is echoed by Michael Buehler, a leading expert on Indonesia's democratization, who noted that, "despite decentralization initiatives, public service delivery has not improved at the local level since 1999."¹³³ Other reasons that account for the lack of socio-economic development (that may not necessarily be caused by corruption) are the lack of leadership, technical know-how and information on how to improve public service delivery at the local level, both in terms of fiscal and political decentralization.¹³⁴ Another reason is the difficulty that local leaders face in forming coherent and effective projects, thereby failing to use the annual budget effectively for development areas.¹³⁵ For example, by July 2008, the province of Jakarta had spent only 17% of its annual budget.¹³⁶ When new regulations were introduced, they were often of low quality and have obstructed economic activity, such as the introduction of predatory taxes that hamper investment.¹³⁷

On the bright side of things, the empowerment of local leaders has given birth to the rise of centennials with the likes of Joko Widodo, who started out as a mayor in Solo, then governor of Jakarta and now the 7th president of Indonesia. Commonly referred to as Jokowi, he was a man born out of the process of decentralization; and his rise signaled the demand and need for more reformists in the government and set the tone for change in Indonesia's political culture. Other reformist leaders such as Basuki Tjahaja Purnama (vice governor of

¹³² Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, "Administrative Overspending in Indonesian Districts: The Role of Local Politics," *World Development Vol.59* (2014): 166.

<http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

¹³³ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 281.

¹³⁴ Christian von Lübke (researcher at the Arnold Bergstrasser Institut in Freiburg, Germany) in discussion with the author, November 4, 2014

¹³⁵ Michael Buehler, "Decentralisation and Local Democracy in Indonesia: the Marginalisation of the Public Sphere," in *Problems of Democratisation in Indonesia*, ed. by Marcus Mietzner and Edward Aspinall. (Singapore: Institute for Southeast Asian Studies, 2010), 282.

¹³⁶ Ibid.

¹³⁷ Ibid, 281

Jakarta) and Tri Rismaharini (mayor of Surabaya) were also helped by these decentralization policies as it allowed them to reach high levels of popularity based on perceptions of improved service, even in areas where it appeared to have been very modest.¹³⁸

Parliament

The parliament is also another key sector in Indonesia's democratization process as it has historically been the site of competition between the residual forces of the New Order elites and new contenders.¹³⁹ After the downfall of Suharto, the amended constitution now gives three chambers a role in the legislative process. While largely a rubber stamp institution under the executive-heavy leadership style of Suharto, the parliament started to play an important role with the introduction of free and fair elections, end of restrictions on civic freedoms and reforms carried out in 1999-2002 that shifted power away from the executive to the legislative.¹⁴⁰ Specifically, the legislative now has the power to receive all reports of the State Audit Agency and appoint their members, select members of the Supreme Court, Constitutional Court and the Judicial Commission, select Indonesian ambassadors and veto those proposed by foreign countries and approve the appointment of the armed forces, chief of police and members of the KPK and other officials.¹⁴¹ The shifting of power to the legislative in the early stages of the *Reformasi* era was a necessary response towards the centralization of power in the executive during both Sukarno¹⁴² and Suharto's rule, and it was hoped that the legislative would act as a strong checks and balances mechanism for the executive during the Reformasi period.

¹³⁸ Max Lane, *Decentralization and its Discontents* (Singapore: ISEAS, 2014), 76.

¹³⁹ Stephen Sherlock, "The Parliament in Indonesia's Decade of Democracy: People's Forum or Chamber of Cronies," in *Problems of Democratization in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 162.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Indonesia's first president

However, today, it is contended that the balance of power has swung too heavily on the legislative side, which is offsetting the initial need for the checks and balances mechanisms.¹⁴³ Tilting the scale in favor of one branch of the government would further encourage corruption. Yuki Fukuoka writes, “Democratization, or the growing importance of the parliament, as well as political elites in accessing and controlling state resources, enabled them to regain access to patronage.¹⁴⁴” Furthermore, the closed-door meetings have made it harder for the public to monitor individual performance of DPR legislators and their parties. In addition, the compartmentalization of the structure of the DPR in committees has also contributed to the collusive nature of the institution.¹⁴⁵ Finally, in an article, “Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts,” published by the *Contemporary Southeast Asia Journal*, it notes that, “local members of parliament are normally elected based on their willingness to pay their electorates and are therefore easily silenced by financial sharing arrangements with the district head and his team of leading bureaucrats.¹⁴⁶” All of these factors make it hard for the DPR to build their legitimacy of the legislative as a *KKN*-free institution.

Nevertheless, there has been several positive developments in the parliament, such as the growing role of the opposition parties that act as checks and balances system in the legislative,¹⁴⁷ decline of favor extortion from ministries, state-owned enterprises and private

¹⁴³ Stephen Sherlock, “The Parliament in Indonesia’s Decade of Democracy: People’s Forum or Chamber of Cronies,” in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010),163.

¹⁴⁴ Yuki Fukuoka, “Politics, Business and the State in Post-Suharto Indonesia,” *Contemporary Southeast Asia Vol.34 No.1* (2012): 92.

¹⁴⁵ Stephen Sherlock, “The Parliament in Indonesia’s Decade of Democracy: People’s Forum or Chamber of Cronies,” in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010),166.

¹⁴⁶ Stein Kristiansen et al, “Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts,” *Contemporary Southeast Asia Vol. 31 No.1* (2008): 83.

¹⁴⁷ Susan Rose-Ackerman, "Political Corruption and Democracy," *Yale Law School Faculty Scholarship Series Paper 592*: 363-378. http://digitalcommons.law.yale.edu/fss_papers/592

companies¹⁴⁸ and the increased public hearings and people's forum. All of these activities combined have contributed greatly to the routinization of democracy in Indonesia.¹⁴⁹ In an interview with Dr. Patrick Ziegenhain, who has written extensively on the role of the parliament in Indonesia's democratization, he commented that even with the DPR's flaws and incompetency, it is important for Indonesia to have a strong counterpart to the executive's power. He also noted that the checks and balances system in the government is currently working, as shown through the dominance of *Koalisi Merah Putih* (KMP), led by Prabowo, who has the majority in both the MPR and DPR, which is giving the executive, led by Jokowi, a hard time.¹⁵⁰

Judiciary

Perhaps the judiciary has one of the worst reputations in the Indonesian government as its reputation has been smeared with low judicial standards, lax enforcement¹⁵¹ and a dysfunctional criminal justice system.¹⁵² In a democratic state, the judiciary plays a critical role in upholding a strong rule of law and a strict law enforcement mechanism to reduce the incentives for politicians and other public officials to get involved in corrupt acts. When political elites do not face the rightful consequences and could simply wield off any charges with money, it sends a negative message that the rule of law could simply be undermined when one has a big enough political influence and financial resources. These kinds of behavior add to the atmosphere of corruption, and encourage big scale corruption as well as

¹⁴⁸ Stephen Sherlock, "The Parliament in Indonesia's Decade of Democracy: People's Forum or Chamber of Cronies," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 169.

¹⁴⁹ Ibid, 170.

¹⁵⁰ Patrick Ziegenhain (professor at the University of Trier in Trier, Germany) in discussion with the author, October 30, 2014

¹⁵¹ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads (2010)*: 11-12.

¹⁵² Amy Freedman and Robert Tiburzi, "Progress and Caution: Indonesia's Democracy." *Asian Affairs: An American Review*, 39: 131-156.

petty corruption from the lowest level of the government and civil service.¹⁵³ The root cause of the legal disarray perhaps lies in the constant game of extortion and forced-sharing that redistributes wealth among Indonesia's oligarchs and elites,¹⁵⁴ low quality of legal training,¹⁵⁵ and the unpreparedness of the country's legal structure which has been debilitated and defunct in the era of Suharto. Given the influence of the oligarchs in the judiciary, Jeffrey Winters noted that "democracy without law" is the scenario that Indonesia has been playing in since 1998.¹⁵⁶ The need to reform the judiciary system holds great implication as it not only is a virtue by itself, but by strengthening the rule of law in the country, it would reduce the stronghold of the oligarchs and empower lower class groups¹⁵⁷, and reduce the incentives for politicians to maneuver their influence for their own use and channel their influence to work towards improving the standard of living of the people.

Businesses

Apart from the government, big businesses also play a strong role in giving the incentives for public servants to partake in corrupt, collusive and nepotistic activities. One way in which the intersection of business and politics contributed to the increase in corruption is the way that new local regulations on taxes, levies and other permits are designed to create artificial regulations.¹⁵⁸ Local bureaucrats have also taken it upon themselves to use their newly founded power to extract rents from corporations, further promoting rent-seeking behavior in the district-level.¹⁵⁹ Unsurprisingly, rent-seeking

¹⁵³ Larry Diamond, "Indonesia's Place in Global Democracy," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 33.

¹⁵⁴ Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 29.

¹⁵⁵ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads (2010)*: 12.

¹⁵⁶ Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 33.

¹⁵⁷ Edward Aspinall, "Popular Agency and Interests in Indonesia's Democratic Transition and Consolidation," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 121.

¹⁵⁸ Ari Kuncoro, "Bribery and Time Wasted in Indonesia: A test of the Efficient Grease Hypothesis," *Economics and Finance in Indonesia Vol.52 No.1* (2006): 35.

¹⁵⁹ *Ibid*, 31

activities in the business sector are mostly focused on bribery and other local government regulations, such as, business license, fire safety inspection, environmental compliance, taxes, and other permits.¹⁶⁰ While doing business was not free of corruption either during the Soeharto era, at the very least it was centralized and controllable in a sense. With decentralization, it has also dispersed the local actors involved in bribery and rent taking. Perhaps, this sheds some light as to why even with pervasive corruption during the New Order, it did not exert too negative of an influence on economic growth in that area.¹⁶¹

More alarmingly today, however, is the growing involvement of big businesses and oligarchs in the realm of politics. Jeffrey Winters goes even further to say that, “For the first time in Indonesia’s modern history, its politics are more dominated by oligarchs than by fractious elites.¹⁶²” The opportunities for corruption also became ripe after the fall of Suharto as the oligarchs responds to the idea that popular participation is welcomed in a democracy, and began to participate in public office, transforming Indonesia’s political system into an electoral ruling oligarchy.¹⁶³ The irony became apparent in the availability of ways that oligarchs can now exercise their power in a democracy, further entrenching themselves in the politics, perhaps to an extent even further than they were in during the Suharto regime.¹⁶⁴

Granted, the power of oligarchs is still constrained in a democracy, and though they are not the most powerful, they are formidable, and their influence over the country’s politics is deep and distorting.¹⁶⁵ For example, oligarchs have the ability to dictate the course of politics by shaping who can run and get appointed to top party and government posts; and while the people are the ones who eventually decide the candidates, the selection of choices

¹⁶⁰ Ibid.

¹⁶¹ Ibid, 35.

¹⁶² Yuki Fukuoka, “Politics, Business and the State in Post-Suharto Indonesia,” *Contemporary Southeast Asia Vol.34 No.1* (2012): 92.

¹⁶³ Jeffrey Winters, “Oligarchy and Democracy in Indonesia,” in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 16.

¹⁶⁴ Ibid, 11.

¹⁶⁵ Ibid.

are only amongst politicians who are backed by these oligarchs.¹⁶⁶ The ramification of this is quite troubling for Indonesia's democracy, as an oligarch-controlled democracy has no strong incentives to improve its judicial independence and impose legal constraints on itself.¹⁶⁷ Unsurprisingly, the progressive liberals find themselves in disappointment as they are unable to exert as much power in post-Suharto Indonesia due to the lack of coordination and financial resources, especially with the rise of extra-legal forms of social and political corruption, violence and coercion.¹⁶⁸ With the stronghold that these oligarchs have on Indonesia's politics, it seems, then, that "the wealth power of oligarchs shapes and constrains Indonesia's democracy far more than democracy constraints the power of wealth."¹⁶⁹

NGOs and other civil society groups

Though Winters, Hediz and Robinson believe that the oligarchs have been the most powerful and dominating force in Indonesia's democratization, it has faced oppositions from other scholars with the likes of Marcus Mietzner and Edward Aspinall, who contend that civil society groups and non-governmental organizations have been a great catalyst for democratization.¹⁷⁰ Since the very early stages of democratization – during the May Riots that pressured Suharto to resign from power – they have been a productive force for democracy. Their presence in the political arena confronted the government with another force with the power to reshape the political landscape. Mietzner and Aspinall said that, "Without this energetic civil society activism, many of the key political reforms of the post-

¹⁶⁶ S Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 22.

¹⁶⁷ *Ibid*, 33.

¹⁶⁸ Vedi Hadiz and Richard Robinson, "The Political Economy of Oligarchy and the Reorganization of Power in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 52.

¹⁶⁹ Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 11.

¹⁷⁰ Edward Aspinall and Marcus Mietzner, "Problems of Democratisation in Indonesia: An Overview," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 12.

1998 period probably would not have materialized or would have been much weaker.¹⁷¹” Their presence can be felt in the rising number of organizations, forms of protests and communication networks dealing with issues of human rights, environmental activism, labor, and peasantry.¹⁷²

The dynamics between civil society and oligarchs are interesting because as civil society groups become more active, the influence of the oligarchs would weaken.¹⁷³ They, too, act as watchdogs to ensure that good governance and strong rule of law is upheld in the government; consequently ensuring that corruption in the government is reduced. Unfortunately, as of now, civil society groups still lack the necessary influence to make their voices heard in the parliament and affect the legislative processes.¹⁷⁴ Other organizations such as the United Nations and state-affiliated organizations have helped with capacity building and combined efforts to reduce corruption in Indonesia and increase the likelihood of public service delivery.¹⁷⁵ Aspinall noted that, “that these struggles [between the oligarchs and civil society] are complex, and take place in contradictory and fragmented ways, involving ever-shifting political coalitions and conflicts, reflects the complexity of Indonesian democracy and the kaleidoscopic patterns of social interest that underpin it.”¹⁷⁶

Media

The rise of civil society groups has also been aided by the growing role of the media in Indonesia’s democratization process. By and large the media has been free and fair, and a series of landmark Constitutional Court decisions since 2006 and the striking down of

¹⁷¹ Ibid.

¹⁷² Edward Aspinall, “Popular Agency and Interests in Indonesia’s Democratic Transition and Consolidation,” in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 105.

¹⁷³ Jeffrey Winters, “Oligarchy and Democracy in Indonesia,” in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 22.

¹⁷⁴ Michael Buehler, “Indonesia,” *Freedom House: Countries at the Crossroads (2010)*: 6.

¹⁷⁵ Hernan Vales (human rights officer at the United Nations Office of the High Commissioner for Human Rights) in discussion with the author, November 3, 2014

¹⁷⁶ Edward Aspinall, “Popular Agency and Interests in Indonesia’s Democratic Transition and Consolidation,” in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 119.

passages in the Criminal Code that had allowed for punishment for slander against the government have helped to enhance the protection of media freedom.¹⁷⁷ With the growing role of media that is free to criticize the government, it acts as a strong counterpoint against corrupt government officials. They stand as guards and reduce the socio-political incentives for corruption. The role of the media is also crucially important in understanding the level of corruption incidences in the country. Prior to May 1998, the media has been largely controlled by the government and was not allowed to criticize it in any way. Thus, it was not able to expose any *KKN*-related cases openly in the media. When comparing the changes in the level of corruption that with more transparency, it is easier to expose more corruption cases now, and therefore it could seem as if corruption incidences have gone up even when it has not.¹⁷⁸

Komisi Pemberantas Korupsi (KPK)

The creation of the *KPK* (Corruption Eradication Commission) under Megawati's presidency in 2001 was undoubtedly a milestone in an effort to eradicate corruption in Indonesia.¹⁷⁹ Its aggressiveness and efficiency have been known to deliver a number of high profile cases, including governors, general election commissioners, ministers and even its own members.¹⁸⁰ However, given its small budget and number of employees, it has only been able to tackle between 12-30% of all corruption cases.¹⁸¹ Out of these numbers, most of the cases were related to the issue of corruption at the national level and less so at the district level, which are delegated to prosecutorial offices across the country. Their power will also continue to be limited so long as the judiciary remains weak as many cases of power abuses

¹⁷⁷ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads* (2010): 6-7.

¹⁷⁸ Günther Schulze (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

¹⁷⁹ Amy Freedman and Robert Tiburzi, "Progress and Caution: Indonesia's Democracy." *Asian Affairs: An American Review*, 39: 136-138.

¹⁸⁰ Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads* (2010): 15.

¹⁸¹ *Ibid.*

continue to go unpunished.¹⁸² Additionally, the role of strong oligarchs also undermines the power of the judiciary to fully act independently and in some cases, influential figures have found ways to gain immunity from legal punishments.¹⁸³ Nonetheless, the KPK has been successful in bringing to light and charging many corrupt politicians and business figures, which would have been impossible under the Suharto regime. Its work has sent a loud and clear message of anti-corruption and its presence and its growing importance would further deter politicians or other government officials from engaging in corrupt activities.

Culture and society

Analyzing different actors' socio-political incentives, it is hard to omit the role of culture in the equation. Indeed, social norms are an important determinant of corruption, but it is a hard element to capture.¹⁸⁴ This issue was investigated by Eric Chang and Yun-Han Chu in their paper, "Corruption and Trust: Exceptionalism in Asian Democracies?" They defined Asian corruption exceptionalism as, "cultural subjectivity in terms of how people perceive corruption," and interestingly, found that there is no such exceptionalism.¹⁸⁵ Both Dr. Christian von Lübke and Dr. Krisztina Kis-Katos concurred with the statement and noted that it is misleading to think that culture and corruption are linked because corruption could happen anywhere. To classify a country as having a corrupt culture in its nature, it presumes that it is an inherent problem that cannot be changed. Perhaps in some areas, corruption is much more expected, or there is a higher reliance on family, but as soon as the state is stable enough to take over some of those benefits that come from their extended family, these

¹⁸² Ibid.

¹⁸³ Vedi Hadiz and Richard Robinson, "The Political Economy of Oligarchy and the Reorganization of Power in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 50.

¹⁸⁴ Krisztina Kis-Katos and Günther Schulze, "Corruption in Southeast Asia: a survey of recent research," *ANU: Asian Pacific Economic Literature* (2013): 85.

¹⁸⁵ Eric Chang and Yun-Han Chu, "Corruption and Trust: Exceptionalism in Asian Democracies?" *The Journal of Politics Vol.68 No.2* (2006): 269. <http://www.jstor.org/stable/4639838>

corruption tendencies would disappear.¹⁸⁶ Dr. von Lübke added that what matters far more than the culture argument is the difference in system of governance and quality of institutions across countries.¹⁸⁷

Dr. Patrick Ziegenhain further noted that changing socio-political culture takes time and we need to be more realistic when we assess the changes in the level and spread of corruption.¹⁸⁸ Jokowi's victory in the recent presidential election is a positive step towards a more corrupt-free political system, though it is not going to change everything all at once. Since culture is a factor of political systems and institutions, overtime, as political systems and institutions reform themselves to be more democratic and circumstances change, so too would the culture be less accepting of corrupt behaviors.¹⁸⁹

Relationship between decentralization and corruption

Analyzing all of these different factors, we come to the conclusion that while decentralization was an important factor in Indonesia's democratization process; it has also opened up new incentives for different actors to engage in corrupt activities. Given the difficulty in reaching a solid, objective and quantifiable number in measuring corruption, one could only rely on qualitative assessment and anecdotes that may not fully reflect the changes in corruption incidences in Indonesia. While the nominal level of corruption remains debatable, one echoing statement regarding decentralization and corruption does agree that political decentralization has led to the decentralization of corruption and the rise in petty

¹⁸⁶ Krisztina Kis-Katos (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

¹⁸⁷ Linggawaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

¹⁸⁸ Patrick Ziegenhain (professor at the University of Trier in Trier, Germany) in discussion with the author, October 30, 2014

¹⁸⁹ Ibid.

corruption.¹⁹⁰ This is made possible through the disappearance of the ‘one-stop’ bribe system during the New Order and the rise of more fragmented bribe collection system.¹⁹¹ Due to the rise in numbers of bribe takers, perhaps corruption now plays a more important role more than ever in affecting economic efficiency and development in Indonesia.¹⁹² Nevertheless, even though decentralization came with its disadvantages, it is not an argument against democratization. On the contrary, it suggests the imperative need to focus on improving good governance at the district level and building credible institutions that would strengthen the checks and balances mechanism.¹⁹³

Implications on Indonesia’s Socio-Development Aspect

The need to study changes in corruption levels and socio-political incentives in post-Suharto Indonesia is because it is linked to the socio-economic development and welfare of the people. There is nothing benevolent about corruption as it is a form of misallocated resources that are not going towards the betterment of the people’s welfare. Studies have also shown that corruption is one of the main causes of the low growth rates of developing countries.¹⁹⁴ Perhaps, this has to do with the change in the nature of corruption, as the coordination amongst Suharto’s close alliances minimized transaction and political cost, but with the end of those alliances, came more tiers of bureaucracy and administrative cost that hampered investment and economic productivity.¹⁹⁵

¹⁹⁰ Ari Kuncoro, “Bribery and Time Wasted in Indonesia: A test of the Efficient Grease Hypothesis,” *Economics and Finance in Indonesia Vol.52 No.1* (2006): 34-35.

¹⁹¹ Ibid.

¹⁹² Ibid.

¹⁹³ Günther Schulze (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

¹⁹⁴ Benjamin Olken, “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy Vol.115 No.2* (2007): 201. <http://www.povertyactionlab.org/publication/monitoring-corruption-evidence-field-experiment-indonesia>

¹⁹⁵ Akhmad Rizal Shidiq, “Decentralization and Rent-Seeking in Indonesia,” *Ekonomi dan Keuangan Vol.51 No.2* (2003): 177.

Looking at the socio-economic development variables, Indonesia's performance in the decade between 1998 and 2008 was reasonably good relative to other emerging market democracies around the world, especially given that it had just been severely hit by the Asian Financial Crisis in 1997-1998.¹⁹⁶ It maintained a 4.8% GDP growth rate – comparable to its East Asian counterparts – and a rising annual population growth rate and adult literacy rate.¹⁹⁷ But if the people do not think these variables are improving fast enough or if it fails to deliver actual change in the local districts, the people's trust in democracy will start to wane.¹⁹⁸

Nonetheless, it is rather ironic that one of the two main reasons for decentralization was to see improvements in socio-economic developments, yet due to poor implementation; decentralization has not shown to be the better alternative in this manner. In line with the findings of the study by Dr. Krisztina Kis-Katos and Dr. Günther Schulze about administrative overspending in the local districts, Dr. Alexander Freire, professor of sociology of education at the Graduate Institute in Geneva, also noted that upon closer investigation at the regional budget distribution, it is apparent that health and education received very little attention.¹⁹⁹ This result goes to show that hasty decentralization could bring in more disadvantages and make the effectiveness of public service delivery more ambiguous.²⁰⁰

¹⁹⁶ Larry Diamond, "Indonesia's Place in Global Democracy," in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 27-28.

¹⁹⁷ Ibid.

¹⁹⁸ Günther Schulze (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

¹⁹⁹ Alexander Freire (professor at the Graduate Institute in Geneva, Switzerland) in discussion with the author, October 22, 2014

²⁰⁰ Krisztina Kis-Katos and Bambang Sjahrir, "The Impact of Fiscal and Political Decentralization on Local Public Investments in Indonesia," *The Institute for the Study of Labor (IZA) Discussion paper No. 7884* (2014): 2.

Difficulties in measuring corruption

Despite the creation of independent institutions designed to monitor and track the levels of corruption, it is still an elusive factor that is hard to measure and observe. By nature, corruption is hard to grasp conceptually and even more difficult to measure empirically.²⁰¹ Most of the measurements available today look at perceptions of corruption, which is something that could be affected by various other uncontrollable factors. Corruption is multidimensional, yet current measurements to understand corruption levels are typically limited to one specific activity. Beyond that, it is sometimes also hard to agree on one definition of corruption, and the legality of certain acts could also be questionable at times.²⁰² Corruption is also a very context specific issue, and theories about corruption cannot necessarily be applied universally.²⁰³ Yet, even though measuring corruption is challenging, especially because these activities are done in secret and illegally, it is still a worthwhile cause to assess the magnitude and consequences of it and come up with the appropriate responses.

Other Factors Affecting the Government's Ability to Deliver on Public Services

Finally, while corruption plays an important part in the government's ability to deliver public services, there are also other factors besides corruption that also come into play. First of all, there is the scale of the Asian Financial Crisis in 1997-1998 that hampered the ability of Indonesia to recover and show high growth as the country faced more uncertainty, higher

²⁰¹ Krisztina Kis-Katos and Günther Schulze, "Corruption in Southeast Asia: a survey of recent research," *ANU: Asian Pacific Economic Literature* (2013): 103.

²⁰² Ibid.

²⁰³ Ibid, 80.

reliable wealth defense and lower rates of investment.²⁰⁴ The financial crisis also led to a change in political system, and adjusting to a new political structure requires time.

In addition, historical and legacies of previous regimes should also be taken into consideration because they play a role in shaping the political contours of Indonesia. Corruption and collusion were also serious problems during Dutch colonial times, and these issues were exacerbated during Suharto's presidency. Jeffrey Winters noted a very important point saying that, "In fact, it is misguided to suggest that democracy is to blame for slower growth rates since the inception of *Reformasi*. If anything, Indonesia's democracy works remarkably well considering the political damage inflicted on the body politic for a decade by Sukarno and then for three decades by Suharto."²⁰⁵ The fall of Suharto also led to the slowing down of the economy because his business partners had to pull all of their investment out, which led to a domestic investment void in the economy.²⁰⁶

Implications for Reforms

While the nominal change in corruption levels in Indonesia between the New Order and the *Reformasi* era is still widely debated, there is a clear need to reform several aspects of the government, and this paper seeks to bring to light some policy implications. Firstly, there is a need to increase the level of political competitiveness at the local level. Dr. Krisztina Kis-Katos and Dr. Günther Schulze commented that, "More transparency of, and higher competition in the political process as well as lower barriers to entry in the political market may be important elements for improving the formal accountability mechanism."²⁰⁷ Higher

²⁰⁴ Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 20.

²⁰⁵ Jeffrey Winters, "Oligarchy and Democracy in Indonesia," in *INDONESIA No.96* (Ithaca: Cornell University, 2013), 20.

²⁰⁶ Kees van Dijk, "KKN," in *A Nation in Despair* (Leiden: KITLV Press Royal Institute of Linguistics and Anthropology, 2002), 262.

²⁰⁷ Bambang Sjahrir, Krisztina Kis-Katos and Günther Schulze, "Administrative Overspending in Indonesian Districts: The Role of Local Politics," *World Development Vol.59* (2014): 178.

<http://www.sciencedirect.com/science/article/pii/S0305750X14000096>

budget transparency and more competitive press would also help in reducing misallocation of resources by the local governments.

In addition, another crucial reform is needed in the area of low pay in the Indonesian bureaucracy. Ambassador Linggowaty Hakim poignantly points out that one of the root causes for corruption that gives people incentives to do so is the inadequate salary system that affects their own welfare. As long as the state is unable to give them adequate welfare, corruption will continue to spread because civil servants, given the opportunity, would seize it for their own good.²⁰⁸ Another reason for the increase in wages is also to make the public sector more competitive, because the state currently loses many great talents to the private sector, who is able to provide them with a higher salary. By keeping the salary low, the government can only be filled by public servants who are unable to compete in the private sector.²⁰⁹ Following this, there is also the need to also have a budget reform to use the state expenses more efficiently. There is a misconception that state expenses should be cut to be more efficient, but efficiency requires money.²¹⁰ Currently, the central government is on the right track as they are looking to reduce fuel subsidies to make room in their national budget for other development issues. Even though this is a painful thing for a country to have to go through in the short run, it will hopefully bear fruit in the future.²¹¹

Moreover, to curb the problem of corruption at the local level, the central government should strengthen its regulations and create more monitoring systems. If possible, it should also increase public party financing, so that parties are less incentivized to look for private donors – an area which is often susceptible to nepotism and bribery.²¹² Bureaucratic reforms should also include minimizing interactions with bureaucrats and creating simpler and fewer

²⁰⁸ Linggowaty Hakim (Indonesian ambassador to Switzerland in Bern, Switzerland) in discussion with the author, November 5, 2014

²⁰⁹ Ibid.

²¹⁰ Alexander Freire (professor at the Graduate Institute in Geneva, Switzerland) in discussion with the author, October 22, 2014

²¹¹ Ibid.

²¹² Michael Buehler, "Indonesia," *Freedom House: Countries at the Crossroads (2010)*: 18-19.

regulations. The central government should also look into enhancing the role of civil society groups in the country so that they could act as an anchor to the power of the oligarchs. So long as the social order of the previous regime remains in place, cries of reforms from progressive liberals in the country will continue to be stifled.²¹³

Finally, one of the most important, if not the most important factor, is the need to reform the judicial system. Amongst many, it needs to repeal legal impediments to freedom of expression, reinstall oversight powers of the Judicial Commission to combat judicial corruption and reduce subnational executive interference and strengthen law enforcements in the country.²¹⁴

²¹³ Vedi Hadiz and Richard Robinson, "The Political Economy of Oligarchy and the Reorganization of Power in Indonesia," in *INDONESIA No. 96* (Ithaca: Cornell University, 2013), 55.

²¹⁴ Krisztina Kis-Katos (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

III. CONCLUSION

Conclusion

“Power tends to corrupt,” and with the empowerment of 473s local bureaucrats and more local parliament members, came more opportunities for these government officials to abuse their power. By looking at the changes in incentive structure, this paper has sought to measure changes in corruption from more of a qualitative perspective and succinctly analyze how changes in political institutions and legal structure make it more likely for actors to act in one way or another. While Indonesia has been classified as an electoral democracy and has passed a key litmus test on democratic consolidation²¹⁵, it still has a long way to go in terms of achieving the title of a liberal democracy. We have to look past just the institutions created, but understand that states do not operate on a blank state, but stand on contours that have been slowly growing. In the words of Dr. Christian von Lübke, “Roads are important, but what it stands on, is more important.”²¹⁶

Democratization and decentralization in Indonesia did not lead to disintegration – as was feared by leaders at the time – yet, the quality of local government and public service delivery has not necessarily improved across the archipelago.²¹⁷ Despite the creation of democratic institutions making it easier to reduce corruption, decentralization has led to more corruption at the local level and it has not been conducive to higher socio-economic development. Decentralization may not necessarily yield the results that progressive liberals had initially expected, but given the context that it was operating in, it has started to build more credible political institutions to reduce corruption and ensure that no one interest is powerful enough to shape the course of the country’s politics and economic trajectory. The

²¹⁵ Paul Carnegie, “Democratization and Decentralization in Post-Suharto Indonesia: Understanding Transition Dynamics,” *Pacific Affairs Vol. 81 No. 4* (2008-2009): 522-523. <http://www.jstor.org/stable/40377625>

²¹⁶ Christian von Lübke (researcher at the Arnold Bergstrasser Institut in Freiburg, Germany) in discussion with the author, November 4, 2014

²¹⁷ Edward Aspinall and Marcus Mietzner, “Problems of Democratisation in Indonesia: An Overview,” in *Problems of Democratisation in Indonesia*, ed. by Edward Aspinall and Marcus Mietzner. (Singapore: ISEAS, 2010), 16.

result of the study is not an argument against democracy; rather, it is an argument in favor of maximizing democracy's potential to deliver higher socio-economic development by focusing on the implementation at the local level.²¹⁸

To do this, Indonesia needs a stronger civil society and press, and a more open and competitive political system at the local level. Rome was not built in a weak, and the creation of inclusive institutions that will lead to reduction in corruption levels should continue to be on Indonesia's top agenda in the coming years. Given the multidimensional issue of corruption, it is not the sole responsibility of the Corruption Eradication Committee to solve the problem of corruption, but it calls upon the government, civil society groups and the people to solve the issue comprehensively. While the results of decentralization have not done justice to its goal of improving public service delivery in Indonesia; with the improvements of accountability, transparency and checks and balances mechanism at the local level, the dream of achieving higher socio-economic development will become a reality.

²¹⁸ Günther Schulze (professor at the University of Freiburg in Freiburg, Germany) in discussion with the author, November 4, 2014

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