Fighting corruption has emerged as a major component of Indonesia’s official reform program since May 1998. An anti-corruption agenda has been accepted, rhetorically at least, by Presidents B.J. Habibie and Abdurrahman Wahid for both economic and political reasons. On the economic front, reforms are motivated by a concern that the cost of corruption is likely to be significant. The idea that corruption can be economically benign or even beneficial is now generally discarded (Rose-Ackerman 1999: ch. 2). Cross-national statistical analyses largely confirm that corruption lowers investment and therefore economic growth (Mauro 1995; Wei 1998). How much it lowers growth depends on economic and political context. Revenues from natural resources or foreign aid, for example, may mask the economic costs of corruption. It is also arguable that corruption is less economically damaging in centralised political systems than in systems where power and authority are diffused (Shleifer and Vishny 1993). These considerations may help explain why, despite pervasive corruption, Indonesia realised good rates of per capita income growth during the Soeharto era (MacIntyre forthcoming; McLeod 2000a).

Ultimately, however, the political economy of Soeharto’s New Order was unsustainable. One does not need to argue that Indonesia’s financial crisis was caused by corruption to maintain that corruption, together with centralised authority, increased Indonesia’s vulnerability to crisis: both contributed to poor financial regulation, impeded proper crisis management and undermined investor confidence once the crisis was under way (Hill 1999: 68–80; MacIntyre...
This nexus between political and economic factors points to another set of reasons why governments in the post-Soeharto political climate have espoused the goal of combating corruption. The phrase *korupsi, kolusi dan nepotisme* (corruption, collusion and nepotism) has come to symbolise the social costs, inequities and abuses of the Soeharto regime. This public concern means that a government that is implicated in high-level corruption risks losing public support. More proximate pressure on the government to pursue anti-corruption strategies comes from Indonesia’s major aid donors. Some bilateral donors (including Australia and New Zealand) are providing assistance designed to improve the efficiency of government organisations and reduce their susceptibility to corruption. Most crucially, the World Bank and the International Monetary Fund (IMF) have built corruption avoidance and good governance criteria into their assistance programs.

This article evaluates recent reforms in Indonesia in terms of their potential to reduce corruption. It begins by outlining different types of anti-corruption strategy and then reviews reform initiatives since 1998. A brief summary of disclosures about corruption in 1999 and 2000 shows that it remains a serious problem, one that the courts and law enforcement agencies are still failing to deal with. Given the entrenched and pervasive nature of the problem, it is reasonable to ask whether any reform program could hope to achieve much in a short period. The concluding section argues, however, that Indonesia’s anti-corruption efforts are obstructed not only by the scale of the problem but also by elements of the reform program itself. Anti-corruption strategies during 1999–2000 have not been wrong, but have been incomplete.

**WHY DOES CORRUPTION OCCUR? WHAT PREVENTS IT?**

‘Corruption’ refers to the use of public office for private gain in ways that contravene declared rules. Bribery, extortion and fraud, for example, are classified as corruption when they involve the use of an official position. Corruption potentially occurs in all branches of government – the bureaucracy, the armed forces, the courts and law making institutions – and can range from small-scale transactions involving relatively low-level officials to the wholesale plunder of public resources by those at the very top of the political structure. While corruption, by definition, involves those in official positions, it also frequently involves members of society, as victims or co-beneficiaries. Nonetheless, it is the involvement of office-holders that makes corruption fundamentally different from other types of crime.

Strategies to reduce corruption commonly conceptualise it as a principal–agent problem: abuses occur because the public (the principal) is unable to control the behaviour of political and bureaucratic agents. While the ultimate set of ‘principals’ consists of the general public, principal–agent problems can be replicated within government organisations and among different branches of government (Solnick 1998; Rose-Ackerman 1999). Some types of corruption are also sustained by a significant collective action problem: because the costs of corruption are often socialised (in the form of polluted rivers or insolvent banks, for example), conniving in corruption may be individually rational for members of the public, even when they have a collective interest in preventing it. This collective action problem surfaces the more anti-corruption strategies rely on the general public playing an active role as a set of principals.
Anti-corruption strategies involve the construction of a set of incentives (both positive and negative) for rule-abiding behaviour by agents who are both self-interested and opportunistic. Through policy and institutional reforms, their aim is to reduce opportunities for corruption, make corrupt behaviour more costly to the agent, increase the likelihood of its detection and positively reward non-corrupt behaviour. Doing this in highly corrupt government systems is extraordinarily difficult. Not only may institutions for detecting and punishing corruption (parliamentary committees, audit agencies and the courts, for example) themselves be corrupt, but the commonsense idea that corruption, once established, tends to persist accords with more formal models of behaviour. Because an assessment of the probability that corrupt action will be detected and punished is crucial to an agent’s analysis of whether it is more rewarding to break the rules or abide by them, the perceived level of corruption influences an agent’s decision to act corruptly, and is therefore a major determinant of the level of corruption (Bardhan 1997: 1,131–4). The more corruption becomes normalised, the more a ‘culture of corruption’ develops.1

Strategies to reduce corruption fall into three main categories: reducing the scope for corruption through policy change; increasing the costs of corruption through external monitoring and sanctioning; and devising systems to induce self-restraint within government organisations. Corruption can only occur when government actors have discretion over the use of resources or the imposition of costs on private actors. If the policies and programs that give rise to this discretion are themselves eliminated, the particular forms of corruption associated with them necessarily disappear (Rose-Ackerman 1999: 39–42). While programs such as import licensing, subsidised loans and government commercial activity are fertile soil for corruption, a deregulatory solution nevertheless has some limitations. First, corruption can undermine the implementation of certain types of deregulatory policy: import tariffs, for example, may be abolished but unofficial levies may still be imposed. Second, the prescription to deregulate may be politically naïve when – as in Indonesia under Soeharto – powerful actors have an interest in economic controls and the opportunities for corruption that they generate (McLeod 2000a). Third, getting rid of the scope for discretion among government actors is frequently undesirable: many forms of regulation have sound economic and social rationales. Indonesia’s recent economic crisis has seen government ownership of economic assets escalate far beyond levels seen in the previous decade. The reality of such government involvement means that proposals to deregulate and privatisate raise the question of how these processes will be carried out. Privatisation, for example, may simply open up new avenues for corruption if pursued in the absence of an independent judiciary and credible enforcement institutions (Rose-Ackerman 1999: 43).

The second major category into which anti-corruption strategies fall is that of resolving the principal–agent problem that underlies corruption by imposing external constraints on government actors. If the reason for agency problems is that principals lack information and sanctioning power, mechanisms that provide information and empower principals should help resolve them. Hence monitoring and auditing institutions such as a free press and independent audit boards, the incorporation of societal
representatives in monitoring bodies, and laws that mandate transparency are all mechanisms that increase the flow of information and make corrupt behaviour more likely to be detected. The counterpart to this type of monitoring is effective sanctioning power, without which potentially corrupt agents have no incentive to abide by the rules. Democracy and the rule of law are often advocated as sanctioning systems that can provide external constraints on government actors (Johnston 1998). Democracy as an external constraint mechanism is, however, potentially hampered by collective action problems and political corruption. And the ‘rule of law’—meaning, at a minimum, a political system in which the government obeys its own laws and applies them consistently, without regard to the identity or power of particular individuals—is a complex institution: ‘the exceptional, not the usual, method of social ordering’ (Goodpaster 1999: 27).

The third type of anti-corruption strategy aims to reconstruct government organisations in ways that provide for internal discipline along Weberian rational–legal lines (Weber 1978: 217–26, 956–68). Specific reforms include internal monitoring and sanctioning mechanisms (internal audit committees, reporting requirements and disciplinary codes, for example), but extend to a broader set of positive and negative incentives for correct behaviour. These range from increased official salaries2 to selective recruitment, merit-based promotion and the development of organisational routines that reproduce habits of formalised, rule-based behaviour (for example, Powell and DiMaggio 1991). While such features are sometimes considered inefficient, there is evidence of a positive association between Weberian bureaucracy and economic growth, even when initial per capita GDP and human capital are controlled for (Evans and Rausch 1999).3

Strategies to reduce corruption by creating cohesive organisations with strong internal reward and disciplinary systems do not always combine easily with strategies to impose external constraints and accountability on government. Historically, however, most countries that successfully made the transition to systems of government with relatively low levels of corruption eventually combined both types of strategy. Thus even Britain and the United States, with a strong emphasis on the rule of law and democracy (limited democracy until the 20th century in the British case), also carried out significant reforms aimed at increasing the independence of government organisations and strengthening their internal reward and disciplinary systems (Silberman 1993). Evidence about the optimal sequencing of these different types of reform is mixed. Some European states developed elements of the rule of law well before significant bureaucratic rationalisation occurred. The early introduction of electoral democracy, however, has presented problems for subsequent bureaucratic rationalisation in countries such as the Philippines (Sidel 1999). Some diffusion of political power is necessary if political leaders are to have any incentive to create the kinds of de-personalised government organisations that reduce opportunities for corruption—but political leaders whose positions are very insecure also have little incentive to develop capable, incorrupt bureaucracies (Geddes 1994).

INITIATIVES IN INDONESIA SINCE 1998

After May 1998 Indonesia embarked on an extensive political and institutional reform program. While pursued for a variety of reasons, many of the reforms have as a major aim the reduction of
opportunities and incentives for corruption. Most changes fall into the category of attempts to provide external constraints on government.

**Political Reform**
The advent of electoral democracy is one of the most obvious changes from the Soeharto era. The increased independence and powers of the Dewan Perwakilan Rakyat (DPR) have introduced a new level of parliamentary scrutiny of the executive and parliamentary ability to call the government to account. The relatively free and fair election of DPR legislators in 1999, combined with a reasonable expectation that a military takeover of government is unlikely, means that for the first time in 30 years the general public has some ability to sanction political actors. The public’s ability to hold politicians accountable is far from complete, but it does represent a change from the extreme depoliticisation of the New Order. In addition to the sanctioning potential of democracy, the parliament has become a major channel for information dissemination, as parliamentarians have greatly increased their demands for information from the government and their investigation of government activities.

**Social and Press Freedoms**
Soeharto-era restraints on civil associations and the press were largely removed under the Habibie presidency and the new freedoms have been maintained by President Abdurrahman Wahid (Gus Dur). While these freedoms are incomplete or compromised in some respects (broadcasting remains under more concentrated control than the print media, some social associations are subject to intimidation in regions such as the Malukus and Aceh, and communist organisation remains illegal), Indonesia now has press and social freedoms as great as those of any country in South-east Asia. Along with the rise of a broad range of civil associations, organisations expressly focused on corruption, legal reform and government probity have multiplied and increased their activism in 1999–2000. Indonesia Corruption Watch (Masyarakat Transparansi Indonesia), associated with former finance minister Mar’ie Muhammad and led by Teten Masduki, probably has the highest profile in this respect. Others that have played advocacy and information-dissemination roles include Government Watch, which first advertised the Bulog scandal earlier this year; the Centre for Indonesian Law and Policy Studies (Pusat Studi Hukum dan Kebijakan Indonesia); the Indonesian Institute for an Independent Judiciary (Lembaga Kajian dan Advokasi untuk Independien Peradilan); Petisi 50 (the group of retired military and civilian officials that emerged to advocate reform under Soeharto); LARI (Lembaga Advokasi Reformasi Indonesia, the Indonesian Reform Advocacy Institute); and the National Dialogue Forum, launched at the end of June 2000 as an umbrella group or ‘moral movement’ of prominent individuals. In addition, the print media have flourished in 1999–2000 in terms of new publications, active journalism and readiness to investigate corruption. Both the press and civil associations are playing significant monitoring roles, greatly increasing the flow of information about government activities.

**Fiscal Transparency and Financial Monitoring**
New budget standards and financial management procedures are being put in place as a result of the involvement of multilateral and bilateral donors in Indonesia’s reform process. These reforms aim to increase the transparency of government operations. The off-
budget sources of funding and ‘hidden’ financial accounts operated by many departments and agencies in the New Order are being disclosed and consolidated – although the process remains incomplete (Kompas, 18/7/00). The quasi-governmental foundations (yayasan) controlled by Soeharto are also being brought under central accounting control and management. Treasury management procedures – how the government manages its funds and debt – are also being reformed with the aid of foreign donors, in order to increase transparency and reduce opportunities for the irregular use of government funds.

Key government organisations, including the tax office, the state banks, the bank restructuring agency and the central bank, are subject to new audit, monitoring and disclosure requirements. The state banks are under significant new controls: Bank Indonesia, the central bank, has set up a monitoring presence at all state banks and is upgrading its supervisory capacities. The Ministry of Finance has established a governance and oversight unit for state banks and recapitalised banks (the large private banks recapitalised with government funds) with technical assistance from donors and advice from the World Bank. Audits of the state banks have been carried out, mostly by international auditors or accounting firms. The Ministry of Finance is committed to ensuring that annual audits of the state banks will be carried out by international firms (GOI 2000c). The new managements of the state banks have been required to sign performance agreements and to contract with international banks for management advice. This has already been done in the case of Bank Negara Indonesia (which has contracts with an international bank and two consultancy firms). Bank Mandiri, the government bank formed from the merger of four state banks, has been audited by an international firm.

The Indonesian Bank Restructuring Agency, IBRA (also known as Badan Penyehatan Perbankan Nasional, BPPN), the organisation responsible for a notional Rp 445 trillion in assets, has also been subject to increasing disclosure requirements and external oversight. IBRA is under the control of the Financial Sector Policy Committee (a ministerial-level group supported by a secretariat) and was placed under the oversight of an Independent Review Committee (IRC) of four, two of whom were appointed by the World Bank and the IMF. In July 2000, a nine-member oversight board replaced the IRC. The oversight board was headed by former finance minister Mar’ie Muhammad, who described it as an ‘IRC plus’ mechanism (Kompas, 21/7/00). The board is ‘clearly separated from the political process, and composed of independent professionals’ (GOI 2000c), although IBRA itself is not. IBRA is now subject to a much higher level of disclosure than was initially the case. An independent audit of IBRA, stipulated in Indonesia’s May 2000 Letter of Intent to the IMF, was carried out by an Indonesian accounting firm in conjunction with Deloitte Touche Tomatsu, and submitted at the end of June 2000. As was widely expected, the auditors could not give an unqualified opinion on IBRA’s accounts because they were unable to verify some financial data, especially about the assets IBRA accepted as partial recompense for state funds advanced to former bank owners (Kompas, 27/6/00, 1/7/00). However, the audit report has been made public. IBRA has also tendered its management of Rp 20 trillion in bad loans to the private sector (JP, 14/6/00). IBRA’s management of debtors is subject to another oversight body (the Committee for Resolving the Cases of
Recalcitrant Debtors), made up of senior officials and ministers (GOI 2000b).

In the case of Bank Indonesia, reforms mix new monitoring requirements with greater autonomy for the bank under the new central bank law of 1999 (Kenward 1999; McLeod 1999: 148–50). An amendment to the central bank law under consideration as of December 2000 would significantly reduce this autonomy by providing for the appointment of political party members to the central bank board, potentially making it easier for the government to remove the governor. The proposal for this change was prompted by the government’s wish to install a new governor, but it was also aimed at increasing the public accountability of Bank Indonesia, according to coordinating economic minister Rizal Ramli (Tempo, 27/11/00; JP, 28/11/00).

Other external constraints on the central bank include new reporting to parliament, the presence of foreign consultants and advisers within the bank (required by the IMF) and external audits. These audits (one of which was prepared by an international accounting firm in association with a local private firm) pointed to significant irregularities and abuses of Bank Indonesia funds, especially its liquidity assistance to private banks during the crisis (Fane 2000: 18–19). The reports were leaked to the press early in 2000 and have prompted follow-up investigations by the Supreme Audit Agency (BPK, Badan Pemeriksaan Keuangan) and the Finance and Development Supervisory Board (BPKP, Badan Pengawasan Keuangan dan Pembangunan) (Business Times, 11/1/00; JP, 11/2/00). Bank Indonesia’s end-1999 accounts were released publicly in July 2000, at which time BPK removed its earlier disclaimer (GOI 2000c). The accounts for 2000 will be subject to external audit, and the bank is required to divest its financial subsidiaries. Bank Indonesia is also committed to providing the IMF with monthly bank-by-bank data (GOI 2000a), which can be interpreted as an external back-up of its supervisory functions.

The main part of the state sector that has yet to be subjected to meaningful audit is the military. The involvement of the armed forces in extensive business activities dates from the 1950s and, particularly since the 1960s, the military has been deeply implicated in much of the systemic corruption that has developed in Indonesia (Crouch 1978). The combination of large-scale commercial dealings, the coercive resources at the disposal of military actors and the absence of any regular system of audit – let alone external audit – makes military corruption very likely even with the shift to democratic rule. In July 1999 an audit of some military assets was ordered by the then head of Kostrad (the Army Strategic Reserve Command), Agus Wirahadikusumah. However, he was shortly afterwards removed from his position, and an internal army investigation that rejected allegations of corruption was suspected to be a cover-up (Straits Times, 20/9/00).

Legal Reform

The court system has been targeted for reform by both the Habibie and Abdurrahman Wahid governments. A new bankruptcy code and commercial court were instituted early in the IMF reform program, with the assistance of foreign advisers (Lindsey 1998). Provisions to improve the functioning of the commercial courts by appointing ad hoc judges from outside the regular judiciary have been included in commitments to the IMF; such judges have been assigned to two cases filed by IBRA (GOI 2000c). The president has established a National Law Commission to advise on legal problems and legal reform. Its
working groups involve both government officials and civil society representatives (World Bank 2000a). A Joint Investigating Team to monitor corruption in the courts has also been set up. The team operates within the attorney general’s office, with technical assistance from the Netherlands and input from civil society professionals. Finally, there have been some changes in the judiciary. As of mid July, 70% of judges sitting in Jakarta courts had been replaced (GOI 2000c). The DPR has begun screening new appointments to the Supreme Court, requiring that they pass a ‘fit and proper’ test of personal integrity and legal knowledge. While the quality of the candidates was reportedly poor (JP, 17/7/00), the issue was at least raised by many legislators over the succeeding months. Of the 17 people recommended by the DPR screening committee in July, nine were not career judges (Forum Keadilan, 30/7/00). Nor were four of the six candidates later being considered for the position of chief justice by the same committee. However, there were many claims that the candidates the DPR was expected to nominate were chosen for their political ties (Tempo Interaktif, 1/12/00; JP, 30/11/00).

Widespread and compelling allegations of judicial corruption make it easy to dismiss the significance of such reforms. However, the attempts at reform demonstrate that if legal reform is to succeed some element of the strategy will have to change. The reforms also show that the legal system has not simply been ignored – the high profile of corruption in the courts is in fact partly a consequence of the weight that the current reform strategy places on the legal system (McLeod 2000b: 11; Lindsey 1999: 19). The declared commitment by the current president to work through legal processes has not been constant, but does represent a new constraint on government.

**Direct Strategies against Corruption**

A number of reforms have tackled the problem of corruption head-on. As in the case of legal reform, their failings are evident, but they do show what has been attempted. The attorney general’s office has increased its activity and, under the leadership of Marzuki Darusman, is pursuing high profile corruption cases much more actively than it did under Habibie’s presidency. Unlike his predecessor under Habibie, Marzuki has not been personally implicated in corrupt activity (Tempo, 13/6/99). In addition, a new anti-corruption law passed in 1999 provides for stiff penalties for corruption (up to 20 years in gaol or up to Rp 1 billion in fines). A new anti-corruption commission has been established, led by former Supreme Court Justice Adi Andoko Soetipto, one of the few to enjoy reformist credentials under Soeharto. Members of the commission include officials from the police, Bank Indonesia officers and activists from NGOs. Another commission has been set up to audit the assets of state officials, politicians and judges. After some delay, parliament approved the members of this commission in July. They included political party members and civil society representatives, although some prominent anti-corruption activists who had been nominated were excluded (JP, 6/7/00). Despite doubts over the politics behind these appointments, it remains the case that parliamentary concern with corruption is at a high level. For the time being, there is political capital to be gained through demonstrating an anti-corruption agenda.

Finally, a major instrument in the government’s anti-corruption strategy is the
new activity of the state audit institutions, BPK and BPKP. The fact that their audits of Bank Indonesia have logged the extent of its irregular payments to banks during the crisis indicates they are aimed at something other than whitewash. The audit institutions have also vetted the government’s accounts and reviewed the major state-owned enterprises (some of these audits were carried out in conjunction with private accounting firms). For the first time, figures from these audits are giving the Indonesian public official evidence of the scale of corruption and losses in the public sector.

Foreign Involvement in the Reform Process
The role played by multilateral institutions, foreign firms and foreign individuals in the reform process provides a significant external constraint on the government. The World Bank and the IMF in particular have considerable monitoring capacity and leverage through their ability to withhold financial assistance. Judging by the recurrent delays in their scheduled payments over the last two and a half years, they are now willing to use this leverage. As detailed in Indonesia’s commitments to the IMF and in strategy papers prepared by the World Bank, the programs of both organisations are linked explicitly to governance and anti-corruption criteria. The World Bank has also launched a National Institutional Review to monitor governance performance, is actively involved in civil service and judicial reform and has a formal commitment to consulting with civil society and NGOs (World Bank 1999). Technical assistance from or administered by the World Bank over the last two years for financial governance alone amounts to $53 million. Representatives of the multilateral institutions, foreign professionals approved by them or other experts provided by bilateral donors hold positions in many government agencies, including the national planning agency (Bappenas), the finance ministry, the central bank, IBRA and the state banks. Although not explicitly included in their technical assistance missions, one consequence of having these outsiders placed in government agencies is to create another source of information to potential sanctioning actors: donor agencies, investors and the public.

Civil Service Reform
A civil service reform strategy is being drafted in consultation with the World Bank (GOI 2000c). On the grounds that higher wages are a necessary component of anti-corruption efforts, public sector salaries are also to be raised. As detailed in the government’s May 2000 Letter of Intent to the IMF, parliament passed a budget that provided for a 30% increase in salaries over the fiscal year 2000, although the increase would be limited to 15% initially. Much larger increases of as much as 2,000% for very senior officials and politicians were announced, with the explicit aim of closing the gap between the public and private sectors in order to reduce corruption. These salary increases were hugely controversial and, three days after they were to go into effect, parliament announced they would be delayed (Straits Times, 4/4/00). A later salary schedule projected smaller increases at middle and upper levels. While these nominal increases are significant, raising, for example, the mid-level Echelon 2b salaries from Rp 200,000 to Rp 1.5 million, they would still barely provide for middle class expectations in Jakarta. At lower lev-
els, the revised salary scales are still very low, with those at the bottom receiving Rp 120,000 and even those in Echelon 3 only Rp 240,000 per month (Tempo Interaktif, 4/5/00).

With the exception of aspects of the new financial management procedures and the civil service reforms, most of which have yet to be described, let alone implemented, reforms since mid 1998 can be characterised as attempts to place external constraints on government organisations by providing the public and other ‘principals’ with information and sanctioning power. Many new monitoring capabilities have been distributed throughout the state apparatus and in the non-state sector. Apparently genuine audits of many state organisations have already been undertaken, and further audits are planned or in progress. The flow of information about government activities has markedly increased. Steps have also been taken towards providing the second component of this type of anti-corruption strategy: institutions with the capacity to sanction government agents. While Indonesia’s democratic institutions are still being consolidated, parliament is more active and electorally accountable than it was. Civil associations have grown in number and enjoy new freedoms. Despite all its failings, the legal system has gained a new level of prominence and is a haphazard external constraint on government.

**OUTCOMES TO DATE**

While the strategy appears to be at least partially in place, its effectiveness is much less evident. An almost constant stream of revelations about corruption and abuse of government funds over the last two years suggests that new monitoring institutions, new freedoms and transparency requirements are indeed effective mechanisms for supplying the public with information. While comparisons are difficult, there are even some grounds for thinking that the scale of corruption, if not its incidence, has declined over the last year. The latest public sector audit figures show that if the abuse of central bank funds is discounted, corruption and mismanagement cost the government Rp 4.7 trillion in the fiscal year to 31 March 2000. This is not a trivial sum, but is much less than the losses of Rp 18.2 trillion reported for the previous fiscal year (Kompas, 18/7/00). Even the performance of the state oil company, Pertamina, has improved: the Rp 1 trillion (approximately $110 million at current exchange rates) in irregularly used funds in the most recent audit compares favourably with the $4.7 billion that a PricewaterhouseCoopers report found to be lost through corruption and mismanagement from 1996 to 1998 (Straits Times, 28/6/00). However, even if accurate, these figures fail to capture forms of corruption that do not impose financial costs on the government. Anecdotal evidence suggests that corruption of all types remains common, infecting all branches of government.

Recent developments are also disturbing in that they involve the new political leadership. When Gus Dur assumed office he had reformist credentials and was not structurally implicated in the corruption of previous governments. During the past year, however, he appears to have become enmeshed in practices that undermine much of his reform agenda. Allegations continue to surface linking the president to the irregular transfer of Rp 35 billion belonging to a foundation associated with the state logistics agency, Bulog. The former chief of police reportedly testified to a DPR committee that the businesswoman who returned Rp 5 billion of the money
soon after the scandal broke in April had received a cheque for that amount from the president (JP, 29/11/00). Gus Dur also accepted emergency aid funds from Brunei in his private capacity and appointed his brother, Hasyim Wahid, to IBRA as some kind of informal debt collector. The appointment was made in December 1999 but was not announced until May 2000, when it provoked enough criticism to induce Hasyim to step down (Business Times, 11/5/00, 23/5/00).

Other actions by the president have attracted criticism for undermining anti-corruption efforts. The decision to reverse an infrastructure contract awarded to a firm owned by a Golkar member of cabinet, Jusuf Kalla, was judged by many to be politically motivated. Whether this was the case or not, the president’s meeting with a representative of the Swiss firm that lost out in the tender, just before the project was retendered and Jusuf Kalla sacked from cabinet, lays the president open to the criticism that he is conducting government on an informal and personalised basis that is conducive to collusion (AWSJ, 19/6/00). At the same time that Jusuf Kalla was sacked, the president also dismissed Laksamana Sukardi from the cabinet. His justification to legislators for both dismissals was that the ministers were involved in corrupt activity. To many observers, however, Laksamana was one of the members of cabinet most committed to clean government (McLeod 2000b: 6–8; JP, 28/4/00, 13/6/00) Corruption charges were not pursued against either of the sacked ministers.

The court system remains subject to serious allegations of bribery, with the advisory National Law Commission maintaining that almost 80% of Supreme Court judges are tainted by bribes (Straits Times, 26/8/00; Soetjipto 2000). Five prosecutors admitted in May to taking bribes, the new commercial court proved to be ineffective early on, and the bank restructuring agency continues to lose almost all the cases it has taken to court (JP, 11/5/00; Lindsey 1998; McLeod 2000b: 11). An investigation into three Supreme Court judges accused of corruption by the new independent anti-corruption team was dropped at the end of September 2000 on the orders of the South Jakarta District Court, after two of the judges lodged complaints against the investigation (Kompas, 29/9/00).

Little progress has been made towards bringing those suspected of graft in the previous regime to account. After many delays, and the assurance of a presidential pardon should he be found guilty of corruption, formal charges were eventually filed against former President Soeharto in August 2000, only to be dropped in September on the grounds that he was too ill to stand trial (Forum Keadilan, 14/8/00). Despite a 3,000 page audit report by BPK and independent auditors appointed by the IMF, which implicated many civilian and military members of Soeharto’s government in billions of dollars of losses to the state through corruption (Business Times, 5/7/00), the ongoing probes into some New Order politicians and Soeharto family members have led to few prosecutions and even fewer convictions. The only high profile conviction in a corruption-related case has been that of Soeharto’s son, Hutomo Mandala Putra (‘Tommy’), who was eventually sentenced to 18 months gaol in September 2000. In a striking, sometimes farcical, demonstration of the ineffectiveness of both the police and the judicial system, Tommy remained at large as of early December. He appealed, unsuc-
cessfully, to the president for clemency (effectively admitting his guilt), and also lodged an appeal against his conviction (Kompas, 31/10/00). Then, taking advantage of the fact that he was not held on remand following conviction, he managed to elude the officials sent to arrest him – and the police search over the next month. As many Indonesian commentators observed, the affair created strong grounds for suspecting official incompetence or official connivance, or both (for example, Forum Keadilan, 26/11/00).

The level at which official connivance is occurring is a contentious issue. The amendments granting greater independence to the judiciary in 1999 still allow for considerable government influence (Lindsey 2000: 280–1), and the president has intervened in the judicial process in some cases. For example, according to one of Tommy’s lawyers, Gus Dur met secretly with Tommy in early October. Although this was denied by the president, they were rumoured to have discussed the possibility of a deal in which Tommy would receive clemency in return for surrendering some of the Soeharto family assets (Tempo Interaktif, 30/11/00). In another case, Gus Dur ordered the attorney general to halt legal proceedings against three heavily indebted tycoons: Marimutu Sinivasan, Prajogo Pangestu and Syamsul Nursalim. Legal action against them was to be resumed only if they failed to repay their debts to the government within eight years (JP, 27/10/00).

Despite this capacity for ad hoc intervention, the judicial system is not a reliable or coherent instrument for the current political leadership. Several presidential advisers, officials in agencies such as IBRA, and ministers such as Marzuki Darusman and former economics coordinating minister Kwik Kian Gie have clearly been frustrated by the justice system. Only two high-level individuals have been detained on suspicion of graft or collusion: Soeharto’s crony, Bob Hasan, and the governor of the central bank, Syahril Sabirin. Despite a protracted legal process, Hasan has yet to be convicted; while Syahril was released almost six months after his arrest, with the prosecution dossier against him yet to be filed in court (JP, 6/12/00).

Syahril’s arrest is open to various interpretations. The overt reason was his suspected collusion in the Bank Bali scandal that occurred under Habibie’s presidency. However, he had also been in dispute with the government on several issues, so his detention could be seen as an attempt to undermine the bank’s newly enshrined independence and capture a politically useful institution (McLeod 2000b: 8; Forum Keadilan, 2/7/00). On the other hand, given the widespread perception that the Soeharto-era central bank had undergone very little internal reform and was desperately in need of it (JP, 21/6/00), the detention of Syahril (a career central bank official) can be interpreted more positively. The deputy governor who became acting governor after Syahril’s arrest, Anwar Nasution, had earlier dubbed the bank a ‘den of thieves’, and senior officials still serving in 2000 were identified as being involved in the massive abuse of central bank liquidity funds during the crisis (JP, 8/3/00). Some former employees called for Syahril to step down, and a number of private analysts had advocated his removal earlier in the year (JP, 19/6/00, 7/1/00). Other commentators also supported this, given the need for internal reform at the bank (Kompas, 26/6/00). The lack of progress with internal reform can perhaps be judged by the resignation of Anwar Nasution (and four other senior officials) in November, at which time Anwar said that Bank Indonesia was in a bad state but that he did
not have enough authority to carry out his duties properly (Forum Keadilan, 20/11/00). As well as reflecting ongoing problems at the central bank, Syahril’s arrest, and the related changes to the central bank law under consideration as of December 2000, are also indicative of a degree of external constraint on the government. Rather than intervening in the court process to secure Syahril’s conviction (which would have made it possible to remove him as governor), it saw legislative change as necessary.

PROSPECTS AND CHALLENGES
Given the extent of the problem and Indonesia’s economic and political fragility, it is unrealistic to expect reforms to eradicate corruption in a few months. Kwik Kian Gie, the economics coordinating minister until August 2000, commented that economic activity would grind to a halt if the government really cracked down on corruption – because all businesspeople would be in gaol (AWSJ, 9/12/99). Elsewhere Kwik has spoken of an entrenched ‘mental korup’ (corruption mentality) brought about during 32 years of Soeharto’s rule (Kompas, 10/6/00). A statement by the then defence minister, Juwono Sudarsono, conveys a similar acknowledgment of the limits to reform: he declared that he was initially aiming to reduce commissions (kickbacks) paid to senior military officers to 15%, half the 30% normally paid. The rationale was that, ‘If you go below 15%, you can’t adequately balance the budget’ (AWSJ, 8/12/99).

The task confronting Indonesia is obviously a large one. One can ask, however, whether limited progress to date is due simply to the pervasiveness of corruption and the many other urgent demands on government resources. Circumstances in Indonesia, particularly the enormous diversion of fiscal resources in the wake of the financial crisis, make reforms such as introducing adequate civil service salaries very difficult. However, focusing on structural conditions that possibly impede reform is not particularly helpful, especially since more resolvable aspects of the current reform strategy go some way to explaining limited progress. Indonesia’s reforms emphasise the role of information and external constraints – a free press, extensive auditing, democratic controls, the courts and external pressure from international institutions. There is certainly scope for consolidating or improving these reforms, but the other type of reform – that which attempts to build more rationalised, internally disciplined government organisations – has received little attention. The present reform program may thus be inherently incomplete.

This can be illustrated by an examination of whether Indonesia’s reforms supply what was critically lacking in the New Order. First, the main internal organisational reform consists of training public sector officials and importing expertise. This strategy was extensively employed during the New Order and was not noticeably effective in improving organisational discipline. The finance ministry, for example, adopted a program of ‘saturation training’ under which many officers were trained overseas (Lippincott 1997). Yet despite all their well qualified employees, none of the economic agencies had the credibility and competence to be entrusted with crisis management in 1997–98. The tendency to use individuals from outside the bureaucracy for policy making and advice continues under President Abdurrahman Wahid (McLeod 2000b: 9).

Second, the involvement of outsiders such as the World Bank and the IMF is
not a guarantee of clean government, despite the sanctioning power of these agencies. The extensive corruption that occurred not only in general government but also in the use of multilateral aid funds under Soeharto is a reminder that agencies such as the World Bank have poor records in containing corruption. A leaked World Bank memorandum of October 1998 stated that its crisis-related lending was still subject to ‘significant leakage’ – an outcome that was hard to avoid given that ‘practically all key institutions of government are involved (in corruption): judiciary, civil service, security forces, even internal and external audit firms’ (Financial Times, 8/12/98).

Third, the focus on information through monitoring, audits, disclosure requirements and a free press cannot on its own provide a remedy for corruption. The print media are undoubtedly less constrained than in the past, but a free press is not necessarily an accurate or an unbiased one. Many Indonesian publications (like those in other countries) have shown more interest in sensational rumour-mongering than in careful reporting. Information as such does not seem to be the critical factor distinguishing the old regime from the new: the fact that government was corrupt and nepotistic was no secret during Soeharto’s rule. Certainly, the information coming to light in recent audits is much more detailed and has a formal status that makes it potentially usable by prosecutors. However, the evident problems in the courts and law enforcement agencies do not stem primarily from a lack of information but from a lack of coherence and discipline, a point that is elaborated below.

Fourth, a degree of democratic accountability has raised the stakes for political leaders perceived to be corrupt, and makes it hard to imagine that Soeharto-style corruption could occur. Beyond this, however, the experience in other countries shows that voters – even in established democracies such as Japan – do not necessarily vote out corrupt governments. Corruption in countries such as Thailand remained a serious problem even after its transition to democracy. Some reduction (possibly temporary) in the level of perceived corruption in the Philippines came a full decade after Marcos was ousted from power (World Bank 2000b).

Finally, the emphasis that reformists have placed on the legal system and the rule of law arguably makes anti-corruption efforts particularly difficult. Even without corruption in the judiciary and prosecution, proving abuse of office in the courts is a difficult process. When these institutions are corrupt, as in Indonesia, we can expect convictions to be belated and rare. Given political will, it is much easier to deter and punish corrupt behaviour if a strict commitment to legal niceties does not interfere in the process. Singapore’s very effective anti-corruption agency, for example, has powers of investigation and arrest that might be considered to infringe civil liberties and due legal procedure in common law jurisdictions such as Australia. The Singapore Law Society has, for example, argued that elements of Singapore’s law on corruption effectively reverse the presumption of innocence in some situations.12 Establishing a credible deterrent against corrupt behaviour requires that those who are believed to be corrupt be seen to be punished. For the purposes of deterrence, whether they receive a fair trial is of secondary importance. While there are probably long-term payoffs from the commitment to due legal process, in the short term it is massively overloading the attorney
general’s office, and makes the government itself subject to a corrupt court system.

The outcome of the Indonesian government’s being constrained by the emphasis being placed on the legal system should not be surprising. Current legal reforms are not promoted only by foreigners: they have their roots in a long-standing, albeit marginalised, legal reform tradition in Indonesia. Among the small fraternity of Indonesian advocates, understandings of the rule of law (negara hukum) have been strongly oriented to liberal ideas of law as a constraint on government (Lev 1999). In the context of the generally strong and centralised regimes in which it evolved, this understanding of negara hukum would not have seemed in conflict with a goal of clean government. In the context of a much weaker government, it neglects a vital condition for the rule of law: government that is authoritative and administratively effective.

The current diffusion of political power in comparison with the New Order is not in itself the principal reason for the limited effectiveness of many reforms. Rather, it is the extent to which political power has been dispersed outside formal institutions such as the DPR that has been critical. In one sense, informal power centres in and outside the state apparatus simply reflect the political reality that New Order forces have yet to be completely defeated. However, they are fostered by another legacy of the previous regime: an administrative system infused with informal, patrimonial and personalised practices. It is this legacy that has prevented the current government from taking full advantage of the political power it does hold. The advantages of incumbency are considerable when the state apparatus over which the political leadership presides is internally disciplined. The president has demonstrated his ability to replace many agency heads with his own candidates but, below this level, hierarchical control systems appear to be weak. Making them more effective will be extremely difficult but, in some cases at least, the task does not seem to have been a priority. In the case of the attorney general’s office, for example, Marzuki Darusman (the current attorney general) has been described as ‘very good at shaking things up, but not a nuts and bolts man’ (Wimar Witoelar, public seminar, Australian National University, October 2000). Yet a ‘nuts and bolts’ approach to introducing effective, formal, hierarchical systems within government departments will be necessary if the administrative system is to be internally disciplined enough to make it a useful agent of government policy.

While they are likely to limit the excesses of the past, current reforms have scarcely begun to create this kind of disciplined, effective administration. There is, rather, the potential that they will contribute to gridlock in government and disillusionment with government. Not only are the limits of the legal system being made painfully obvious, the torrent of information and speculation about corruption may create (or worsen) a climate of public distrust in and contempt for government and the judiciary. Such a climate tends to reinforce informal patterns of transaction and, therefore, informal authority and influence (Lev 1972, 1999: 227). Changing these patterns will require considerable political effort, but is not impossible. Corruption and collusion are a response to incentives created by a particular set of institutions, not permanent features of Indonesian government or society.
NOTES

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1 ‘Culture’ in this sense means an institutional environment that provides individuals with particular incentives, skills and ideas about ‘the way things are done’ (Swidler 1986). This allows one to see how corrupt behaviour can become entrenched without the implication that a society’s values are somehow to blame. The cognitive distinctions that make it possible to define certain behaviour as corrupt exist in modern Indonesia (Wertheim 1964: 129).

2 Although not uncomplicated, there is an association between higher salary levels and lower rates of corruption (Van Rijckeghem and Weder 1997).

3 The regression analyses carried out by Evans and Rausch also found that an increase in the ‘Weberianness’ scale was positively associated with investment, a major determinant of economic growth. The 35 countries included in the sample had Weberianness scores ranging from 1 (Kenya) to 13.5 (Singapore). Indonesia was not included in the sample.

4 Indonesian commitments to implement the reforms mentioned here are recorded in the government’s Letters of Intent to the IMF over the last two years. See, in particular, GOI (2000a; 2000b; and 2000c).

5 This is the figure reported by IBRA as of May 2000, after the (partial) sale of Bank Central Asia (BPPN/IBRA, Monthly Report, June 2000). It appears to include a write-down of some of the bank assets transferred to it but, because bad loans were simply transferred to IBRA at face value, it is impossible to know how much they should be discounted.

6 The report is available at IBRA’s website (www.bppn.go.id), which also provides information on IBRA’s assets, debtors and disposals. The auditors’ inability to verify IBRA’s accounts does not necessarily indicate outright corruption, but does tend to confirm the many charges of disorganisation and irregular procedures at IBRA, conditions that are conducive to corruption.

7 There is a certain irony in handing back assets to banks that include such poor performers as Bank Danamon and Bank Negara Indonesia. (Danamon was nationalised after receiving massive liquidity support from Bank Indonesia, while BNI has required recapitalisation because of its level of bad debt.)

8 The withdrawal of BPK’s disclaimer could simply reflect political pressure on the audit board.

9 Ignoring the astronomic irregularities associated with the use of central bank liquidity funds is of course a major allowance in favour of recent performance. However, most of these disbursements appear to have occurred before the present government was in office.

10 In November, however, IBRA did successfully exercise its authority to seize assets (a hotel in Bali) in a case that had been blocked by the courts for two years (IBRA, Press Release, 30 November 2000, available from www.bppn.go.id).

11 For example, the statistical analysis by La Porta et al. (1999) finds that civil law systems, majority Muslim or Catholic populations, ethno-linguistic fragmentation and being close to the equator are all negatively associated with good government performance.

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