

**STRENGTHENING WORLD BANK GROUP
ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION
CONSULTATION FEEDBACK**



INDONESIA

(DECEMBER 1, JANUARY 19, 22 & 23, 2007)

Participants:

Six consultation events were held including: a workshop of senior government officials from the National Planning Agency and the Ministry of Finance; a debate on the role of donors in combating corruption organized by Transparency International and the Partnership for Governance Reform with more than 25 civil society groups; a roundtable of policymakers opinion-makers on governance sponsored by the Centre for Strategic and International Studies, including leaders of the Anti-Corruption Commission, the National Parliament (DPR), and Office of the President; a business roundtable with representatives of 8 major private sector associations; a regional forum of 30 reformers and the media from Eastern Indonesia hosted by the Multi-Donor Support Office for Eastern Indonesia (SoFEI); and a lecture and discussion with more than 300 graduate students from the University of Indonesia (who filled in ballot forms answering key GAC questions).

How did the process fit into ongoing country dialogue?

Indonesia and the World Bank approved the first “governance Country Assistance Strategy” in 2004 in which all of the Bank’s instruments are to be used to support the governance agenda. Since then, there has been an active and continuous country dialogue across a very broad range of stakeholders on governance and anticorruption issues. In 2005, the Bank launched a major report, “Combating Corruption in Indonesia” with a televised public debate. The Country Team requires specific anti-corruption action plans for all Bank-financed projects so that dialogue on governance and corruption risks is now a routine part of the Bank’s interactions with Government. And the Jakarta Country Office has an in-house anti-corruption team and resident Governance Advisor to promote the governance agenda. The GAC consultations have represented an extension of this already comprehensive dialogue and served as an opportunity to review lessons learned over the last several years of implementing a “governance CAS” might have for other countries.

What were the key issues/themes raised by participants?

*The overwhelming majority of participants want the Bank to remain strongly engaged in governance work and feel that disengagement in difficult governance environments would unjustly penalize the poor.

*Government officials strongly recommended that the Bank work through the country’s own fiduciary systems, while continuing to assist in strengthening them. Civil society groups were more inclined to support “ring-fencing” projects with more stringent Bank requirements in sectors and countries with high corruption risks and they advocated greater reliance upon civil society monitoring

of project implementation. Students were generally critical of aid channeled through the Government budget and strongly supported aid delivery mechanisms that channeled funds directly to communities and beneficiaries.

*Government officials expressed strong concerns that the GAC strategy should not impose additional implementation burdens on projects with requirements that are simply not “doable”. Particular concerns were raised about the Bank’s proposed new sanctions guidelines and there are expectations that further implementation of these guidelines would require additional Government consultations.

*Government officials and private sector representatives are worried that “anti-corruption campaigns” can easily be “politicized” and used by politicians and businesses to unfairly smear their competitors. Fears created by the anti-corruption drive are blamed for slowing down Government spending and decision-making, promoting excessive risk aversion in the private sector, and adding new burdens on the private sector. Others felt that such concerns are exaggerated and tend to be part of a backlash against effective anti-corruption efforts.

*There was strong support for the way governance and anti-corruption is integrated into community-driven development projects. This delivery mechanism for aid was seen as more cost effective and transparent with fewer risks that funds would leak through Government systems. Involving beneficiaries in selecting, designing, implementing and monitoring their own assistance projects was seen as an effective way to get aid to the poor in difficult governance environments.

*Capacity is a key issue for improving governance and combating corruption, not only in the executive branch, but especially in the legislature, judiciary and oversight institutions. The Bank should focus more on capacity-building in these sectors. There was also support for capacity-building programs on governance for civil society and the media, especially at the regional level.

*Concerns were raised that participation of stakeholder groups in policymaking and monitoring is more often done in form, but not in substance. There are many channels of *pro forma* consultation, but key stakeholders feel that their concerns are not reflected in the final policy outcomes. Governance support should be directed to making these consultation channels more meaningful.

*The Bank needs to “practice what it preaches” on transparency by fully disclosing the results of its own corruption investigations to the Government’s own audit and anti-corruption institutions and to support Government-led investigations that are more likely to get effective prosecutions.

*Serious monitoring for results will be essential to determine whether the Bank’s enhanced framework has any impact. There has been insufficient monitoring of the impact of governance and anti-corruption programs to date.

*Do not underestimate the real physical risks for whistleblowers and advocacy groups engaged in the fight against corruption, especially at the local level. Push for strong whistleblower protections and make their jobs easier by supporting freedom of information provisions.

Respondent Type	Consultation Reply
1. Top governance challenges in country	
University Students	<p>*Corruption is endemic and crippling and even more difficult to resolve following decentralization.</p> <p>* The need for strong law enforcement and support for oversight institutions is critical because corrupt practices cannot be stopped by Government</p>
Government	<p>*Governance reforms require institutional capacity. Many financial sector reforms are underway and we need time to train people, create systems and structures to make them effective.</p> <p>*Right now new reforms are introduced even as the previous ones are being implemented and their interpretations differ from one department to the next. No time is allowed for lessons to be learned or shared before a new set of measures is pushed into the system.</p> <p>*The governance effort seems to be very ad hoc, without a consistent set of measures being promoted evenly across the various sectors or even between various donors. The result can be much less than the sum of the parts.</p>
Civil Society	<p>*The same people from the previous Suharto era are still in charge at almost every level, so changes to systems will only have a superficial impact on corruption. Unless there is a change in the cast of characters, or at least some meaningful effort to curb the power of worst offenders, there will be no meaningful change to the level of leakages.</p> <p>*In order to help safeguard donor-funded projects, there needs to be an incentive for people to come forward with allegations of corruption. The whistleblowers often become targets. Donors need to invest on capacity building in various sectors</p> <p>*Corruption in the legislature and the judiciary, as well as the oversight institutions designed to provide a check on corruption is a particular problem.</p>
Private sector	<p>*New anti-corruption institutions and regulations have slowed government spending and are inefficient because they duplicate investigations and put a new burden on business. There are a lot of anti-corruption efforts being made but there is no clarity.</p> <p>*New anticorruption regulations and tougher enforcement have imposed new costs and new burdens on business but still have not reduced the need to pay bribes thus increasing the overall costs of doing business.</p>

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Regional Civil Society	<p>*The number of civil servants is not sufficient to provide good governance. To make matter worse, there is also much misallocation of resources within the civil service.</p> <p>*There is no channel for accessing information and providing feedback between civil service and society, the people's engagement in governance is low</p>
2. Promising areas of governance and anticorruption reform and potential obstacles	
University Students	<p>*Many students advised giving money directly to the beneficiaries of projects at the village level as a good way of cutting out corrupt officials and contractors. Students could play a role in monitoring projects.</p> <p>*The Bank should focus on non-budget support like education and grants programs to take money out of the hands corrupt bureaucrats.</p>
Government	<p>*Under President Yudhoyono Indonesia has made many reforms and anti-corruption structures and systems have been implemented. "We have worked with the Bank for 5 years to fight corruption in our projects. Indeed, Indonesia is often said to be at the forefront of the anti-corruption effort." Officials asked that Indonesia's long experience of working with the Bank on governance should be acknowledged as a model in the GAC.</p> <p>* Ministries are not enforcement agencies and some of the Bank's requirements must be carried out by institutions not under the control of ministries implementing the projects. A more stringent loans and sanctions regime will not be helpful if all it does is add more burdens. The key should be to consolidate efforts rather than add new conditions.</p>
Civil Society	<p>*Key areas are transparency and accountability, both of which can be gradually built in a more "non-threatening" way than aspects such as regulatory controls and sanctions.</p> <p>*Inclusion of a wider range of stakeholders into each stage of development activities is becoming more acceptable, allowing for greater oversight and social pressure.</p> <p>*The challenge is to start being more transparent and inclusive at the very earliest planning stages of activities since that is where corruption often begins.</p> <p>*There can be real physical risks involved for advocacy groups, particularly at the sub-national level where increased decentralization pushes large amounts of funds into places where governance systems and civil society are still weak.</p>

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Private Sector	<p>* The Bank should support local governments to develop good governance and regulatory practices. There is also a lot of duplication of regulations between the centre and the provinces/districts. Worse still, the regulations may often impose layers of obligations onto companies or even be contradictory.</p> <p>*The “one stop shop” concept has not always reduced the number of clearances required. Often the same range of players appears under a single roof but without any reduction in bureaucracy. This concept needs better implementation and a much greater emphasis on efficiency.</p> <p>*Regulatory impact assessments should be introduced so that there is a clear recognition of the costs associated with any new regulations.</p>
Regional Civil Society	<p>*Increase the independence of judiciary through capacity building support (individual or institutional); improve its internal working procedures and put it under strong supervision both internally and externally. The legal system has to be empowered and legislative reforms introduced that are consistent with constitution.</p>
3. How the Bank should engage where governance is weak, and circumstances under which to disengage	
University Students	<p>*Three fourths of the 300 students polled said the Bank should stay engaged even in highly corrupt countries. A minority said the Bank could not shield projects from corruption in such environments and that the accruing debt in a corrupt country was an unfair burden on future generations of a poor nation.</p> <p>*The Bank should limit its work with corrupt governments and work directly with the people to implement projects.</p>
Government	<p>* The Bank should work more consistently within country systems, where it is also supporting reforms. Some Bank requirements cannot be met by the Government after negotiation because the Bank does not stay fully engaged during implementation or because the requirement was simply not “doable”, requiring further Bank-Government dialog.</p> <p>* Para 32 and 33 of the GAC paper have very strong Governance requirements but do all countries have the institutional capacity to implement them? Reforms should support projects not burden them. Reforms need to be phased appropriately so that Governments are not over-burdened and have the chance to integrate changes properly into their systems.</p>
Civil Society	<p>*The Bank should keep insisting on civil society involvement in development activities and ensure that there are appropriate, non-tied funding sources that will not make such groups dependent on the Government or individual</p>

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	<p>donors.</p> <p>*The Bank should realign its efforts in weak countries, don't lend to traditional programs but focus on things like judicial reform first.</p> <p>*Never disengage completely as this would be like those economic sanctions that invariably impact most on the poorest of the poor but have little real political impact.</p>
Private Sector	<p>*The Bank should continue to build oversight in government.</p> <p>*At present there is corruption between the executive and the legislature when it comes to passing bills and punishments for this are rarely imposed. Legislators use their tenure to make money for the day they leave office. Focusing on legislative corruption and improving the capacity of legislators should be a high priority for governance reform.</p> <p>*There must be proper laws to punish offenders but they don't get passed because the corrupt are in government. Current laws are not enforced. Corruption in the judiciary and the police undermine all anti-corruption efforts.</p>
Regional Civil Society	<p>*Impose stringent, standard anti-corruption requirements and monitor all projects to check implementation regularly. Other issues includes: (1) need for Anti-Corruption law that is independent to avoid vested interests and subjectivity; (2) Improve the leadership recruitment system to produce future leaders who are clean (3) Clarify incentives for combating corruption</p>
4. How to ensure fair and consistent treatment across countries	
Government	<p>*The Bank has been insisting on stringent oversight in its projects in Indonesia. Recent projects in Indonesia impose measures beyond those being proposed in the GAC paper. There should be more consistency across countries in anti-corruption standards for projects.</p> <p>*Different countries and even different sectors in the same country have different needs. One policy cannot work in every country. The Bank needs to be more flexible in its approach and allow countries to create their own paths for better governance.</p>
Public Sector	<p>*Excessive regulation is making it difficult for Indonesian companies to compete on tenders against international ones, Indonesia is over-regulated. Yet, international companies are also guilty of collusion and corruption. The World Bank</p>

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	should use its grants and influence with government to level the playing field.
Regional Civil Society	<p>*The decision making mechanism at the Bank should be based on one nation one vote.</p> <p>* Make poverty issues a condition for obtaining loans; include a grant component in loans (for example: 70% grant and 30% loan).</p> <p>* There should be consistency in supervision of loans at every stage: disbursement and management of either loan or grants should begin at an early stage and the Bank should engage with NGOs directly for this supervision.</p> <p>*The Bank should socialize donors programs (2) Share the lessons learned from various donor’s programs (3) Share information exchanged between donors, government and recipients with mass media (to support its independence) and (4) capacity building support for the media.</p>
5. How to strengthen the Bank’s work with champions of reform outside the executive branch of government – parliament, judiciary, civil society, media and the private sector	
University Students	<p>*The Bank should do more work on Governance with students so they understand the issues and know how to fight corruption when they join the work place.</p> <p>*Capacity building of NGOs and Universities – particularly in disadvantaged areas - is important to empower people.</p>
Private Sector	*Indonesia has a rich network of Business associations but channels of interaction with Government and legislative bodies are often pro forma. The Bank should help business representation to get funneled correctly to Government so their suggestions are implemented without undue preference for a few privileged companies.
Civil Society	*Provide direct support to civil society groups through mechanisms that do not undermine their independence. Do not treat civil society like contractors, but rather as institutions in need of assistance. Do not just look towards the public sector as the only important partner in developing nations.
Regional Civil Society	<p>*The Bank should socialize all donor programs and share the lessons learned with civil society. It should share exchange of information on projects between beneficiaries and government with media to encourage independent reporting.</p> <p>*With academia: (1) Support donors in doing research and development on social science and technology that is applicable: and (2) limits its involvement as consultant in development projects.</p>

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6. How to mitigate fiduciary risk in Bank operations?	
University Students	<p>*Details of all loans should be published in newspapers, discussed in public and greater education and awareness of the Bank's program in Indonesia will lead to greater public accountability.</p> <p>*All corrupt agencies should be blacklisted and corrupt officials should be exposed by the Bank - which should also be more transparent and act against its own employees if guilty. Involve the Anti-Corruption Commission in project monitoring.</p>
Government	<p>*Data from Surabaya and Jakarta shows that e-procurement can save up to 40 % of cost for the same quality. Similarly, in the Java Bali project stringent procurement rules over later phases led to a reduction of 20% in cost per unit.</p> <p>* The Bank's focus on the process may not result in achievement of the objectives of anti-corruption if they impact the speed or productivity of projects. Has the Bank measured the impact on corruption from its previous policies? Why should the Bank ask Governments to implement new policies without knowing if the old ones worked?</p>
Civil Society	<p>* All Bank and donor-funded development projects, especially those financed through loans needs to be independently audited by civil society. Government and donor audits and evaluation are sometimes not reliable.</p> <p>*Provide free training for key members of interested advocacy groups in aspects such as procurement, so that in future the comments of such groups are based on a more sound knowledge of the actual systems.</p> <p>*Ensure that the dialog remains frank and open, and utilize civil society's own channels of information to the grassroots level as well as more formal channels.</p>
Regional Civil Society	<p>* Donor must require NGOs and government to publish its funding sources and program to the public.</p>
7. The Bank's role vis-à-vis other donors in supporting governance reform	
University Students	<p>* The Bank should work with donors to provide interest free loans to help Indonesia develop oversight institutions like the KPK. It should not dictate policies and declare corruption by itself.</p>
Government	<p>*There must be harmonization among donors in supporting Governance reforms. The multi-donor Decentralization Support Facility is a positive model of donor cooperation.</p>

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Civil Society	* The Bank is perceived as playing a key, leading role in this work and is expected to lead by example and help “bring the other donors to the table”.
Private Sector	*Donors should avoid duplication or repetition of projects and they should also bring international best practice to Indonesia.
8. How to monitor progress in governance and anticorruption at the country level	
Government	*The Government has no concrete data on corruption, beyond perception indicators. Can the Bank help to provide such data data? The Bank’s own project audits could be used to establish trends in corruption and should be shared with the Government.
Civil Society	*Involve the key civil society groups more, for example through the provision of monitoring grants and funds that can support specific studies into governance-related aspects of development (such as the effectiveness of sanctions). *Create a system that will support independent groups (such as universities, advocacy groups) to measure and track salient data.
Regional Civil Society	*Support involvement of the media on reporting corruption cases. * Empower monitoring institutions, society, low level civil service etc so that they have capacity to monitor corruption
9. Areas for improvement in GAC strategy and country-level support	
Government	*Implementation of GAC will be problematic. One example is the Bank’s Disclosure Policy which was difficult to implement in all projects in 2004. Some of the content remains confusing – what to disclose? Who allows disclosure? There is unfinished business on the depositing of documents with public notaries. The point is new policies should support, not burden projects. *The new sanctions guidelines appear to put undue additional burdens on the Government without concomitant obligations on the part of the Bank to share information from its own investigations and to work together with national authorities on corruption cases. The Guidelines will need much further elaboration and consultation with Governments and could lead delay project negotiations.

Respondent Type	Consultation Reply
	*Use the local language in all Bank project documents to ensure transparency.
Civil Society	*The Bank should help Governments control off budget expenditures. This is a big area of corruption.
Regional Civil Society	<p>*Publication on regulations regarding public financial management</p> <p>* Train NGOS to monitor state auditors (BPKP, BPK, Inspectorate General)</p> <p>* Empowerment of the village representative body and its incentive structure. Push for regional government regulations on village budget allocation and also prepare minimum standard services.</p>
Private Sector	*The capacity to implement governance reforms is very weak. The Bank should build capacity at the lower levels of the regulatory, judicial, legislative bodies and with regional governments
10. Other key issues	
University Students	*World Bank should support Syariah economics to ensure equitable distribution of wealth and loans which are not burdensome.
Regional Civil Society	<p>*There is a need to make disclosure, accountability and civil society involvement non-negotiable parts of all development activities.</p> <p>*Sanctions need to be enforced at the lowest and the highest levels otherwise the system will never be repaired. This means following up cases through the court system which can be very expensive and politically charged – but nonetheless necessary.</p> <p>*The Bank should write off all debts that have suffered corruption (or at least those parts that have been corrupted) and not lend to any projects that are sure to suffer serious corruption. The nation should not have to repay funds where the Bank has been complacent over governance issues.</p>