
Village corruption in Indonesia¹

Fighting corruption in the World Bank's *Kecamatan* Development Program

Andrea Woodhouse
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The author is a World Bank consultant working on a World Bank-funded community development project in Indonesia, the *Kecamatan* Development Program (KDP). The views expressed in the paper are the author's own and do not necessarily reflect the views of the World Bank or KDP.

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Executive Summary

What works to limit corruption in a large, rural development project in a country with endemic corruption, a weak legal system and a history of top-down political control by a powerful state bureaucracy?

The *Kecamatan* Development Program (KDP) is a \$370 million World Bank community-driven development project in Indonesia that funds infrastructure and small loans in over 20,000 villages nationwide.² Its approach to combating corruption is based on an analysis of the political economy of corruption in Indonesian villages and is two-pronged. First, it aims to change the conditions that breed corruption in villages by breaking existing monopolies over information, resources, and access to justice. Second, it aims to prevent corruption in the project itself by skewing the incentives of the project structure against corrupt behavior.

At the heart of KDP's anti-corruption approach is the principle that villagers themselves have decision-making power over planning, procurement and management of funds. Some of the concrete measures of its approach include:

- simplifying financial formats so that they can be understood easily by villagers
- transferring funds directly into collective village bank accounts
- insisting that all financial transactions have at least three signatures and that at least three quotations are found for the procurement of goods, to be shared publicly at village meetings
- insisting that details of all financial transactions are posted on village notice-boards
- requiring that regular village meetings are held to account for project funds at which villagers have the right to suspend further disbursements of funds if irregularities are found
- providing village-level sources of information and channels for complaints that are independent of local government
- intensive field-level supervision by elected village facilitators (two in each village) and sub-district level project facilitators
- independent monitoring of the project by NGOs and local journalists

Although these measures have had some success, corruption in KDP persists. This paper examines where, why and how this takes place. Its findings are based on a series of in-depth, ethnographic field interviews, a review of the KDP field experience, an incentives analysis of the KDP project cycle and a survey of the existing literature on village governance in Indonesia. The paper aims to get a sense of the anatomy of corruption in KDP villages: of how the actors perceive their interests, what motivates them, what kinds of constraints they face, and what kinds of steps they take to resolve their problems. The underlying aim is to assess what kinds of anti-corruption measures are likely to succeed in a local-level project that exists in a systemically corrupt environment and whose size and breadth (20,000 villages nationwide) makes centralized control and monitoring of funds impossible. The paper uses corruption also as a lens through which to view snapshots of social and political change in Indonesian villages.

The paper argues that corruption is primarily a problem of incentives, and can be fought effectively only by changing the costs and benefits attached to corrupt behavior. It claims also that local context and social norms are key to understanding how these incentives can be changed in order to reduce corruption.

² The follow-on project (2002-2006), KDP 2, is a \$420 million project. Combined with KDP 1, this makes KDP the largest World-Bank poverty reduction/community development project in Asia (\$790 million).

The first part of the paper examines the conditions that enable corruption to flourish in Indonesian villages. Corruption in Indonesian villages is encouraged by a combination of factors. High levels of bureaucracy and red tape multiply the loci of rent-seeking in villages. A history of impunity for corruptors, combined with a legacy of oppression for whistleblowers, means that it is almost never in the interest of any individual villager to protest corruption. The Indonesian state's administrative structure concentrates power in village elites which, combined with a weak and corrupt judicial system, impedes poor people's access to justice and control over decision-making. Finally, the Suharto government's conscious strategy of de-politicizing villages, combined with the use of development funds as a means of patronage and control, has created an environment where corruption is rarely resisted.

The second part of the paper examines corruption in KDP, based on a review of the KDP field experience and an incentives analysis of the project cycle. Corruption in KDP takes several forms, including budget mark-ups, collusion, bribes and kick-backs to local officials. The analysis reveals that the elements of the project most effective in limiting corruption are transparency, community participation, and the provision of independent channels for resolving complaints. Information and local control are key elements in both preventing and fighting corruption: the most successful strategies for fighting corruption in KDP have hinged on publicizing anti-corruption activities, garnering wide local support, and using sanctions credibly. Project facilitators are also key to fighting corruption: they provide a channel of information to villagers that is independent of local government and, because they are backed by the central KDP structure, they have more protection from threats and intimidation than ordinary villagers. There is evidence also of some governance spillovers from KDP, illustrated by examples of villagers using their experience of KDP as a precedent for protesting against corruption in other projects.

The incentives analysis of the project cycle identifies the stages of the project cycle that are most vulnerable to corruption. These lie at the stages of proposal preparation (formation of false borrower groups for small loans); release of funds (collusion among bank account signatories to embezzle funds); and implementation (collusion and corruption in procurement). The analysis highlights several ways in which corruption in KDP could be better prevented. These include improving information dissemination; working with social sanctions to make the incentive structure less conducive to corruption; increasing incentives for KDP staff to fight corruption; instituting measures at specific stages of the project cycle intended to limit monopoly, clarify discretion, and improve accountability; and supporting the capacity of project facilitators to come up with flexible local solutions to their problems.

This paper is an evaluation of the kinds of anti-corruption project design measures that are likely to succeed in a large, decentralized community project in an environment that is itself systemically corrupt and an environment whose history and state structures have embedded the conditions for corruption. It makes explicit the varying successes and failures of a project that attempts to promote village-level governance reforms in an uncertain and diverse political environment where national reforms have not yet solidified. In doing so, it illustrates the impacts and dynamics of political transformation, local power structures and social change in rural communities in Indonesia.

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Introduction

A consensus is emerging in a large number of countries that effective poverty reduction requires a strong governance framework: accountable institutions, participatory political systems, transparency and the rule of law. Fighting corruption is an essential part of this. Corruption hampers growth; it diverts public services from the poor; and it discourages foreign investment in developing countries.³

The World Bank's anti-corruption strategy calls for action in four key areas:

- Preventing and reducing corruption in World Bank projects
- Assisting countries that ask for help in reducing corruption
- Incorporating concern for corruption into country analysis and lending
- Contributing to the international effort to fight corruption

This report is about the first area of action: **preventing and reducing corruption in World Bank projects**. A first step towards this is an examination of different types of existing projects to see how corruption takes place in them, which design features work to allow it or prevent it, and what lessons can be drawn from their experiences so that future projects limit corruption instead of contributing to it.

This report supports that aim. It consists of an analysis of where, why and how corruption occurs in a large decentralized community development project in Indonesia, the *Kecamatan* Development Program (KDP).⁴ KDP is one of the first World Bank projects to make anti-corruption measures an explicit element of its design. Reviewing the analytical framework and samples of the project's field experience gives us useful material for improving future programs that are similar in design.

The key assumption of the report is that corruption is primarily a problem of incentives, and can only be fought effectively by changing the incentive structures attached. The paper is divided broadly into three parts:

- An examination of the context of community development in Indonesia
- An analysis of KDP, based on field research, to see
 - what kinds of corruption there are in KDP
 - where the incentives in the project cycle lie for corruption
 - which project design features enable or prevent corruption
 - what the best strategies have been for fighting corruption in the project
- Recommendations for improvement

³ On the effect of corruption on growth, see Mauro, Paulo. "Corruption and Growth," *Quarterly Journal of Economics*, Aug. 1995, 110 (3), pp. 681-712. For the effect of corruption on public service delivery and foreign investment, see World Bank. *Helping Countries Combat Corruption: the Role of the World Bank*. Washington, DC: Poverty Reduction and Economic Management (PREM) Network, 1997, or World Bank. *Helping Countries Combat Corruption: Progress at the World Bank since 1997*. Washington, DC: Operational Core Services (OCS) and Poverty Reduction and Economic Management (PREM) Network, 2000.

⁴ For information about KDP, see its annual report. *Kecamatan Development Program. Second Annual Report 1999/2000*. Kecamatan Development Program National Secretariat: September 2000.

Why KDP?

Why study KDP? Three features of KDP make it an especially interesting subject of study when thinking about how to fight corruption in development projects.

First, KDP is different from traditional development projects. It takes as its starting point the question 'what do villagers want?' rather than 'what do villagers need?', drawing on community development experience that suggests both that communities themselves are best at identifying what they need and that the results, when they do so, are more likely to be sustainable. In other words, it is demand-driven. It is also highly decentralized. Most decisions are taken not at the center but in over 900 sub-districts (*kecamatan*) and 20,000 villages across Indonesia.

KDP's 'different-ness' makes it interesting for a few reasons. First, its size and disparateness make it impossible to control from the center. This diminishes the usefulness of traditional anti-corruption instruments, such as audits and central monitoring. Instead, KDP tries to enable villagers themselves to become agents of anti-corruption, by trying to ensure broad participation and transparency. Second, KDP is an experiment. The hypothesis, borne out by the findings of a growing body of research, is that this kind of project will work better than centralized, supply-driven projects in terms of sustainability, benefiting poor people, and—of special interest to this report—in terms of corruption.⁵ But we don't really know. Such projects are fairly new for the World Bank and for Indonesia, so the sample of experience from which to draw on is limited. That is why it is important to investigate how KDP works and, more importantly, why it works the way it does.

Despite its differences, KDP is still similar enough to other development projects to provide useful cross-project comparisons. It is large, and covers an area of great geographic and cultural diversity. Like all World Bank projects, it works through government channels. Unlike bilateral or NGO projects, the funds are in the form of a loan to the Government of Indonesia (GOI), so KDP could not bypass the government completely even if it wanted to do so. And like other projects in the country, KDP is in Indonesia. The connection here is not spurious: it means that the project operates in a very specific sociological and historical context, certain features of which—such as the administrative setting—have a concrete effect on how the project can be run.

Second, KDP is in a country at a critical juncture in its history. Indonesia's reform process is unstable. Although great changes have taken place, many of the authoritarian power structures of the Suharto-led 'New Order' period remain in place, and corruption is entrenched.⁶ The proposed reforms threaten the interests of some powerful forces in Indonesia, including those of the influential military.⁷ Against this background, Indonesia is trying nevertheless to push ahead with its ambitious program of reforms. KDP is at the front of this reform agenda. It is as much a governance program as a poverty alleviation program

⁵ For a discussion of the links between participatory, demand-driven community development approaches and sustainability, see Gross, Bruce; van Wijk, Christine; and Mukherjee, Nilanjana. *Linking Sustainability with Demand, Gender and Poverty*. Water and Sanitation Program: December 2000.

⁶ The 2001 Corruption Perception Index (CPI), released by Transparency International in June 2001, ranks Indonesia as 88th out of a survey of 91 countries, above only Nigeria and Bangladesh. The survey is a 'poll of polls' from various different sources and attempts to measure perceptions of corruption across countries. Transparency International. *Corruption Perception Index 2001*. Transparency International: 2001. Retrieved July 1, 2001 <<http://www.transparency.org/documents/cpi/2001/cpi2001.html>>

⁷ Only about 25% of the military's budget comes from government sources. The rest comes from off-budget activities, including businesses and protection rackets in local areas. Reforms that threaten to reduce their power thus directly threaten their material interests. For a discussion of the role of the military, see International Crisis Group. *Indonesia: Keeping the Military under Control*. International Crisis Group: 2000. Retrieved August 7, 2001 <http://www.crisisweb.org/projects/asia/indonesia/reports/A400054_05092000.pdf>.

and, where it works as it should, challenges elite control of village resources and decisions. The question is whether, in such a political context, a program such as KDP can itself be a significant agent of change, crystallizing nascent trends towards democracy into concrete changes in how village decisions are made. Corruption is a lens through which to view this.

Third, KDP's network gives us a unique window onto the state of village governance in Indonesia. Although rapidly urbanizing, Indonesia is predominantly rural: most of its population live in villages. But, whereas a great deal of attention is being paid to the effect of democratization at national level, very little is known about the extent to which such changes are reflected at village level. Villages are sites of hierarchy that, institutionally, have favored the interests of the powerful. KDP works closely with village institutions and has a network of over 2000 facilitators working in over 20,000 villages across Indonesia. It thus affords us a rare inroad into seeing what is happening in these villages, yielding a rich and unusual information set about social change in Indonesia. Focusing on corruption enables us to examine issues closely related to this change, such as accountability, participation and control of resources.

This report thus has a dual purpose. Its primary purpose is to ask how corruption can be prevented in a large, decentralized, community-level development project. Its subsidiary purpose is to gain interesting side snapshots of social transformation in Indonesia: how is it happening, and what does it look like?

Analytical framework

In order to ask how corruption can be prevented in a project like KDP, this report starts with explaining what we mean by corruption and by outlining our analytical approach.

Definitions

Corruption does not consist simply of bribes in grubby envelopes, but comes in many forms. It exists when firms collude to fix prices above the market rate. It exists when civil servants demand a cut of funds 'to process' public projects. It exists when officials hire their relatives for jobs that others could do better. The forms of corruption are wide and various.

The World Bank uses a simple definition that covers many types of corruption: *the abuse of public office for private gain*.⁸ This kind of definition is common in the corruption literature.⁹ It is broad enough to encompass most types of corruption, including those that are difficult to measure, such as nepotism. However, it is focused enough to draw parameters around corruption: to distinguish, for instance, between bribery in the public sphere and gift-giving in the private sphere.¹⁰ Furthermore, by mentioning neither the law nor morality, it allows two important distinctions to be made: (a) between what is corrupt and what is illegal; (b) between what is corrupt and what is immoral. Although there may be large overlaps among these concepts, their contours are distinct and it is important to keep them analytically separate.

⁸World Bank, *Helping Countries Combat Corruption* p. 8.

⁹ See Klitgaard, Robert; Maclean-Abaroa, Ronald; and Parris, H. Lindsey. *Corrupt Cities*. Oakland, CA: Institute for Contemporary Studies Press, 2000, or Bardhan, Pranab. "Corruption and Development: A Review of Issues," *Journal of Economic Literature*., Sept. 1998, XXXV, pp.1320-1346 for a discussion of different definitions and types of corruption. The definition we use covers many types of corruption: officials misuse their offices in this way when they accept bribes; when they skirt procedures in exchange for favors; and when they ignore illegal practices for a fee, for instance.

¹⁰ This does not suggest that corruption is confined to the public sphere alone. Corruption does take place in the private sector. However, the World Bank is mainly concerned with corruption in the public sector.

Analytical approach

Picking the right kind of analytical approach to combating corruption is instrumentally as well as theoretically important. Many anti-corruption strategies fail. Often, this is because they do not make the right analytical distinctions and are excessively legalistic or moralistic. The anti-corruption literature suggests that such anti-corruption campaigns are unlikely to have lasting effects.¹¹

Legalistic anti-corruption strategies attempt to combat corruption through strengthening laws or creating rules. They focus on creating a regulatory environment that tightens the loopholes for corruption. The assumption is that corruption can be fought by strengthening regulations against corrupt behavior.

Taken by itself, this assumption is flawed. Although regulations are arguably a necessary condition for fighting corruption, they are not a sufficient condition. Almost all countries have anti-corruption laws on their books, yet the incidence of corruption among countries varies widely, without correspondence to the strength or number of existing rules. Anti-corruption drives that are limited to regulations may paradoxically increase opportunities for corruption, through breeding regulations and red tape. More fundamentally, though, they fail to distinguish clearly between rules and the motivation for following rules. Fighting corruption demands focusing on motivations and opportunities, not the rules themselves.

Anti-corruption strategies couched in terms of morals fail for similar reasons. Such anti-corruption strategies talk of 'cleaning up' and of the return of 'honesty' and 'values' in public life. They imply that corruption would be rooted out if only corrupt officials were replaced by honest, public-spirited individuals. The problem with this is that the proper locus of morality ultimately is people, whereas corruption lies in systems. Combating corruption effectively demands regarding it as a problem of systemic rather than personal failure. When an official steals money from a development budget, her motive may simply be to send her son to a good school; and the important failure is not in her but in that her system allows her to get away with stealing. Fighting corruption sustainably demands changing the system of rewards and punishments so that stealing is no longer in her interest or anyone else's.

With both legal and moral approaches, success is subject to circumstance; when they succeed they do so on an ad-hoc basis and with largely temporary effects. This is because they fail to recognize that *corruption is a problem of incentives*, not of wickedness or rules. The most important element of any sustainable anti-corruption strategy is

to change the underlying system of incentives so that agents are no longer motivated towards corrupt behavior.

This is the key premise of this report. In this kind of framework, legal actions are important, but only insofar as their enforcement changes the cost-benefit equation.

The premise contains a hidden assumption about the way people act. It assumes that people are rational and self-interested—that, given a choice, they follow whichever course of action benefits them most. The assumption, however, need not be narrow or economic. It can be made with varying degrees of strength. A strong version of the claim might define self-interest as allegiance only to the individual self and define benefits in material terms. We make a weaker version, which may have diminished explanatory power but

¹¹ See Klitgaard et al, *Corrupt Cities*.

which we believe captures better why people act the way they do. Here, 'self-interest' may encompass allegiance to one's family or peer group as well as to oneself, so that the claim can explain human behavior motivated by feelings of solidarity or social bonds. The benefits need not be calculated materially, but may include social status, power or some other intangible reward. And, although this version still implies that at some level self-interest is a universal phenomenon, it leaves room for its *content* to vary widely across different cultural settings.

Indeed, one assumption of this report is that social norms have a significant effect on how people perceive their interests. The practical challenge for projects wishing to minimize corruption is to understand how the social norms work in the particular context of the project and to set up the incentive systems accordingly. The way that actors in a village-level community project in Indonesia perceive their interests will differ from the way that those in a national highways project in China perceive theirs, and the effectiveness of different anti-corruption instruments will vary accordingly.

The difference, however, lies not simply in the social norms themselves, but in how they get expressed through institutions. The more grassroots and local the project, the more important the social norms and personal relationships characteristic of village institutions are likely to be. The opposite is true of a large-scale project whose participants are unknown to one another.

It is precisely for these kinds of reasons that an anti-corruption project design or strategy cannot be formed *a priori*. It demands instead a knowledge both of local context and of the experience of similar types of projects. Knowledge of local context is best formed with the involvement of local participants, who often know best which kinds of incentives will have relative importance.

In the framework of incentives, we can see that

Corruption exists where the benefits outweigh the costs

- The benefits may include the amount of money the agent stands to gain, the social benefits that might accrue from this money, and the increase in power that might come from the transaction
- The costs will include the severity of punishment, the monetary value of any fines, and any associated social costs.
- The calculation of benefits and costs will depend on the risk of getting caught and being held accountable. This ratio will be lower where the agent has wide *discretion* over the transaction—in other words, where few other agents are able to see what is happening—and where there are few checks and balances over the agent's actions.

Methodology

The report is based on an analysis of identified corruption cases in KDP, field visits to ten villages and three provinces, and in-depth, on-site interviews with central KDP project staff, KDP field consultants, government officials and villagers. It also makes use of information gathered during KDP supervision missions to provinces other than those visited for this report. The report especially makes use of the views of KDP's project historian and of staff from KDP's Complaints Handling Unit, who track and follow up corruption cases that get reported.

The report is not a survey. It is an investigation of process. Its aim is to get a sense of the anatomy of corruption in KDP villages: of how the actors perceive their interests, what motivates them, what kinds of constraints they face, and the steps they take to resolve their problems.

With this in mind, we attempted for the first part of the analysis to reconstruct a limited number of corruption cases in different KDP locations. In each village, we tried to interview most of the people involved in the corruption case, from ordinary villagers to local government officials, 'corruptors' included, to see how each of the main players experienced and perceived the case. We attempted also to get the stories of those *unconnected* with the case. This enabled us to get a multi-layered, 'thick' description of what had happened. Sometimes, interviewees participated by drawing maps and social diagrams of the village.

The second major part of the research involved a review of samples of the KDP field experience and a cost-benefit analysis of the KDP project cycle. The project is too large and complex to be susceptible as a single entity to a cost-benefit analysis. To do it, therefore, we (a) broke the project cycle down into a series of discrete steps, small enough to be analyzed in terms of incentives; and (b) analyzed each step of the project cycle in terms of incentives for corruption. We did this by asking, at each stage of the project cycle:

- Who are the main actors?
- What are the main operations under their control?
- What discretion do they have over their actions?
- What interest do they have in engaging in corrupt practice?
- What sanctions apply? What is the risk of being discovered?
- What are the accountability mechanisms attached? Do the actors have to explain themselves?
- What are the social norms attached? Do these affect how the actors will perceive their interests?

The findings were drawn from an analysis of KDP corruption cases, field research, and the views of KDP staff. In assigning weight to incentives they attempt to take into account as much as possible the views of project participants.

The kind of information gathered from this exercise is necessarily anecdotal. With limited time and resources, we were not able to go to more than three provinces. There was also an inherent selection bias in picking locations: the locations visited were those where corruption had already been reported. This is therefore neither a comprehensive nor a representative picture of village-level corruption in Indonesia. Nevertheless, it gives us interesting discrete pictures of what corruption in KDP villages looks like, and an idea of which elements of the project work to encourage or to limit it.

I. The context of community development in Indonesia

Political change & decentralization

Indonesia is in transition. At least two elements of this transition are likely to have a major impact on village life in Indonesia. One is the effect of political change. The other is decentralization.

Political change

People... aren't really scared to report problems. They're not scared because things have changed. Before, people used to be scared of the army, or the police. They're not anymore.

District-level KDP consultant, Toli-Toli district, Central Sulawesi

The Indonesian political environment has changed significantly since the demise of the New Order. It has been characterized by a trend toward democratization and the strengthening of civil society, an attempt to redefine the position of the military in political life, and the devolution of power to local government. It has been characterized also by a breakdown of law and order, a rise in civil unrest, separatism, and inter-communal violence.

These changes have affected village life in Indonesia in several ways. In some places, they have served to make latent conflict overt. The New Order government placed an emphasis on order and harmonious social relations, and potential conflict was largely stifled.

Political changes at the center have altered this. Exacerbated by economic difficulties and enabled by a breakdown in the will and ability of the security apparatus to impose order, they have removed the underpinnings of an apparent stability. In its space, tensions have emerged over issues such as land, access to resources and political power—tensions manifested often in ethnic terms. What it means for these villages is that once-set relationships are in flux: old hierarchies are being redefined and cross-cut with new cleavages, leading to a shift in the way villagers perceive their respective interests.

Political reform (*reformasi*) has also changed the landscape. The impact of *reformasi* at the national level, manifested in open criticism and protest, has been significant.¹² Its impact at village level is unclear. Almost no evidence has come forward to suggest what type of impact, if any, *reformasi* is having on political expression in villages. Anecdotal evidence from this report suggests that there has been some kind of trickle-down effect, whereby villagers have some awareness of national changes and are conscious of increased possibilities for protest.¹³ There thus seems to be some scope for a renewal of political expression in villages, if limited at present to a heightened optimism in people's minds. However, whether

¹² This is so even barring those displays of political protest that are alleged not to be genuine expressions of political opinion but displays of unrest organized from the top by groups wanting to create an impression of instability.

¹³ Villagers we met spoke often of *reformasi* and regional autonomy. Their level of political awareness was high. Mainly, this was because they watched Jakarta news on national television.

this changes local power dynamics remains to be seen, given that many New Order institutions remain in place at village level.

Decentralization

In January 2001, Indonesia started to devolve most functions of national government to its 362 districts (rural *kabupaten* and urban *kotamadya*). If fully implemented, this will make Indonesia one of the most decentralized countries in the world. The legal framework for decentralization makes provision for changes in village government. These changes could change quite substantially the way that Indonesian villages are run, although vagueness in the wording of the laws means that in practice there may be little change.

The spirit of the legislation points towards greater democracy at the local level: Law 22 of 1999 states that the basis for village government regulations will be “diversity, participation, real autonomy, democratization and people’s empowerment”.¹⁴ The law introduces a new village representative body, the *Badan Perwakilan Desa* (BPD), whose members will be elected directly by villagers. This contrasts sharply with the body it replaces, the *Lembaga Musyawarah Desa* (LMD), whose members were effectively appointed by the village head. Under the new system, the village head can be held accountable at BPD meetings, and the BPD has the right to ask that the village head be removed. This could dilute quite substantially the present concentration of village power in the village head.

The BPD was made... after the regional autonomy system came into place. The BPD are elected by us. That gives a greater degree of control. Now, the people have more power... the BPD system also gives us a way to resolve problems we have. There'll be fewer problems of corruption now because we can check and control them.

Villager in Pagar Batu village, North Sumatra

However, despite their spirit, the laws provide few specific guidelines for how local empowerment will materialize. For instance, specific regulations surrounding election to, the operation of and powers of the BPD have been left unclear, so whether its formation effectively increases popular control over village government may be determined on an ad-hoc basis. The law also gives wide discretion to district governments in determining village affairs.¹⁵ This means that there could be wide variation in village government: some areas could have democratic, accountable local governments whereas others could maintain or even strengthen their hierarchical and autocratic governance structures.

The impact of decentralization on village life is thus uncertain. Village structures could become more authoritarian in some places, limiting accountability and increasing yet further the possibilities for corruption. Alternatively, they could become significantly more democratic, opening up avenues of transparency and accountability and raising the perceived costs of corrupt behavior.

¹⁴ Law 22 of 1999, cited in Antlöv, Hans. *Village Governance in Indonesia – Past, Present and Future Challenges*. Paper presented at the PERCIK conference “Dynamics of Local Politics in Indonesia”: Yogyakarta, July 2000.

¹⁵ See Evers, Pieter, *Resourceful Villagers, Powerless Communities (Rural Village Government in Indonesia)*. Jakarta: World Bank/Bappenas Local Level Institutions Study, DRAFT, 2000

Village life in Indonesia

The experience of village life and of previous village projects is a crucial factor in influencing how actors in KDP perceive their interests and rights. It affects how actors calculate the costs and benefits of corrupt behavior and affects the will and ability of villagers to protest if they suspect foul play. Thus any understanding of how to fight corruption in KDP, of what motivates its agents, and of what factors enable corruption must rest on an understanding of what life in an Indonesian village is like.

It is not an easy understanding to reach. Indonesia is diverse and so generalizations are hard to make. Yet despite this, there are some family resemblances among villages that enable a rough picture to be drawn.

A village (*desa*) is the lowest unit of government administration in Indonesia. Many villages came into existence only with Law 5 of 1979, which imposed uniformity in form and structure onto Indonesian communities. Beforehand, many of these were smaller and organically-formed.¹⁶ Because villages are political and not social units, their boundaries may cut across traditional boundaries of land drawn according to *adat* (local custom). They are divided up into hamlets (*dusun*), groupings that, being small and generally homogenous, are often socially more cohesive than villages. Hamlets are sometimes physically far apart from one another, and levels of communication among different hamlets vary. Sometimes one hamlet may consist of people from an ethnic group entirely different to that of another hamlet in the same village, usually because one consists of migrants from another part of Indonesia. In Java, many villages are extremely large. This limits cohesiveness and control.

A village is led by a village head (*kepala desa*), who is paid by the government. In rural villages, the village head is elected by villagers but ratified by the district head. In urban villages (*kelurahan*) the head (*lurah*) is appointed. Village regulations ensure that almost all power is concentrated in the village head, who is accountable not to villagers but only upwards to the district head.¹⁷ Because running for office is expensive, village heads tend to be from richer families in the village, although not, in recent years, from the traditional land-owning elite, for whom the gains to be had from the post are often not worth the effort.¹⁸ The cost of running for office places pressure on village heads to use their time in office to recoup as much money as possible.

Apart from the village head, there are a few other officials—mainly the hamlet chiefs—and a couple of village councils, which are deliberative fora for villagers to communicate their views on village issues and priorities. For the most part, though, power rests with the village head. The councils have little decision-making power and the village head and his officers tend to predominate in them¹⁹

Three aspects of Indonesian village life have an especially important effect on the workings of village corruption. The first of these is the influence of a heavy, centralized state bureaucracy, government rural policy and state administrative mechanisms upon the incentives for corruption in villages. The second is

¹⁶ Law 22 of 1999 replaces Law 5 of 1979. The preamble to the law considers that Law 5 of 1979 is 'no longer suitable with the spirit of the 1945 Constitution and the significance to acknowledge and to respect the *privileges of Regions*' (my italics). From Law 22 of 1999 text, <[http://wbln0018.worldbank.org/eap/eap.nsf/Attachments/Decen-22/\\$File/22.pdf](http://wbln0018.worldbank.org/eap/eap.nsf/Attachments/Decen-22/$File/22.pdf)>

¹⁷ See Evers, *Resourceful Villager, Powerless Communities* for details.

¹⁸ An interesting discussion about how this applies in Java can be found in Frans Hüsken's article 'Village Elections in Central Java: State Control or Local Democracy?' in Antlöv, Hans and Cederroth, Sven. *Leadership on Java*. Surrey, UK: Curzon Press, 1994. Hüsken studied 50 candidates for village head in 9 villages in Central Java in 1989 and found that "the traditional elite families are hardly represented... Asked why they had withdrawn, their answer was perfectly simple and straightforward: the advantages of being a *lurah* no longer outweighed the burden of the job".

¹⁹ Usually 'his'. Village heads are rarely female.

the effect of a corrupt and inaccessible legal system upon village accountability and corruption. The third is the way in which development projects themselves have been run.

The state, politics & village corruption

Villages are institutional battlegrounds for control over people and resources. Historically, the state has given material and institutional backing to village elites in an attempt to co-opt potential opposition. State backing of some groups over others has created serious problems. One of these is that it has created the conditions for widespread corruption.

The environment in an Indonesian village is one where corruption flourishes easily and is difficult to root out. It is peculiarly embedded. To understand why, think of a stable structure locked into place by several pillars. If enough pillars are removed, the structure collapses. But removing only one or two simply distributes the load to the others.

Corruption in a village is somewhat the same. The central pillar of support is the omnipresence and omnipotence of the state. Indonesian villages are characterized by the massive presence of both the government bureaucracy and, through the 'territorial command' structure that matches it, the military. Almost all of an Indonesian villager's dealings with the outside world or with government involve bureaucratic procedures of one kind or another.²⁰ Such high levels of red tape breed opportunities for village officials to gain small—or, in the case of land transfers, large—amounts of money through embezzling funds and extorting fees for services. The participating officials have a monopoly over these procedures and have wide discretion over their actions.

The history of impunity acts as the second pillar of support, enabling village officials to exploit such rent-seeking opportunities. Village officials know that the sanctions for corruption have been few and rarely enforced. This lessens the perceived cost of corrupt behavior. For their part, villagers know that whistleblowers have few protections and low likelihood of redress. They also know that most previous attempts at fighting corruption have been futile. This increases the costs associated with an attempt to fight corruption, meaning that in most cases the strictly rational course of action for any individual villager is apathy—in other words, to do nothing. This enhances even further the culture of impunity.

[The villagers] are used to old-style bureaucrats, who are like kings, who think they are like kings, who are never wrong. And nothing will happen. In their experience, if they report problems to a bureaucrat, there will be no response, so why bother?

Civil servant, Kecamatan Palipi, North Sumatra

²⁰ Hans Antlöv describes the multitude of paperwork required in his article 'Village Leaders and the New Order' in Antlöv and Cederroth, *Leadership on Java*. "Let me exemplify the variety of official letters by the experience of a young man, Dadang, who wanted to join the Navy. Dadang knew this would take much time and energy. He armed himself with twenty photos and a letter of recommendation from his father, a school headmaster. First, Dadang had to go to the sub-district Bureau of Education to get his high school diploma validated. He took this back to the village, and asked for a letter of "Good Behaviour", a letter of "Self-Cleaness", a Birth Certificate, and a letter of residency. All these letters had to be signed by the headman, the Police Community Guidance Officer and the Army Village Guidance Officer. He took the signed letters to the Majalaya police and army commands where the letters were co-signed by police and army officials. They were brought back to the village office, where Dadang obtained a letter of recommendation from the village secretary, sanctioning his application. All this was then brought to the sub-district office in Majalaya, where the deputy leader, after being asked by Dadang's father, wrote a similar letter of recommendation. All this was necessary just to get drafted for the test. The whole procedure had cost Dadang and his father 25,000 rupiah. When Dadang later failed the test, his friends said that he forgot to bribe the drafting officers."

A third pillar of support is deference and fear. The average Indonesian village is characterized by hierarchy, with a tradition of not questioning those in power. Its traditional social arrangements might not be hierarchical, as this varies across Indonesia, but it almost certainly has a hierarchical political culture. Indeed, a visitor to a village at least during the period of the New Order government might think it curiously de-politicized, with a paternalistic political culture and an emphasis on bowing to ‘consensus’—a direct result of New Order policies towards rural areas.²¹ Such hierarchical political relations limit popular pressure on the powerful.

Holding the structure together is an administrative setting that gives villagers few formal avenues to complain. Although elected by villagers, the village head is formally accountable only upwards to the district head. This gives him wide discretion over his actions and lowers the costs associated with corruption. Indeed, it may increase the costs associated with *not* acting in a corrupt way, since the village head may be put under vertical pressure to collude with his superiors. Complaints are resolved by *musyawarah*, a process of discussion and consensus-building. But it is the village head who in the first instance organizes the *musyawarah*, and only if popular pressure is extraordinarily strong does he have an incentive to pursue problems in which he or his peers are implicated.²²

Rural justice & village corruption

Justice is for the rich man, the man who has power.

Villager, Kotabumi, Lampung

The failings of the formal justice system lock this structure of village corruption even further into place.²³ Some of these weaknesses are peculiar to the Indonesian legal system and its particular set of problems. Others are a function less of the Indonesian system but of the special problems of rural life. Both types of weakness have a strong effect on the workings of corruption in Indonesian villages.

The heart of the problem is that, rather than being a buffer against corrupt behavior, the legal system is an active and knowing participant in it. In a better-functioning system, the courts might be expected to act as arbiters of last resort, able—albeit with slowness, inefficiency or other flaws—to act independently and with some degree of fairness. The presence of an institution able, even imperfectly, to act independently of vested interests is especially important in an environment where the other mechanisms of accountability have failed.

This is not true of the Indonesian courts. Instead, the courts are where impunity for corruptors is realized. The Indonesian legal system is perceived to be thoroughly corrupt. It is commonly assumed that all court decisions are for sale: that everything is negotiable for parties paying the highest bribes or with the most

²¹ See Annex I: Historical Background

²² When we asked what steps they would take to resolve a problem, most villagers we met replied that they would go to see the village head. When asked what they would do if the problem involved the village head, most could not think of a response.

²³ I would like to thank Pieter Evers especially for contributing background information and analysis of the workings of the rural justice system.

important contacts.²⁴ This level of corruption extends to the police, who are charged with finding evidence in court cases. As a result, trust in the police and the courts is low, corruption cases are rarely brought to court and, when they are, a pretext often is found to drop cases or otherwise skew the court process. The result is that potential corruptors in villages know that the risk of being charged legally with corruption is slim and the risk of punishment even slimmer. Villagers know this too.

Why would I go to the police [for anything]? If someone stole my chicken, I'd have to pay the same as a pig in bribes.

Villager, Wamena, West Papua

A further problem is collusion and lack of independence. The relationships among legal and local government officials tend, especially in rural areas, to be close and characterized by personal ties. This erodes the separation of institutional functions necessary to preserve the independence of the judiciary. The chief of the local court is often included in the *musyawarah pimpinan daerah* (consultation of leaders of the region), an informal consultation among local government, the prosecutor, police officers and the military high command. Such consultations provide an opportunity for these officials to pressure the local court chief to act in accordance with their interests.²⁵ As a result, even when corruption cases are brought against government officials, they rarely succeed. The overlap of functions both reflects and strengthens the culture of favor and patronage that exists among local officials. It is one that infuses all levels of the government hierarchy, and serves to embed even further the culture of impunity for corruption.

A third problem is the lack of witness protection. There is no witness protection program in the Indonesian legal system, either formally or in practice. Accordingly, threats and intimidation of witnesses is common. Protecting witnesses is especially difficult in rural communities where anonymity is unknown: in such an environment, it is difficult to ensure that whistleblowers are not, in the words of one specialist, 'knifed in the paddy-field at midnight'.

These weaknesses of the Indonesian legal system are compounded by problems that stem from the special nature of rural communities: distance and cost. The court system in Indonesia extends down to the district level only, and so the most accessible courts are found in district capitals. From many rural villages, these are difficult and costly to reach: from remote areas, this may take up to a day or more. The transportation cost of attending a trial is accordingly high. Even participating as a witness for the information-gathering exercises of the local prosecutor costs money. This cost is borne by the witnesses themselves, and the government itself has no budget for such operational costs. All of these problems mean that the cost in rural areas of any villager-led attempt to use the legal system is prohibitively high, which provides a strong disincentive for participation in it.

A final obstacle to accountability in Indonesian villages is lack of awareness. The level of awareness of rights, legal processes and legal resources among the Indonesian public is low. In 2001, the Asia

²⁴ This is borne out by the empirical evidence that is available concerning people's attitudes towards the courts. The 2001 Partnership for Governance Diagnostic Survey of Corruption in Indonesia found that the judiciary was considered the third most corrupt institution in Indonesia. (Partnership for Governance Reform in Indonesia. *A Diagnostic Study of Corruption in Indonesia*. Jakarta: Partnership for Governance Reform in Indonesia, 2002.) An Asia Foundation 2001 survey found that 57% of respondents felt the judiciary was corrupt (Asia Foundation. *Survey Report on Citizens' Perceptions of the Indonesian Justice Sector - Preliminary Findings and Recommendations*. Jakarta: Asia Foundation, 2001).

²⁵ Internal World Bank note (*Note on Rural Judiciary*), Pieter Evers, 2002.

Foundation found in a survey of Indonesian citizens that only 56% of respondents were able to identify a single right to which they were entitled. In rural areas, that figure dropped to 33%.²⁶ Such lack of awareness makes the environment in villages even more conducive to corrupt behavior.

Development projects & village corruption

Development projects themselves have contributed significantly towards corruption in Indonesian villages. Their funds have historically been a fertile source of enrichment for local government officials and village elites. In 1997, the World Bank estimated that despite acknowledged difficulties in quantification, between 20-30% of the government's development budget funds were lost due to leakage, Bank-sourced funds included.²⁷

There are several reasons why development projects have contributed to corruption in villages. Historically, the Indonesian government used development as a form of patronage: foreign aid funds were used as a direct means of co-opting potential opposition in villages, and development projects were used as a way of keeping communities happy. The government's budget arrangements also create a strong incentive for individual implementing agencies to misuse foreign aid funds. Each agency's projected revenue is divided into a 'routine' and 'development' budget. 'Routine' budgets are funded from government sources and 'development' budgets from external sources. Although 'routine' budgets are designated not for development but instead for paying civil servants' salaries and other routine operational costs, they are almost always woefully inadequate for their purposes. This creates a strong incentive at ground level to use development funds to cover routine agency costs and to supplement civil servants' salaries.²⁸

Foreign aid funds have also been relatively large and easy to manipulate. They have been easy to manipulate partly because of internal donor pressure to disburse loans; partly because many development projects are large and difficult to supervise; and partly because of a tacit agreement on the part of donors that some diversion could be tolerated if the projects achieved their primary targets of getting infrastructure built.

Government agencies implementing development projects thus had relatively wide discretion over a large sum of money and were faced with a strong incentive to misuse it. They were able to use this money, however, not only to supplement civil servants' salaries, but also to buy patronage.

The government's style of development directly supported the culture of impunity for corruption. Development projects have traditionally been conducted in a top-down fashion, with outside assistance imposed onto a village without the active participation of its members. There was almost no local involvement in development planning. Villagers thus became passive subjects of development, not active agents in it. The projects were thus perceived by the communities as something to wait for, handed down from an external government over which they had little control, rather than as something to which they had a right and over the manner of whose budget expenditure they could protest. Indeed, according to one

²⁶ Asia Foundation. *Survey Report on Citizens' Perceptions of the Indonesian Justice Sector - Preliminary Findings and Recommendations*. Jakarta: Asia Foundation, 2001.

²⁷ Internal World Bank memorandum, Stephen Dice, 1997

²⁸ All of this information is taken from Partnership for Governance Reform in Indonesia. *Corruption in Indonesia's Foreign Aid Programs: Naivety, Complacency and Complicity within Donor Agencies*. Jakarta: Partnership for Governance Reform in Indonesia, 2001, DRAFT

experienced development practitioner in Indonesia, a common phrase used by villagers to describe development assistance to their communities was '*Bantuan sudah di-drop*', or 'The help has been dropped'.²⁹

Furthermore, the projects existed in an environment where *all* decisions, from tax to service-delivery, were made in such a top-down manner. In a system that is almost completely formalized and non-participatory, the only means of control and redress for complaints are the formal channels. But in Indonesia's case, the formal channels did not work: they could be manipulated easily to serve the interests of the powerful. In this system, any protest against an individual project necessarily translated as protest against the whole system, an infinitely graver offence. This meant that impunity became institutionalized.

Indonesian villages thus suffered from a failure of institutions and an almost total failure of incentives, in an environment with large inflows of development funds and a culture of impunity for embezzling those funds. This embedded even further the conditions for corruption.

²⁹ From talk with a former head of Oxfam in Indonesia, September 2001.

II. Corruption in KDP

What is KDP?

KDP is a large, decentralized community development project in Indonesia. It covers more than 20,000 villages in approximately 27 provinces across the country. Its aims are

- to alleviate poverty by raising rural incomes
- to strengthen community institutions
- to improve local governance

KDP's key principles are community participation, transparency and sustainability. It works by giving villagers decision-making power over funds, which can be used either as grants for village infrastructure or as loans for income-generating ventures. The project is designed to give villagers the chance to prioritize village development needs and a say over how village resources are used. Villages compete with one another for project funds, giving villages an incentive to propose well-designed projects of demonstrable benefit. The three main components of the project are unallocated grants to communities, technical assistance, and monitoring & supervision.

The project works by giving a block grant directly to each participating sub-district (*kecamatan*), which usually contains about twenty villages. Each village then prepares a proposal for entry into an inter-village funding competition at *kecamatan* level. Villages can submit two proposals if the second comes from women's groups. KDP is 'open-menu', so proposals can be for a wide range of activities, from building roads or water systems to providing seed capital for small businesses. The important thing is that all villagers are given the opportunity to participate in the proposal-preparation process, and that decisions are democratically made. There is no outside 'guidance' of decisions.

Once villagers have prepared their proposals and had them verified for technical feasibility, they take them to an inter-village meeting where representatives from each village decide collectively which proposals will be successful. The block grant to the *kecamatan* is usually not big enough to fund proposals from all villages, so choosing the proposals involves a process of competition, bargaining and compromise.

After successful proposals have been picked, funds are released directly to collective village accounts at the *kecamatan* level. From here, money is withdrawn and given either to village implementation teams to start buying materials for infrastructure, or to groups of borrowers to start setting up their economic ventures. If funds are used for income-generating ventures, borrowers must pay them back at market rates of interest. The repaid funds go back into a *kecamatan*-level revolving fund, to be made available to other groups of borrowers. The idea is that funds grow and are recycled to other members of the community.

At all stages of the project there are checks, balances, and mechanisms whereby villagers can hold the project accountable. There are multiple channels of accountability in the project. Primary among these is that there are different channels for villagers to access information. In addition to the communities, the project is monitored regularly by project facilitators, local NGOs and AJI, an association of independent journalists. Each of these acts as a discrete center of support and information for villagers. Each also is relatively independent from local government and village elite control.

In addition, the project has other mechanisms of accountability. Among them are that:

- Project formats and contract documents do not allow for single signatures.
- All financial information about the project must be made transparent and publicized widely at all times. This takes place mainly through village meetings, local media, and posting information on community noticeboards
- Accountability mechanisms whereby villagers can oversee project funds are built into the project cycle.

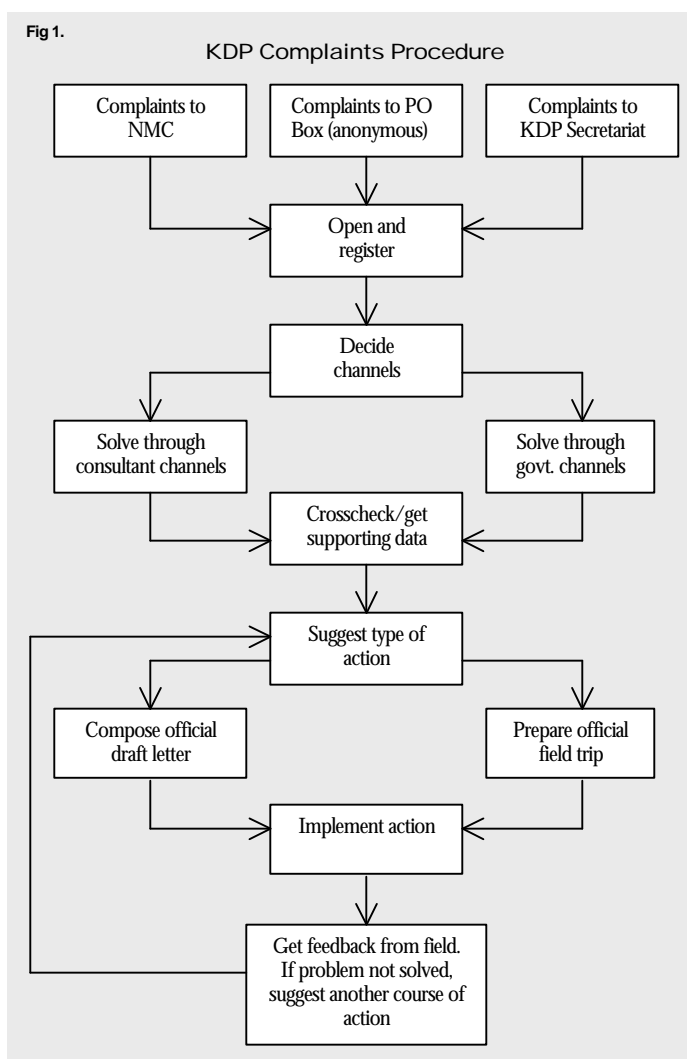
Complaints

What happens if there is a complaint?

One important element of the project is the independent, centralized system of assistance and complaints follow-up. As a government project, KDP is formally implemented through government channels, although there is no government control over funds. At each level of government, from the national to the village level, a government representative is formally responsible for KDP. This management system is matched at each level by independent KDP staff – the KDP consultants and facilitators, who at village level are elected and at higher levels are recruited. At national level, the project is administered by the government's KDP Secretariat, matched by a KDP body called the National Management Consultants (NMC).

If there is a problem in a village, it can be reported directly to the national level of KDP, at which point it sets into motion an automatic complaints resolution process (Fig 1). Although this process is not designed as a substitute for local problem-solving mechanisms, it does mean that, when pursuing their complaints, villagers have redress to powers that are independent of local power dynamics. This is a crucial factor in giving villagers control and ensuring that local government and local elites do not have *carte blanche* over their actions.

Facilitators play a special role in KDP. There are both village facilitators (FDs) and *kecamatan* facilitators (FKs). Village facilitators are elected. They receive a small honorarium to help spread information about



KDP, ensure broad participation, especially by marginalized groups in the village, and to help serve as a help and contact point. *Kecamatan* facilitators are recruited. They run the project at sub-district level together with their government counterparts. They are responsible with village facilitators for spreading information and ensuring participation in KDP. They also serve as a contact point between the villages and the project, and help with the complaints-resolution process. Community members often find it easier to complain to their local facilitator rather than directly to the KDP Secretariat. Out of 124 complaints received by KDP in its first two years, 89 were from KDP staff and only 13 from community members themselves.³⁰

The role facilitators play in limiting corruption in KDP is crucial. First of all, they act as conveners for the project, by getting villagers to come to project meetings. The extent to which villagers participate depends largely on the quality of facilitation. If the facilitator succeeds in ensuring wide participation and transparency, it makes it much more likely that corruption will be protested against. Second, facilitators are an independent source of information, both for villagers and for project staff higher up. They can give villagers information about projects and KDP procedures, and they can help check facts if accusations are made. Many facilitators are from NGO or reformist backgrounds, and so can act as independent sources of other information pertinent to the villagers' experience of political change. Third, the facilitators have a power base independent of government and local elites. They need not fear redress if they get involved in pursuing corruption cases: indeed, it is their mandate. Their role in limiting corruption in the project is thus vital.

This does not, however, mean that facilitators are never involved in corruption themselves. Approximately 13% of corruption cases reported to KDP are alleged to involve facilitators. When facilitators themselves are involved in corruption, it makes it especially difficult for villagers to report it. It thus becomes especially important that villagers know that corruptors will be pursued in KDP, even if the corruptors are KDP facilitators.

Fear of complaining: why do it?

Fear and intimidation play their part in KDP. Although villagers are encouraged to report corruption cases to KDP, and although they are assured that the allegations will be pursued, there is no guarantee of safety for those who report corruption. KDP may discourage but it cannot prevent retribution for whistleblowers, and several cases of intimidation have been reported to KDP. Intimidation takes place outside the village level too: KDP's independent monitors at regional level – NGOs and AJI, the association of independent journalists – have also been threatened.

The question of motivation then remains. Given the history of impunity in villages, and given that villagers may put themselves at risk for reporting corruption, why do villagers complain? We don't know. But a few pertinent facts point to the importance again of costs and benefits. Villagers rarely complain as individuals. To do so would be to put themselves at risk. They do tend to complain as groups. This spreads risk, but does not dilute the benefits of complaining. Villagers tend also to use facilitators as a means of complaining. And, although facilitators too are subject to intimidation, their risk is smaller because they are backed by KDP. The motivation of groups of villagers to complain depends largely on how confident they are that action will be taken if they do. This depends mainly on the strength of

³⁰ Details of reported complaints can be found in the KDP Annual Report. *Kecamatan* Development Program. *Second Annual Report 1999/2000*. Jakarta: *Kecamatan* Development Program National Secretariat: September 2000.

socialization in the villages. In some sense KDP has been a test case; villagers say they have reported corruption because they have been assured that this time, it will be different: cases will be pursued and sanctions applied for wrongdoing.

Sanctions

Sanctions for corrupt behavior are built into the project cycle and, crucially, are made known ahead of time. KDP facilitators and consultants run the risk of being dismissed or criminally charged if exposed with corrupt behavior. Government officials may be fired or, more commonly, rotated to less desirable posts, hierarchically or geographically. This can be an unpleasant experience for local civil servants, especially if they have extended families and other ties in their communities.

The World Bank and the Government have other sanctions at their disposal in KDP. They can cancel contracts with firms that manage and recruit local KDP staff. They can, if necessary, disqualify particular districts or provinces whose corruption problems are particularly bad. Finally, as a last resort, the World Bank can delay, suspend or block disbursement of the loan. The use of sanctions has proved especially important in fighting corruption cases in KDP. One of its biggest challenges is how to apply sanctions that are credible enough to act as a disincentive towards corruption.

Different types of corruption in KDP

Corruption cases in KDP range from the imaginative—20 chickens being valued at a somewhat expensive US\$2000—to the mundane but common—kickbacks to village officials and collusion in the procurement of goods. Most of the cases can be put into a few broad categories. The categories are not exclusive; indeed, most cases of corruption have elements of more than one.

One of the most common types of corruption in KDP is **mark-ups** on budgets, which usually involves some element of **collusion**. Most of the time, the budget mark-ups are reversed: what happens is not that budgets are inflated in advance, but that once budgets are agreed, implementation teams substitute cheap materials for those originally specified and pocket the difference in cost.

Panasakan: pocketing funds for implementation

Villagers in Panasakan, a small village in Central Sulawesi, noticed that the amount of wood delivered to the village seemed small compared to the amount allocated for the wood in the budget. When they conducted a field audit, they concluded that 8 cubic meters more of wood, worth about Rp 3.6 million, should have been delivered to the village. In this case, it was suggested that the head of the village implementation team had bought less wood than specified in the budget and had pocketed the difference. He was accused of colluding with wood seller to verify his story. This particular case is interesting because it was complex: on his part, the head of the implementation accused the villagers themselves of stealing some of the wood, and at a meeting to discuss the problem some villagers did indeed admit doing so. They claimed, however, to have taken only just a tiny portion of the amount missing. It is an interesting case of **complexity**: in some corruption cases all parties may have dirty hands, including those who are relatively powerless. The case also is a good example of the point, made often in the corruption literature, that it can be difficult to find proof of corruption. In this case, the receipts, which were the only possible source of proof, were allegedly forged.

Another common type of **collusion** is when **false borrower groups** are formed to get KDP credit. According to KDP credit rules, a group that wants access to credit may borrow funds only if it has existed

as a group for a year prior to borrowing the money. This is to strengthen social capital and to increase the probability of repayment. Often, though, people are persuaded to pretend to belong to a borrower group, but the money borrowed collectively by the 'group' finds its way only to one or two people, usually already relatively well-off.³¹

A third type of corruption seen in KDP consists of **bribes** and **kick-backs** to officials. These are rarely overt, but will come in the guise of money to 'process' papers for KDP or other such administrative need. Success in obtaining these bribes depends on villagers' ignorance about KDP's principles and an expectation on their part that KDP will be like previous development projects in the village.

Tips and bribes in West Sumatra

In Sungai Beremas, West Sumatra, the village head allegedly received two types of bribes connected with KDP: several small-scale bribes of Rp 50,000 each so that he could 'process papers' for villagers to gain access to KDP credit, and four bribes of Rp 500,000 each that he was accused of asking for directly by knocking on a few villagers' doors in the middle of the night, wearing his government uniform and asking for the money. When we spoke to members of the financial management unit in the *kecamatan*, they insisted at first that the smaller bribes were perceived as 'tips', not bribes. It was just '*uang lelah*' they said, and was standard practice. They claimed also that, because the money came from the villagers' pockets and not from KDP funds, that it did not count as misuse of money in KDP, even though they admitted, after our questioning, that probably if the villagers had not paid the money, they would not have received KDP credit. 'Oh please' responded the team leader of the *kecamatan* facilitators later when told about these 'tips'. 'Do you think the villagers would just give money to the village head if they didn't have to?'

There are also instances of **nepotism** in KDP. Often, TTDs, technical advisors chosen by villagers, are chosen through nepotism: friends or relatives of village elites may be chosen as technical advisors even though their qualifications, if any, are inappropriate. This lack of technical expertise means that infrastructure is built badly or even dangerously.

Many of the corruption cases in KDP, especially the larger ones, are complex and involve many different types of corruption. They fit most appropriately under the umbrella of straightforward **theft**. Jayawijaya district in West Papua (Irian Jaya) is a good example. In Jayawijaya approximately Rp 3 billion went unaccounted for, through the theft and collusion of the district-level technical consultant, contractors, suppliers and the district co-ordination team, possibly with the involvement of local KDP consultants and local government: in short, a complex, large-scale operation.

KDP thus operates in a context where corruption is made easy by bureaucracy, impunity, fear, and a lack of accountability. It is a context, though, that is shifting: political changes may be altering local power dynamics in ways that reduce the fear of protest, and decentralization legislation may be opening up avenues of representation and accountability.

How much corruption is there in KDP?

Measuring corruption is difficult. A closer look shows why. At first glance, KDP seems to have startlingly low levels of corruption for its size. By the end of August 2000, only 124 complaints had been made to the

³¹ One indicator that a group might be false is when each member of the group has ostensibly borrowed the same amount of money: it is unlikely that a genuine calculation by group members of their individual borrowing needs and capabilities would yield such a uniform result. However, this isn't *necessarily* an indication of corruption. Often false groups are formed so that all their members may get money, not just a few.

national KDP Secretariat concerning alleged corruption, contravention of procedure or inappropriate government intervention in the project.³² If taken at face value, such low figures would be unprecedented for a project operating in so many thousands of different villages across Indonesia.

The figures alone, however, do not tell much: they exclude cases that do not reach the national level of complaints resolution, and, most importantly, leave out cases not reported at all. In other words, there is a significant selection bias.

Other indicators of corruption are similarly problematic. Because procurement in KDP is decentralized, there is no way of knowing whether differences in project costs across locations reflect different levels of corruption or simply reflect different prices. Furthermore, a project of the type and size of KDP has not yet been attempted in Indonesia, so strict comparisons with other projects are hard to pin down. Any measures must therefore necessarily be rough.

Nevertheless, rough and 'dirty' indicators indicate that there is less corruption in KDP than in other projects in Indonesia. The best indicator we have is cost. It costs KDP approximately 20-30% less than other projects to deliver the same kind of benefit.³³ Although it is hard to gauge with certainty why KDP is so much cheaper, it is almost certain that corruption-related factors play a role. KDP funds pass through fewer intermediaries than funds from other projects, and KDP infrastructure is built by villagers and not contractors, giving fewer opportunities than in other projects to skim off funds. A second indicator that there is less corruption in KDP than in other projects is that villagers say there is less corruption in it. This suggests that involving communities in managing their own projects, and using simple, direct means of transferring funds, is a useful project design element in limiting corruption.

Anti-corruption, politics and protest: the white shroud of Sidoarjo

According to one *kecamatan* facilitator in Central Sulawesi, villagers in Sidoarjo village were pleased to see that KDP's emphasis on transparency and participation gave good quality, cheap results. So pleased were they, in fact, that they grew to expect such standards from all their projects. When a contractor for a government-funded village project to build a bridge bought poor-quality wood with the funds, the villagers decided to take action. They took the wood and wrapped it in a white cloth so that it looked like a shroud. A group of them then got together and delivered this 'wood coffin' to the regional parliament. They stood in front of the legislators, chanting. 'We don't want any more projects like this,' they said, pointing at the white shroud. 'We only want projects that involve the people, like KDP.'

Incentives for corruption in the KDP project cycle

A major part of this report consists of an attempt to map the opportunities for corruption in KDP by examining the project cycle step-by-step to analyze the incentives for corrupt behavior for each major actor

Throughout the project cycle, there are three important areas of risk. The first is that village elites will try to dominate the project, mainly so that they have an opportunity later in the cycle to secure kickbacks. The second is that technical assistance will be chosen through some form of nepotism and not on merit. Although the amounts of money involved here are relatively small, this has serious ramifications for the

³² *Kecamatan* Development Program. *Second Annual Report 1999/2000*.

³³ This figure is drawn from a study conducted on infrastructure in KDP. *Kecamatan* Development Program. *Studi Teknis Sarana/Prasarana*. Jakarta: *Kecamatan* Development Program, 2001.

quality and safety of infrastructure built. The third is that village implementation teams misuse funds to buy materials. Again, apart from the value of the money misused itself, this usually has detrimental impact on the quality of infrastructure.³⁴

The other major source of corruption lies outside the project cycle. A KDP investigation found that there was substantial misuse of operational funds for KDP, which constitute 3% of total project funds. Facilitators for KDP at *kecamatan* level and above are recruited and managed by consulting companies hired to administer the project. The administrative funds allocated are supposed to cover facilitators' salaries, transport costs, and other operational expenses. Many of these companies, however, misuse these funds, pocketing in some cases up to half the money they receive. They cover their tracks by issuing false invoices to the project, claiming reimbursements, for instance, for computers that were never bought. KDP II, the second phase of KDP, will not use such firms and will administer the project directly.

This is an overview of the results of the incentive-mapping exercise:

STAGE	OPPORTUNITIES FOR CORRUPTION
(1) Dissemination of information & selection of consultants	Low <ul style="list-style-type: none"> • But risk of nepotism in choosing consultants & elite capture for later kickbacks
(2) Socialization: villagers learn how the project works and what their rights are	Low <ul style="list-style-type: none"> • But risk of elite capture
(3) Villages prepare proposals	High <ul style="list-style-type: none"> • Kickbacks with selection of TA; collusion; budget-mark-ups; false groups formed to get micro-credit
(4) Technical teams look at the proposals to see if they are feasible	Low <ul style="list-style-type: none"> • But incentive to try to influence results of assessment in village's favor
(5) Villages choose proposals that will be funded	Low <ul style="list-style-type: none"> • But incentive to simply split funds among villages: leads to bad projects
(6) Preparations for implementation: funds are released	High <ul style="list-style-type: none"> • Main threat is collusion among three signatories of bank withdrawal to take a cut of funds before transferring to village
(7) Implementation: <ul style="list-style-type: none"> • Materials are bought • Village labor is mobilized • Roads & bridges are built 	Extremely high <ul style="list-style-type: none"> • Most common source of corruption in KDP (apart from operational funds & consultants' payments) is with procurement of materials. Implementation teams buy cheaper materials than those specified and pocket the difference.
(8) Post-implementation: <ul style="list-style-type: none"> • Loans repaid; revolving funds set up • Maintenance of infrastructure 	Medium <ul style="list-style-type: none"> • Loan repayments managed badly; risk of corruption with user fees for maintenance.

³⁴ Sometimes it means that projects cannot be built at all. In one village which wanted to build a clean water system, for instance, the village implementation team bought pipes that were smaller in diameter and cheaper than those originally specified. The pipes, though, were suitable only to cover electricity wires and not for water, so they could not be used at all.

Preventing corruption in KDP: using designs to change the opportunity structure

KDP contains several design features that work to limit corruption. The basis of all of them is that

KDP hands management control of the project to villagers.

Handing control to villagers has broad benefits. It strengthens social capital and promotes local ownership, empowerment and sustainability. But more pertinently, it enables corruption to be limited in a project where close supervision is almost impossible— a project spread out over more than 20,000 villages nationwide. It does this by creating a structural incentive: if the people who control the project are those who benefit most from it, they have an interest in not letting money disappear.

It cannot, however, do it without support and without a project design that limits the opportunities for corruption. The features of KDP's design that are most effective in limiting corruption are:

PROJECT DESIGN FEATURES	
Community control & simplicity	<ul style="list-style-type: none"> • Direct transfer of funds • No local government control • Villagers control budgets • Financial formats are simplified so villagers can understand them.
Socialization	<ul style="list-style-type: none"> • Villagers learn how the project is supposed to work, what their rights are and what to do if they are unhappy.
Transparency	<ul style="list-style-type: none"> • All financial information is made public and publicly displayed in villages • Complaints database will be published in newspapers
Limited monopoly	<ul style="list-style-type: none"> • All goods to be procured require at least three quotations
Limited discretion	<ul style="list-style-type: none"> • All financial transactions require at least three signatures
Accountability mechanisms	<ul style="list-style-type: none"> • Regular village meetings to account for funds. Disbursals can be suspended if misuse of funds is suspected.
Monitoring & follow-up	<ul style="list-style-type: none"> • Regular project monitoring, complaints tracking & follow-up • Independent monitoring by civil society groups & journalists

1. Community control & simplicity

KDP hands control of the project from local government to villagers and, by making the project simple, enables villagers to participate. First, funds are transferred directly from the center to *kecamatan*-level bank accounts, with *no local government control* over funds. It also gets rid of all the bureaucratic procedures usually associated with development projects, such as intermediary forms and approvals. This represents a radical break from past village projects. By getting rid of red tape and direct government management, it minimizes in one step many of the opportunities to skim funds from the project. Second, villagers control project budgets, and financial formats are simplified so villagers can understand them. Villagers have an incentive to prevent corruption in KDP projects and, because financial formats are simple, they can see clearly when money seems to have gone missing.

2. Socialization

I think the villagers are brave in reporting problems because of socialization in KDP. We have told them that 'this program is your program'. They've been waiting a long time for a program like this. Before, they never had one.

Kecamatan Facilitator, Baolan, Central Sulawesi

Socialization is the process by which villagers in KDP learn their rights. It takes place through a long process of information dissemination. About six months before the start of the project, KDP facilitators start disseminating information about KDP by holding open village meetings; meeting with small groups of villagers, including women-only groups; talking about KDP at local gatherings, including prayer meetings and local savings groups; and publicizing information about KDP on village notice-boards. In this way, villagers are able to learn about their rights in KDP and about what to do if they are dissatisfied with it. Most *kecamatan* and village facilitators feel that socialization is the key to preventing corruption in KDP.

When villagers *don't* know their rights, it creates the space for corruption:

Powerlessness and corruption in Sungai Beremas

Pak Darmen [not his real name], a poor fisherman, borrowed money from KDP to expand his fishing business. But the night he received the money, the village head knocked on his door in the middle of the night and asked him to hand over Rp 500,000, a third of the total amount. The village head told Pak Darmen that the money was for some other people who also deserved it, though didn't say who these people were. Pak Darmen felt sorry for the other poor people, but he also needed the money himself. Still, he didn't think he could protest. This village head, a temporary replacement, was an official in the office of the sub-district head (*camat*).

'All I knew was that this person was from the *camat's* office,' said Pak Darmen. 'He was wearing his uniform. When he asked for the money... I thought I had to give it to him.'

Later, some other villagers told Pak Darmen that he had been stupid. They told him that in KDP he didn't have to give the village head any money, and that the village head had fooled him.

'When I heard this,' said Pak Darmen, 'I felt sad.'

From interview with Pak Darmen, Sungai Beremas village, West Sumatra

3. Transparency

Socialization provides communities with the impetus for controlling corruption in their projects. Transparency provides them with the information to do it. Most corruption cases reported to KDP's secretariat have stemmed initially from complaints from villagers themselves. According to KDP rules, all financial information must be publicly disclosed. This includes details of budgets for original proposals; information about salaries and honoraria for all project participants; market prices of materials for infrastructure; details of funds borrowed as micro-credit and rates of repayment; details of bank withdrawals; and receipts and accounts for all project monies spent. *Putting information in the hands of participants* is the key to KDP's anti-corruption strategy.

This is not always easy in practice. Requiring that all financial information be made transparent directly threatens the material interests of those who traditionally have benefited from the 'informal payments' of previous development projects. And, since people tend not to demand what they do not know, communities tend not to insist on transparency. There are thus concrete obstacles to achieving good levels of transparency in the field. In more than one *kecamatan* in Aceh, for instance, the *camat* tried to ban the publication of financial information on community notice-boards across the sub-district. In other cases, financial information is posted publicly, but in a way that is dull and hard for villagers to understand.

The question then becomes how to institute transparency in practice at community level. KDP has taken several measures to try to do this. First, it has banned the issuing of written invitations to village meetings. Written invitations send a message of exclusivity rather than inclusiveness; people that are not formally invited feel they cannot come. KDP insists instead that meetings are arranged by public announcement. Second, KDP has moved away from written media towards oral media. It has also moved away from disseminating information at village-level meetings and towards hamlet-level meetings, which tend to be better-attended, especially by poor people. Furthermore, following a local institutions study, it has moved towards using local institutions for transparency: using prayer groups, for instance, to distribute information. At the heart of this is the idea that villagers are best at giving information to other villagers in ways that are interesting and make sense.

4. Limited monopoly

The provision of goods and services in KDP is privatized. Supplies for building infrastructure are procured not centrally but through each individual village implementation team. Each team is free to buy materials from whichever supplier they want, as long as they get three price quotations first and read the quotations out at a village meeting. There is thus no monopoly over the provision of supplies in KDP. This keeps costs down and also limits supply-side corruption and price inflation.

5. Limited discretion

Discretion refers to the extent to which any individual actor has exclusive control over his actions. Where a single actor has wide discretion, corruption is made easier. For instance, if one person, or one small team, is responsible for buying materials for a project, they can easily pocket project funds if they are not obliged to account for monies spent to others.

Discretion is limited at most stages of the KDP project cycle by requiring all financial transactions to have at least three signatures. This makes it difficult for any one actor to misuse money. The areas most at risk of corruption are those where discretion is not limited enough: for instance, with the procurement of goods for building infrastructure. KDP is trying to limit discretion in villages further by encouraging the formation of village teams to check and verify any monies spent. Such teams would be composed entirely of villagers and would be unpaid. This is to create the right incentives for joining the teams and so that the teams do not become sites of material reward and potential corruption.

6. Accountability mechanisms

Built into KDP are mechanisms of accountability whereby those involved in running it have to account *downwards* to villagers for all monies spent. The primary vehicle for this is the *Musbangdes Pertanggungjawaban*,

a village meeting to account for funds. Funds for KDP cannot be released in a single tranche to the collective village accounts; instead, they are released in a staggered three-stage process. After 50% of the project has been implemented, villages have to hold a *Musbangdes Pertanggungjawaban*. If villagers feel that money is misused, the next stage of disbursement can be blocked until the problem is resolved. This creates pressure on KDP participants not to misuse money and increases exponentially the chance that if they do they will be found out.

Participants in KDP often do not take its accountability mechanisms seriously. However, a significant proportion of cases reported to KDP have arisen because people entrusted with project resources have had their account of how project monies were spent refused at a *Musbangdes Pertanggungjawaban*.

Socialization, transparency, accountability and follow up: the case of Tangga Batu Dua village

In Tangga Batu Dua, a village near Lake Toba in North Sumatra, villagers were suspicious that the village implementation team had misused project funds allocated to build a clean water system. Villagers had learned about KDP's principles at the first KDP village meeting and had participated in forming the proposal for funding. They knew which types of pumps were specified for the system in the original budget, and knew how much they should cost.

The villagers became suspicious, though, when the village implementation team came back with pumps of a cheaper brand than that specified in the proposal. 'We were suspicious that the money had been misused,' said one villager, '[but] the implementation team didn't want to discuss with the people what they done with the money. But we knew they were supposed to. So we thought something was wrong.'

The villagers decided to do something about the problem. They organized themselves and formed an audit team. The audit team checked all of the books of the village and saw that, indeed, there seemed to be some kind of discrepancy. They saw also that the implementation team had been paying themselves a salary over and above their official honoraria. According to the villagers' calculations, approximately Rp 13 million in total had been misused.

At the village meeting to account for funds, the villagers presented their information and refused to approve the account made by the village implementation team for how monies had been spent. The villagers fired the implementation team, formed a new one, and decided that the old implementation team should repay the money. They tried to follow up the problem also through KDP channels with the involvement of local government.

A month later, a decision was made at a meeting between the implementation team, the audit team, the *kecamatan* facilitator and local government officials that the old implementation team should repay the money or suffer possible legal action.

Three months later, the money still had not been repaid. The villagers decided at this point to take legal action. At the time of writing the report, the villagers had been advised by KDP facilitators to seek help from a legal aid foundation to support their efforts to resolve the problem.

6. Monitoring & follow-up

The final element of KDP's project design that works well to limit corruption is monitoring and follow-up. KDP has a comprehensive monitoring system that is both internal and external. Internally, the project is monitored by the villagers themselves, KDP field consultants, national-level KDP staff, local government officials, the government's Finance and Development Supervisory Agency (BPKP), and World Bank staff on supervision trips. The project is also regularly scrutinized by independent external monitors, consisting of local NGOs and AJI, the Association of Independent Journalists. All complaints are made public.

The Complaints Handling Unit at the KDP Secretariat follows up corruption cases and maintains a comprehensive database of complaints. It does not have the capacity to investigate single-handedly every corruption case that arises, though it endeavors to follow up as many as possible. Instead, it publicly investigates cases at *random*. This sets a crucial precedent. When villagers and village elites see that complaints are followed up, it breaks the cycle of years of impunity. It gives villagers a future incentive to protest against corruption, and, by increasing the probability of punishment, tilts the cost/benefit calculation of corruption away from corrupt behavior. When village elites know there is a good chance of being caught, engaging in corrupt behavior becomes a much more risky enterprise.

The involvement of different, independent actors in the information and monitoring system breaks the monopoly over information in KDP. The communities, KDP staff, NGOs and the Association of Independent Journalists are independent channels of information, all of which can be cross-checked against one another. However, despite their independence from another, these institutions form a coalition of actors that can work in concert to support anti-corruption in KDP. This in turn strengthens civil society, a crucial component of anti-corruption activities.

Bukit Kemuning: strengthening civil society through fighting corruption

In Bukit Kemuning, Lampung, a broad range of independent KDP actors was mobilized to work in coalition to resolve a corruption case.

The local sub-district head (*camat*) was accused of distributing funds for the first installment of Cycle Two of KDP directly to village heads and keeping a portion for himself. He was accused of calling six village heads to his office one-by-one to give them their village's 'share' of KDP funds, and of keeping Rp 20-30 million from each village as a cut to himself. One of the village heads, however, sent out a general letter reporting that this had happened. He sent this letter to the local newspapers and reported the case to the police. The other five village heads later sent letters of complaint too.

The local government coordination team, together with local KDP consultants, reported the case to the Complaints Handling Unit in the National Management Consultants of KDP. At this stage, the governor of the province sent a letter to the district head, the *Bupati*, asking him to resolve the problem or risk administrative sanctions. Later, however, it was discovered that the *bupati* and the local head of the district attorney's office were related to the *camat*. The KDP facilitator was discovered to be implicated in the case and was fired, and the local Inspectorate investigated the case but did little to resolve it.

Within a few months of the case being reported, there had been little progress on the case. So the NMC tried to garner support for the case from a broad range of actors. First, it approached the local legal aid NGO, *Lembaga Bantuan Hukum (LBH) Lampung*, to see if it could help. The six village heads involved got together and gave power of attorney to this NGO to act on their behalf in prosecuting the case. And during the following month, LBH and one of the village heads met with the police, the District Attorney's office, the local parliament and press in order to press for action on the case. In July, six months after the case had originally been reported, villagers from five different villages protested in front of the district attorney's office demanding action on the case. Finally, the district attorney agreed to call the *camat* in for questioning. In June of 2002, after months of pushing by LBH and media interest in the case by local journalists, the *camat* was found guilty of corruption by the local court, but at the time of writing this report had not yet been imprisoned.

Fighting corruption in KDP: making the design operational

The previous section of the paper discusses which features of KDP's project *design* work best to *prevent* corruption. This section discusses which strategies work best in the field to *combat* corruption.

1. Enforce sanctions

The intervention that contributes most to the overall success of KDP's anti-corruption efforts is that sanctions are enforced. The most effective tool that KDP has for doing so is that it can drop specific areas from the project if widespread corruption is found and no serious attempt is made by the local government to stop it. KDP funds commonly represent a significant stream of local revenue and, because the project is heavily 'socialized' and it funds highly visible infrastructure such as small roads and bridges, KDP is highly visible at the local level. The threat of dropping funds from a particular area thus carries some weight.

Sanctions are not enforced uniformly in KDP and there is room for the project management to make an even more concerted effort to do so. Nevertheless, KDP has enforced sanctions in a few clear and highly visible cases: the entire district of Jayawijaya in West Papua was dropped from the project, funds for the entire province of South Sulawesi were suspended, and the district of Tapanuli Selatan in North Sumatra was in the process of being dropped at the time of writing the report.

The evidence that these actions have had a serious impact, particularly on the perception of the boundaries of corrupt behavior in KDP, is overwhelming. Project staff report that few things have enabled them to convince local governments that KDP will not tolerate corruption more than the evidence that KDP has followed through on its threats to cut funding elsewhere: in other words, 'put its money where its mouth is'. Enforcing sanctions credibly thus has a dramatic effect on the calculation by potential corruptors of the risks of punishment for corrupt behavior.

Two aspects of this are noteworthy. First, it highlights the principle, widely accepted in the anti-corruption literature, that 'frying big fish' is a particularly effective way of fighting corruption.³⁵ Applying sanctions to some important players breaks the cycle of impunity by showing that no player is immune from punishment by virtue of being powerful. The second is more specific to KDP but is easily applicable to other multi-level projects. KDP is able to apply sanctions at the level *above* that at which the offence has taken place. For instance, if one district has been particularly corrupt, KDP can threaten to drop the entire province from the project, which gives the provincial government an incentive to act to combat corruption. In other words, the project is able to play with the incentives acting upon different parts of the project structure in order to combat corruption, even when the ostensible interest of each part of the structure lies not in fighting corruption but elsewhere (in this case, the provincial government's interest in not losing funding for all districts because of corruption in one of them).³⁶

2. Publicize

Publicity is crucial. It makes communities involved, raises the social costs of corruption, makes it more likely that people will protest, and reduces the risk of protest. Indeed, most anti-corruption measures, such as increasing sanctions, are useless *without* publicity. Publicity also increases the cost of failure. If communities see that an anti-corruption drive is unsuccessful, it will make them even more convinced that corruption is an unchangeable feature of life.

An important part of a successful anti-corruption drive is to *start with something easy and visible*.³⁷ If a starting point can be picked where the chances of success are good, it encourages people's involvement and

³⁵ See *Corrupt Cities*.

³⁶ This is made easier by the fact that KDP is such a big project and that it carries political weight of its own.

³⁷ This point is made by Klitgaard in *Corrupt Cities*.

strengthens the chances of success later on. Similarly, if a powerful and well-known figure is involved in corruption and can be held publicly to account, it sends a powerful message that the anti-corruption measures are not simply cosmetic.

Preventing corruption by powerful figures

In *Kecamatan* Palipi, North Sumatra, the new sub-district head (*camat*) was accused of ordering her subordinate, the 'PjOK', to attempt several types of corruption in KDP on her behalf. These included trying to get the *camat*'s husband a place on the KDP financial management committee; cutting 15% of project funds so that they could be distributed among local government officials; and using KDP funds to buy a cow to be slaughtered and divided among staff of the *camat*'s office for Christmas.

The PjOK refused and reported the *camat* to KDP. This civil servant had been involved in KDP prior to the new *camat*'s arrival. She said that she felt she could report the *camat* because in KDP, she knew there would be follow-up

"I knew that if I reported the problem it would go to NMC and there would be follow-up," she said. "With KDP, it is the first time that civil servants are taught that they can write a letter to report problems like this one. Before, who would be brave enough to do this? Before, we just had to obey the boss... now it's different. There has been a change. There has been a big improvement."

The *camat* denied the accusations. The PjOK said that it would be difficult to fire or press charges against the *camat* because the only proof was her word. Nevertheless, members of the NMC, the KDP Secretariat and the World Bank paid special visits to Palipi to try to resolve the problem and to warn the *camat* not to attempt any similar actions in future. Community members in Palipi have also formed a special team to monitor the performance of the financial management unit, consisting of the *kecamatan* secretary, NGO representatives, and local villagers.

When thinking of publicity, attention must be paid to its *method*. Distributing posters and posting information on notice boards is often not the best way to reach people. For instance, in Jayawijaya district, West Papua (Irian Jaya), facilitators told a KDP supervision team that very few people looked at community notice-boards, partly because of low literacy levels and a strong traditional oral culture. Instead, attention must be paid to what methods of publicity work best locally. In KDP, this has meant thinking about how villagers lead their lives, how news travels organically in villages, and which points in villagers' lives can be harnessed to distribute information. The strategy arising from this has focused on a few key areas. First of all, it has focused on using media appropriate to the community. This includes not just the type of medium, but also the way the information is conveyed in it. For instance, KDP encourages local groups to produce posters in local languages and showing people from local ethnic groups. Second, it has focused on training village facilitators well. Facilitators are usually well-known village figures that have good networks of information and contacts. Third, it has focused on using pre-existing, local institutions to spread information. This means using prayer meetings, savings groups and other gatherings to distribute information.

3. Involve local stakeholders

The key to combating corruption in the field is to involve local participants in the anti-corruption drive – in KDP's case, villagers. Once villagers are involved, it creates a momentum for resolving the corruption problem much bigger than ever could be sustained by any external body. It multiplies the anti-corruption push. Also, when local stakeholders are involved, they resolve problems in ways that are meaningful to them rather than in ways that simply accord with project rules. For example, many locally pursued

corruption cases in KDP are not followed up through the law but through local *adat* conflict-resolution mechanisms. Sometimes, after doing so, villagers will decide that a case is resolved even though the accused has not repaid all the stolen money. They may decide, for instance, that the accused has suffered social sanctions so serious that the case may be considered resolved. In these cases, it doesn't matter that all the *money* has not been repaid; what matters is that villagers have gone through the *process* of combating corruption and have reached a solution that is meaningful in their local context and that acts as a *deterrent* for future corruption. This is what constitutes sustainability.

Local resolution of problems

In Rao Mapat Tunggal, a village in West Sumatra, villagers accused their village implementation team of misusing KDP funds allocated for building a village road. Villagers were suspicious because, although bought rocks for the road were specified in the original road proposal, they knew that the rocks and earth used for the road had simply been taken from the land surrounding the road site. So they suspected that some of the money had been pocketed. Furthermore, only 10% of the road's budget remained, but the road was far from being 90% complete.

The villagers decided to take action to resolve the problem. With the help of the village head, they organized a village *musyawarah*. At this discussion, they elected a team to get data and follow-up the problem. They also informed KDP.

Although the implementation team admitted misusing money at the first meeting, the problem took a long time to resolve. There were no fewer than 13 special village meetings to resolve the problem. After about four or five meetings, the head of the implementation team ran away from the village. By this time, it had been decided that he was the main culprit of the misuse of funds, since the other members of the team were not fully involved in its actions.

After several rounds of debate, the villagers decided to finish building the road through contributing their labor for free. 'At first some of the villagers didn't want to do this,' said one of the village officials, 'but in the end they thought it was better to finish the road rather than to go round and round in circles trying to get the money back. They knew that if they really waited for this, the road would not get finished'.

After building the road, they considered whether they should nevertheless pursue the problem through the law. But after some consultations, they decided not to, because by this time, their 'emotions had died down' and the road was complete. Furthermore, the main culprit feared the severity of his impending social sanctions so much that he had left town. When asked why, we were told that he would have suffered complete social ostracism, to the extent that he would not have been able to participate in village *musyawarah*, parties, weddings and other celebrations—indeed, 'all the activities.. that people have'. The villagers thus considered the case closed.

4. Piggyback onto local institutions

Involving local institutions in the anti-corruption drive is an important element in making it sustainable. If the anti-corruption strategy is able to involve local conflict-resolution mechanisms, such as *adat* law systems, and get local religious and cultural leaders involved, it has a greater chance of success. Again, this is because it is more likely that the solutions reached will be meaningful in their local context. It also gives the communities a sense of ownership over the anti-corruption drive, which is crucial to ensuring sustainability. At the very least, an anti-corruption strategy will have difficulties if it attempts to work against local institutions.

If we have problems here, we usually follow it up through the family. We also follow problems up through the adat system. The way it works is that we get the families of the clans together – the old people – and then we have a musyawarah. People hardly ever follow up their problems through the law. We don't do it because we feel united. We don't want to go to the law because we are all one family here. The adat system works well for what happens on the ground. The legal system is what works for the country.

- Villagers in Pagar Batu, North Sumatra

There is one caveat. It should not be assumed that because institutions are local they are democratic, beneficial to poor people, and benefit women or other marginalized groups. Often they are hierarchical, benefit the powerful, and work in ways to encourage corruption. With this in mind, however, *if* they can be involved in the right ways, it is more likely that the anti-corruption drive will succeed and be sustained.

5. Understand local power dynamics and attempt to get allies

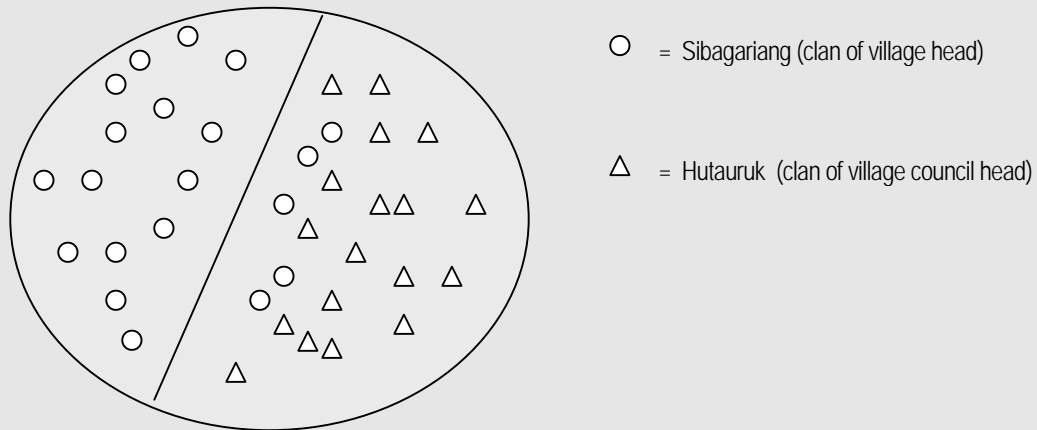
Successful anti-corruption strategies start with an understanding of local power dynamics. It is important to *identify leaders* and try to involve them in the anti-corruption fight. It is also important to understand how local power dynamics work to see if they can be exploited for the end of anti-corruption: are local leaders, for instance, concerned about securing a political power base? Could they benefit from being publicly associated with an anti-corruption drive?

In KDP, anti-corruption strategies have worked best when those fighting corruption have had allies. These allies need not necessarily be from government or be high up, but it helps. Where sanctions have been applied successfully in KDP, especially against local government officials, they have usually come from higher levels of government. If the 'hearts and minds' of leaders can be won over, the anti-corruption strategy has a much greater chance of success. KDP's experience with fighting corruption has been that once government officials are won over, they tend to become anti-corruption champions, even though their material interests are threatened. This paradox can perhaps partly be explained by a recognition on the part of government officials of Indonesia's changing political context and a desire to secure a broad power base. Local rivalries can sometimes work to aid the fight against corruption:

Rivalries and other social factors

In Hutaraja village, North Sumatra, the *village head* reported a corruption case to KDP. The village head suspected that members of one of the village councils, the LKMD, had misused money allocated to build a road in the village. After reporting the problem to KDP, villagers formed an audit team, which found that approximately Rp 6 million seemed to have been misused. At the community meeting to resolve the problem, villagers decided that members of the family of the village council head should be forced to finish building the road using their own free labor, to compensate for the funds that seemed to have been misused. But this wasn't enough for the village head, who reported the problem to the police and to the district lawyer.

What motivated the village head? We don't know precisely. But the *kecamatan* facilitator told us that in Hutaraja there was a certain degree of rivalry between the clan of the village head, *Sibagariang*, and the clan of the village council head, *Hutauruk*. The decision of the village head caused some conflict. Most members of the Sibagariang clan supported the village head, an members of the Hutauruk clan were opposed, though not without some overlap. The facilitator drew us a symbolic map of the village, showing who was for and against the action of the village head:



In this case, rivalry among different village clans meant that the corruption case was pursued more vigorously than it would have been otherwise. Interestingly, though, many of the villagers did not agree with the law being involved. "The villagers wanted to keep the problem in the village," said the facilitator. "It's their culture. And it's the same among all the Bataks, where clan ties are very strong. People don't like going to the law – the clan would be ashamed if one of their own was reported to the police. Clan members don't like it when there seems to be misuse of money, but they also don't like going to the law." This is an example of the relative importance of social sanctions over legal sanctions.

Modeling corruption: analysis of a case in KDP

A well-known model helps us to break down the elements of corruption. According to the World Bank, 'the *opportunity* for corruption is a function of the size of the *rents* under a public official's control, the *discretion* that official has in allocating those rents and the *accountability* that official faces for his or her decisions.³⁸ Discretion here refers to the exclusive power the official has to allocate the rents, a function of whether others are involved and how many checks and balances there are. Accountability refers to the likelihood that the agent will be caught and held responsible, a function, at least at local level, mainly of transparency and information.

This is a version of the well-known Robert Klitgaard model

$$\text{CORRUPTION} = \text{MONOPOLY} + \text{DISCRETION} - \text{ACCOUNTABILITY}$$

where the level of monopoly power and amount of discretion encourage corruption, and where the level of accountability discourages it. 'If someone has monopoly power over a good or service and has the discretion to decide whether someone gets that good or service or how much a person receives, and there is no accountability whereby others can see what that person is deciding, then we will tend to find corruption,' he argues.³⁹

The model tells us that we tend to find corruption where monopoly is high, discretion is high and accountability is small. However, it should be used as a rough guide only, not an equation. It is hard to measure monopoly, discretion and accountability, and this formula is not intended to be quantifiable. Instead of treating it as a mathematical or economic formula, we should treat it simply as a guide for helping us to break down the different elements in any given corruption case. Here is an example. of how to do it.

Tangga Batu Dua : the story analyzed

The case of Tangga Batu Dua, where villagers took to task the implementation team accused of misusing money to build a clean water system for the village, lends itself usefully to analysis. The corruption was two-fold. First, the implementation team bought a brand of water pump and other materials cheaper than that specified in the original proposal. Second, the team members paid themselves a daily salary in addition to their official project honoraria.

There are two calculations involved: first, the calculation on the part of the implementation team that they could get away with misusing the funds, and second, the analysis of the case itself, and which elements of the project made it impossible for the team to misuse the funds. The first involves a calculation of benefits and costs, based on the risk of discovery and punishment. The second depends on the level of monopoly, discretion and accountability in the project.

1. Benefits and costs: the village implementation team's calculation

The incentives calculation of the village implementation team is a function of their *perception* of the costs and benefits attached to corrupt behavior rather than the 'actual' costs and benefits, so any analysis of incentives is speculative. Nevertheless, various factors could have come into play:

(a) **Benefits.** The benefits, or the size of the 'rents' under the control of the implementation team, were relatively substantial.

³⁸ World Bank, *Helping Countries Combat Corruption: the Role of the World Bank*, p.12

³⁹ Klitgaard, *Corrupt Cities*, p. 27

Rp 93 million had been allocated for the village's KDP projects, Rp 84 million of which was for the materials and labor for building the four water units. By buying cheap materials and keeping the difference, and by paying themselves an additional salary, the team was accused to have collectively misused Rp 12 million among its five members.

- (b) **Costs.** It is unlikely that the members of the implementation team would have perceived the costs of stealing the money to be high. The five members of the implementation team were the village head; the village council (LKMD) head, and three others. None of these are classified as KDP staff so, unlike, facilitators, they cannot be fired by KDP. They thus faced three types of sanctions: (1) for the village- and village-council head, administrative government sanctions for attempted corruption, such as being fired; (2) for all, legal sanctions; and (3) for all, social sanctions.
- **Administrative sanctions.** With a long history of government impunity for corruption, it is unlikely that the village head and village council head would have feared the enforcement of administrative sanctions.
 - **Legal sanctions.** In view of (a) the high cost of pressing charges; (b) the difficulty of proving corruption; (c) the complications and delays of a weak judicial system; and (d) the widely-held and accurate perception that police officers and judges can be bought-off easily by the highest bidder, it is unlikely that the threat of legal sanctions would have been taken seriously by members of the implementation team.
 - **Social sanctions.** All members of the team were relatively powerful within the village and so it is unlikely, given the history of impunity for corruption in villages, that they would have viewed with alarm the threat of social sanctions. Here, though, they may have made a miscalculation, not having taken into account the extent to which villagers believed that they could protest against corruption in KDP. The culture of the area in North Sumatra, *Batak* culture, is reputed to be relatively egalitarian compared with other traditions in Indonesia, so it is more likely that the culture of impunity rather than a culture of social deference would have prompted the team not to take seriously the threat of social reprisals.
- (c) **Probability of being caught.** The village implementation team recorded their extra salary payment in the village books and defended these payments on the grounds that their official honoraria were supposed to cover certain tasks such as arranging meetings only, and not day-to-day activities associated with the project, for which they claimed they were entitled to payment. So it seems that with regard to these specific payments, they felt justified and so did not make a calculation based on being caught. It is unclear what they thought with regard to the supposed pocketing of funds through buying cheaper materials than those specified in the original plan. The team members would have been aware that they would have to account for how monies were spent at the *Musbangdes Pertanggungjawaban* (village meeting to account for funds). The most likely scenario is that the implementation team was overconfident that they could hide the misuse of money and, because of their experience of development projects in which there was a culture of impunity, underestimated the extent to which they would be forced to explain their actions.

2. Monopoly, discretion and accountability: the case disaggregated

- (a) **Monopoly.** What was the level of monopoly power over the goods and services involved in the case?

There are two sites of control. One is the monopoly any single supplier had over the provision of goods and services to the implementation team. Two is the monopoly the village implementation team had over providing those goods to the village.

- **Provision of goods to the implementation team.** Here, monopoly was limited. Part of KDP's design is to prevent monopoly by *privatizing the provision of goods and services*. No single supplier can provide materials for KDP; rather, village implementation teams choose from the supplier offering the cheapest price for the materials.
- **Provision of goods to the village.** Although no single member of the implementation team had a monopoly of any kind, the implementation team as a unit had a monopoly over providing those goods to the village. No other unit could provide the service. Given the small scale of villages, though, it might be unrealistic to expect that two implementation teams could be formed to perform the same service and bring bids back to the village so that villagers could choose between the bids: the likelihood is that the members of each team would all know each other well, precluding effective competition.

(b) Discretion. To what extent did the implementation team have discretion over their actions?

The members of the implementation team had high discretion over their actions. There were only five members of the implementation team, so it would be relatively easy for the five to collude in misusing funds. No other team of people was charged formally with checking prices, and there were few other checks and balances over the actions of the implementation team.

(c) Accountability. What was the level of accountability involved? The level of accountability in this case was ultimately relatively high, which is why the case was brought to the fore. Accountability here was a function of (1) socialization, (2) participation, (3) transparency and information (4) the checks and balances.

- **Socialization** . Villagers in Tangga Batu Dua were relatively well-informed about their rights in KDP and felt that if they reported a problem, something would happen:

Ten years ago, people were brave in reporting problems, but there was never a solution. So in the end we simply used to keep our mouths shut. But the kecamatan facilitator told us that this problem was not like [previous village development projects].. he told us that the project had to be run according to certain procedures, and if it didn't, it counted as misuse. That's why we want to report problems. Also, we know there will be a solution if we report problems. That what the kecamatan facilitator said... the facilitator told all the villagers about it. Everybody knows about the project – Villager

- **Participation.** There was a relatively high degree of community participation in the project, which translated into a high degree of ownership and thus a demand that it should work well. Each KDP village meeting was apparently attended by at least 40 people. All villagers we met were fully versed on the details of the case and all expressed an interest in resolving it.
- **Transparency and information.** Although the village implementation team was not transparent about how they had spent project funds, villagers knew that the team *should* be transparent according to project rules, so they became suspicious.

We were suspicious that the money had been misused because the implementation team didn't want to discuss with people what they had done with the money. But we knew they were supposed to³⁴we had learned about KDP at the first village meeting. So we thought something was wrong. – Ibu Sitorus, farmer.

Villagers had information about project procedures, their rights, and what to do if they suspected misuse of funds. They were also able to get information about prices of materials, a crucial element of their accusation that the implementation team had misused the project funds. Information thus played a major role in strengthening accountability.

- **Checks and balances.** In Tangga Batu Dua, villagers were able to use the *Musbangdes Pertanggungjawaban* as a check on the implementation team. This is a village meeting at which the implementation team must account to villagers for monies spent. The checks and balances built into the project design thus played an important role in limiting corruption.

III. Recommendations for improvement

Recommendations for improvements are in four parts :

- 1) Introduce measures to change the underlying system of **incentives** for actors in KDP
- 2) Introduce measures to **limit monopoly, clarify discretion, and increase accountability** for the project as a whole.
- 3) Introduce measures to **improve training and information** for KDP staff
- 4) Form a strategy to take into account the **future context** in which the project will operate.

Political assumptions

The recommendations are based on certain assumptions about the context in which the project continues to operate:

- **Weak institutions.** The institutions of state remain weak, in particular the ability of the state to enforce contracts. This means that, to a large extent, politics continues to be based around patronage. The recommendations are thus based around incentives and information rather than agreements and regulations.
- **Weak judicial system.** The judicial system is weak and subject to widespread corruption. The recommendations thus de-emphasize the law as a means of resolving corruption problems, though acknowledge that access to legal aid should be widened if people wish to pursue their problems through the law.
- **Systemic corruption.** There is widespread corruption in all institutions of state. This includes especially the high level of administrative corruption in the civil service. Civil servants continue to be paid an extremely low salary, and are expected to supplement their incomes by having second jobs and through various types of 'informal payments'. None of the recommendations are thus premised upon a lower level of corruption in government.
- **Relative freedom of the press.** The recommendations are based on the assumption that the press is freer than during the New Order period of government and can be harnessed to publicize corruption cases. However, the report recognizes that although press freedom has increased substantially at the national level, there is still a great deal of 'money politics' in journalism, and regional media especially are still subject to elite influence and intervention.
- **Increased political freedoms.** The recommendations assume that 'civil society' is more free than during the New Order period, and that to a limited extent, barring conflict zones such as Aceh, space has opened up for political protest. They thus assume that if villagers see a problem and have information about it, they will be able to harness their institutions to protest.

Incentives

The key premise of the report was that corruption is primarily a problem of incentives. It argued that the most important part of any sustainable anti-corruption strategy was to change the underlying system of incentives such that agents were no longer motivated towards corrupt behavior. It suggested that anti-corruption strategies that focused simply on morals or on strengthening regulations were unlikely to be effective.

This is even more compelling in an environment where corruption is systemic and the judicial system has almost no power to enforce sanctions. In a system where corruption is widespread, the level of honesty needed for any individual actor to take a moral stand against corruption is high, because honesty simply does not pay.⁴⁰ In a system where the judicial system is unable to enforce contracts and regulations, it makes little sense to make them the focus of an anti-corruption strategy. Indonesia has such an environment.

The findings from our fieldwork support our hypothesis. At the heart of KDP's anti-corruption strategy should be an emphasis on incentives. At each stage of the project cycle, this means instituting reforms that:

- decrease the benefits of corrupt behavior
- raise the costs of corrupt behavior
- close the loopholes for corruption
- increase the possibility of being caught and held accountable

The recommendations made in the main body of this report are kept general enough for them to be applicable across different projects. Concrete recommendations relating exclusively to KDP were made separately. Those stemming directly from loopholes in the project cycle can be found in the body of Annex II, which consists of a detailed breakdown of different stages of the project in terms of the costs and benefits of corruption for the main actors involved.

Two themes emerged from the incentives analysis of the project and the fieldwork: the effect of 'socialization', or information-spreading, on how villagers perceive their interests, and the importance of social norms as a motivation for action. Both need to be addressed when making recommendations for change.

Information

'Socialization', in KDP terminology, is the process through which communities learn about KDP's procedures, their rights, and what to do if they have complaints about the project. It consists of a long process of information-dissemination that starts about six months before project proposals are submitted. During this process, an emphasis is placed on anti-corruption. Facilitators stress to communities that KDP

⁴⁰ Bardhan points out that the idea that corruption is an example of frequency-dependent equilibria is common in the literature. Here, the 'expected gain from corruption depends crucially on the number of other people we expect to be corrupt'. If all are honest, it does not pay to be corrupt, whereas if all are corrupt, it does not pay to be honest. Bardhan, "Corruption and Development: A Review of Issues".

is 'different' from previous village development projects, that it 'belongs to them', that corruption will not be tolerated, and that they have some redress if they suspect it.

Villagers have to take this in good faith. With the long history of impunity for corruption, there is no reason for them to think that KDP will be any different from previous village development projects. This makes it crucial that it is indeed different: if it is, it sets a precedent for the future; if it isn't, it sets into stone a culture of apathy and cynicism. Villagers are thus taking a gamble when they believe that KDP is 'different' and that they can protest against corruption in it.

One of the most remarkable things we observed during our field research was how much of a gamble villagers were willing to take. Information played a major role in their taking it. It had a direct effect on how villagers and potential corruptors perceived their interests. When villagers possessed information about their rights and, crucially, when the potential corruptors *knew* that villagers had this information, it raised the perceived cost of corrupt behavior and reduced the cost of fighting it. Where villagers possessed information about standard KDP honoraria and average prices of materials, they had the information to begin to prove corruption. And where villagers had information about how to make complaints in KDP, they were able to do something about corruption.

One of the most important ways to change the incentive structure in KDP is thus to improve flows of information about the project.

Recommendation 1: Improve information-dissemination in KDP

- Encourage innovations. KDP should encourage *kecamatan* facilitators to come up with innovative ideas through which to spread information about KDP and fight corruption, focusing on using locally-relevant means of spreading information.
- More use should be made of local institutions as a means to disseminate information. Facilitators need to make more use of local prayer meetings, *arisan* (savings groups) and other social gatherings as a means of spreading information. They should exploit local, oral means of communicating.
- More use should be made of religious leaders as a means of spreading information, such as priests or *ulama* (Islamic religious scholars), so that they incorporate information about KDP into lectures and sermons. Facilitators should contact the *Majelis Ulama*, church groups and other local religious organizations to begin to do this.
- Facilitators should submit proposals to KDP for how they might be able to harness local cultural forms as a means of spreading information about KDP or corruption. For instance, they might be able to make announcements at or weave stories about fighting corruption into local dance performances, or, where it is popular, *dangdut* (a particular type of popular music) songs.
- In their monthly reports to KDP, facilitator should detail the various ways that they have attempted to spread information. These inputs should form part of the facilitators' evaluations.

Social sanctions & rewards

The second theme that emerged from our fieldwork was the significance of social norms. Social norms played an important role in how actors perceived their interests and in their weighting of sanctions. This was evident in the explanations people gave for action; in many cases, when asked why someone did a particular thing, the answer would be ‘because he felt *malu* (ashamed)’. It was evident also in the way villagers framed their dislike of corruption. Most often, it was expressed in terms of the transgression of some kind of social code rather than in terms of an individual wrong: ‘we don’t like corruption here’, rather than ‘corruption is wrong’.

Much has been made of the lack of shame attached to corruption in Indonesia and of the effect of Javanese culture upon norms attached to corruption. The argument usually made is that Javanese culture—and, through its hegemonic effect on the rest of the country, ‘Indonesian’ culture—is particularly conducive to corruption because it values family ties over state ties and because its conception of power is hierarchical and based on patrimonial rule. This argument is so common that it deserves mention when discussing norms.

This report does not examine in detail the strength of such cultural arguments. It believes, however, that despite their initial plausibility, their explanatory power is limited at best. Such arguments do not explain the wide incidence of corruption across different regions and time periods. Nor do they explain the variance in corruption between areas whose cultural norms are similar. And, as Pranab Bardhan has pointed out, such arguments can be tautological, claiming that corruption tends to be found in places whose cultural norms favor corruption.⁴¹

Furthermore, this report has found that, in Indonesian villages, there *is* some shame attached to corruption and indeed a strong current of anti-corruption feeling. Although at the national level it may seem that there is no shame attached to corruption, villages are small and personalized enough for social sanctions to carry weight. When people did not wish to take action against corruption, this was because of a political culture borne of impunity rather than anything ‘perennial’—‘why bother doing anything,’ was the argument, ‘when nothing will happen anyway’. When people believed they could do something, they framed punishments and rewards in social terms: the social meanings of the goods at stake mattered, not the goods themselves.

The second recommendation is thus to find ways to work social norms into the KDP incentive structure.

Recommendation 2: Work with social rewards and sanctions to make the incentive structure less conducive to corruption.

- Facilitators should investigate how local social norms can be harnessed to increase the costs and decrease the benefits of corrupt behavior.
- *Adat* review by local working groups for problem-resolution. Local KDP working groups in districts should be asked to come up with inputs on what kinds of *adat* systems are in place, how strong local *adat* systems are, what the main features of the systems are, and how such *adat* systems could work with KDP to support people’s efforts better to resolve their corruption cases. The next KDP training should establish a forum to exchange these ideas.

⁴¹ Bardhan, “Corruption and Development”.

Incentives to fight corruption

Facilitators in KDP often face an environment hostile to whistle-blowing. Facilitators depend on KDP and not local power dynamics for their power base, so it is unlikely that such hostile environments will make them afraid *per se* to report corruption cases. It does, however, mean that the cost of fighting corruption is increased, so facilitators might not pursue cases as vigorously as they would do otherwise. The right incentives thus need to be in place not only to deter corrupt behavior in KDP but also to encourage facilitators to prevent and fight corruption.

Recommendation 3: Increase the incentives for facilitators to fight corruption in KDP.

- Link performance to rewards. KDP needs to link the performance of facilitators in combating corruption to rewards without simply encouraging the under-reporting of corruption. This could be done by linking performance not with the corruption cases themselves but with an indicator known to be connected with corruption. For instance, they could be rewarded for 'best practice' of some kind: how well have they done in disseminating information about KDP to villagers? To test it, KDP could hold a KDP pop quiz competition in each district, where winning villages could receive a prize and the facilitators a bonus.
- Institute bonuses for innovative ideas. The bonuses, preferably non-monetary, should be large enough to warrant the extra effort involved and stimulate innovation.
- Raise the moral costs of corruption. Facilitators should sign an explicit anti-corruption code of conduct, pledging not to engage in corrupt behavior themselves and to work against it wherever possible.

Monopoly, discretion and accountability

The second set of recommendations concerns making structural changes to the project in order to limit monopoly, clarify discretion and strengthen accountability. It follows Robert Klitgaard, who argues that a key element of a successful anti-corruption strategy is to 'restructure the principal-agent-client relationship to weaken monopoly power, circumscribe discretion, and enhance accountability'.⁴²

Weakening monopoly

As noted, the provision of goods and services in KDP is privatized so that, at least in theory, there is competition in the provision of supplies. Sometimes, however, village implementation teams circumvent this by buying materials from their friends or relatives rather than from the supplier with the cheapest price. To avoid this, the regulation that in KDP at least three quotations must be read out publicly to villagers should be enforced.

⁴² Klitgaard, *Corrupt Cities*.

Recommendation 4: Institute measures to limit monopoly.

- Facilitators should enforce the requirement that at least three quotations (unwritten if less than Rp 15 million and written if more than Rp 15 million) are obtained for supplies. The requirement that these are read out at village meetings should be enforced. Furthermore, facilitators should include these quotations in their monthly reports. If they cannot provide them, the burden of proof should be on them to explain why.

Limiting discretion

KDP needs to institute certain measures to limit the discretion of any single participants in KDP, from KDP staff to implementation teams. The anti-corruption literature suggests that limiting discretion is a more effective way of preventing corruption than instituting regulations. Widening the range of actors that have any say over or knowledge of any particular transaction makes it much harder to be corrupt and, in particular, makes it harder to be collude. Any cost/benefit calculation over whether to collude depends on the probability that the other party to the collusion will agree and will not report the attempt. It thus depends crucially on personal ties and trust. Such expectations can be deliberately upset if the pool of actors with a say is widened. And unlike instituting extra rules, widening discretion involves little extra administration.

Recommendation 5: Institute measures to clarify discretion.

- **Rotate KDP project staff.** Project staff in KDP should be rotated periodically to different locations. If KDP project staff are tempted to attempt to collude with each other, village elites or local government officials, they must be fairly sure of agreement to avoid the possibility of being reported and sacked. Staff rotation will lessen the possibilities for this. It will also ensure greater quality control over KDP: good facilitators will be able to transfer their skills to *kecamatan* which have had a worse facilitators, and villagers are more likely to notice poor skills on the part of facilitators if they have had experience with good ones. The right administrative level of rotation should be picked: rotating staff simply across different *kecamatan* and *kabupaten* rather than across different provinces would achieve the rotation goals effectively while avoiding the danger that not enough KDP staff will agree to be rotated.
- Enforce the recommendation that **unpaid village verification teams** are formed to count money and check materials. This is simple, effective and increases village participation. Ensuring the formation of verification teams should be made part of facilitators' evaluation. If they are not formed, the burden of proof should be on facilitators to explain why.
- Institute **bottom-up** and **cross-evaluation** of KDP. Bottom-up evaluation could take the form of a score-card evaluation by villagers of the project. The evaluation would have to be done in such a way that it did not create extra layers of administration or extra opportunities for corruption, for example through bribing villagers to give good scores. Cross-evaluation could take two forms. *Kecamatan* facilitators could make random visits to other *kecamatan* to evaluate performance. Alternatively, villager-composed audit teams could conduct spot audits of other villages. This idea has been mooted already by the KDP II preparation team. Advice from facilitators should be sought at the next large KDP training sessions on how such bottom-up and cross evaluation could work in practice. Close attention should be paid to avoiding extra administration.

Accountability

The most important element in making a fight against corruption sustainable is to institutionalize accountability mechanisms. By far the most important elements of accountability in KDP are the internal, social controls. Accountability in KDP is a function of socialization, information, participation and transparency. Measures to improve socialization and information-dissemination have already been recommended.

Participation

Measures should be instituted to improve participation. Close attention should be paid to the participation of marginalized groups especially, to avoid elite capture of the project. This is especially important at the early stages of the project.

Recommendation 6: Institute measures to improve participation

- *Kecamatan* facilitators should work with local leaders to get them to buy into KDP and anti-corruption as a means of distributing information and getting local ownership of the project. When doing so, they should think about the interest local leaders would have in participating in such a project, and the constituencies the leaders can reach.
- Facilitators should focus especially on the participation of marginalized groups, such as poor women, and say how they intend to do so in their reports to KDP.

Transparency

Transparency is at the heart of KDP's anti-corruption strategy. KDP bookkeeping is already fairly transparent. However, transparency still needs to be improved in KDP.

Recommendation 7: Institute measures to improve transparency

- Enforce the recommendation that unit price lists of materials are published. These give villagers the information they need to detect and pursue corruption, attack one of the stages in KDP most at risk to corruption. Almost every case we visited was one in which villagers complained because there was some discrepancy between what materials ostensibly cost and what they should have cost.
- Posting a price list should be made part of the *evaluation* of the *kecamatan* facilitators and *kabupaten*-level technical consultants. If it is difficult to get information about prices, the burden of proof should be on facilitators to explain why.

Training and information

Throughout the history of the project, KDP facilitators have been the most important agents in fighting corruption. The importance of facilitators, emphasized already in this report, needs to be stressed again. Facilitators are the point of contact between ordinary villagers and the project and are often the lynchpin for attacking cases of corruption. They need to be supported better in their efforts to fight corruption.

Recommendation 8: help KDP facilitators fight corruption by improving training and information

- For cross fertilization learning purposes, a group of some of the best facilitators should be picked as an 'anti-corruption talent pool'. These facilitators could work for two months a year alongside facilitators in *kecamatan* with high levels of corruption to help them and transfer some of their skills and information. These facilitators could be rewarded.
- There is a clear need for training to be improved. KDP facilitators need to know how other facilitators have solved their problems so that they can learn by example rather than by being taught. Training needs to be made more participatory.

Future strategy

One of the changes created by the decentralization legislation will be a realignment of the relationship among governors, district heads, local politicians and their constituents. Governors and district heads will no longer be appointed but will be elected by and accountable to regional assemblies (DPRD). This makes the position of DPRD members much stronger. DPRD members are elected, but indirectly by party affiliation: parties and not individuals are elected. This creates an interesting context for KDP: since projects with less corruption such as KDP are cheaper than previous projects and have visible results, it may be in a party's political interest to champion them and to champion anti-corruption activities. But because parties and not individuals are elected, the incentive for any individual DPRD member to act in such a way is not as strong as it could be: direct accountability to voters is not there. Parties will thus have to find favor with constituents in a way that parliamentarians will not. Nevertheless, compared with the previous system, power will be less concentrated at the top.

But there are caveats. Sub-district heads (*camat*) continue to be appointed and, according to the new laws, are still accountable not downwards but upwards to the district head.⁴³ Furthermore, as with BPD members, the costs of running for office at DPRD level may create a huge incentive either to misuse local funds or to use the period in office to regain some of the costs of running. This could thus create incentives that motivate actors towards corruption. Thus, although decentralization introduces changes, the ways in which they affect incentives for corruption have yet to make themselves clear.

The last recommendation is thus that KDP should think systematically about the incentive structures created by decentralization: how do they affect the environment for corruption and how?

⁴³ See Article 66, Law 22/1999. From Law 22 text.

Recommendation 9: Institute measures to anticipate the future context of the project.

- Decentralization incentives review by local working groups. Local project working groups should come up with an initial outline on what kinds of post-decentralization scenarios they think are likely to emerge with their districts, what the incentive structures created are, and whether there are any specific local problems to be borne in mind such as conflict. The groups might want to consider the following factors:
 - What are the main institutions of local government? Who are the main players?
 - What are the main political parties and what proportion of seats does each party have?
 - What is the power base of each party? Are they trying to appeal to rural voters? Is it in their interest to champion a project such as KDP?
 - How do people get political information? Has the way in which people relate to local government changed because of decentralization?
 - How active and independent are local NGOs, the media and pressure groups?
 - Is the local government perceived as being reform-minded?
 - What has the local government's response been so far to decentralization? Is it seeking to implement new laws? How will they affect KDP?
- Village level governance map by village facilitators with the help of *kecamatan* facilitators. If facilitators are able to, they should come up with some sort of map of local power, with attention paid to who the local players are and how they relate to each other. This might constitute a list of BPD members and holders of village office, an outline of powerful families in the village, and how the players relate. (This would help *kecamatan* facilitators to see whether heads of borrower groups are all members of village elites).
- Facilitators should report on whether their districts have any intention of instituting their own administrative or legal codes that are different from the national ones. News of this kind should be reported as a matter of course. Bonuses should be given for innovative ideas in harnessing local systems for anti-corruption.

Concluding thoughts

The primary purpose of this report was to see how corruption could be prevented in a large decentralized community development project. Its key assumption was that corruption was primarily a problem of incentives, and could only be fought sustainably by changing the costs and benefits of corrupt behavior. It stressed that any analysis of the costs and benefits of corruption needed to start with an information-gathering exercise from the field that took into account local context and local norms.

The report attempted to do this for KDP. Through field research and an analysis of incentives in KDP, we attempted to get a sense of the way corruption works in Indonesian villages and how it can best be prevented. Our findings supported our assumptions. We found that the best way to prevent corruption in a project such as KDP, especially in a country with weak institutions and systemic corruption, was to emphasize information, participation and incentives: in other words, to turn ordinary people into their own agents of anti-corruption.

Anti-corruption shouldn't be considered an end in itself but instead an element of a wider reform process. KDP's anti-corruption efforts fit well into a wider program. KDP itself is a governance program as well as a poverty-alleviation program. KDP is in approximately one in four villages across Indonesia. This means that it is both at the forefront of reform and powerful enough to have an influence. Indeed, there are signs that the government likes the program and is propelling it further. The government itself, for example, instituted an idea that KDP work on legal aid linkages for poor communities so that they have access to advocacy services to fight corruption. This is an important marker of reform.

Such things are milestones of Indonesia's reform. Indeed, the process of Indonesia's reform is developing fast. But we do not know where it is heading. There is also a great deal of backsliding, and it is very difficult to make predictions about where Indonesia will be five years from now.

Indonesia is changing. This report claimed that two aspects of this change, political change and decentralization, were likely to have a major effect on village life in Indonesia. It argued that political change might be opening up avenues for further protest and that, because of ambiguities in the law, the effect of decentralization on village governance was uncertain.

KDP needs to manage that uncertainty. In particular, it needs to think seriously about how decentralization will affect incentive structures at village, sub-district and district level. The main change at village level, as noted, will be the formation of village representative boards (BPD) that have the power to ask for the removal of the village head. This could work to strengthen accountability in village government and increase sanctions for corrupt behavior. On the other hand, the necessity of obtaining campaign finance may increase the incentive on the part of BPD candidates to engage in corruption.

Similarly, political change and decentralization change incentive structures at sub-district and district level. It has been noted that, because it is at village level, KDP is sheltered from some of the major national changes taking place, which all are at higher levels of government—KDP is 'below the radar screen' at

which most of the changes are taking place.⁴⁴ This is true. But nevertheless, some of the changes even at higher levels affect the corruption environment lower down.

Such immense uncertainties can mean that it is difficult to plan projects. But it also gives us opportunities. One thing it emphasizes is that, if reform is to be sustainable, it must be conducted at the behest of people themselves, rather than from the outside. This is the only way the momentum of Indonesia's change can be channeled in the longer-term towards reform. In such an uncertain environment, enabling people to take control of the things that affect their lives is the only thing that can be done. It places an emphasis on the micro, on letting people take their own decisions. Corruption, in a community development project, is about starting with this micro-level, with the question, 'what motivates people?' Governance, too, is about starting at this grassroots level.

This translates into an emphasis on transparency, information, linkages and access. KDP is attempting to provide these things. The question asked at the beginning of this report was whether a program such as KDP could channel the momentum of democracy into concrete changes into how village decisions were made. It is too early to say whether KDP is doing this, though the beginnings look good. One measure of how well it is doing will be how many more complaints there are from villagers about it, how many more problems arise. This will mean that KDP will have achieved its most important objectives, strengthening community institutions and improving local governance.

⁴⁴ Opening Remarks to World Bank Board for preparation of KDP II, Scott Guggenheim, June 2001

Annex I

Historical background

Corruption is made easy in villages by a combination of bureaucracy, hierarchy and lack of accountability. Much of this is a function of history. Dutch colonial policies acted to promote paternalistic patterns of government, strengthen the position of the village head, and turn administrative positions into sites of material reward. For instance, the coffee- and sugar- cultivation system called the *cultuurstelsel*, where a set part of village land was set aside to produce export crops for the Dutch government, used local officials as middlemen between village producers and the colonial government. These middlemen were paid percentages on crop deliveries, and could extort enormous amounts of money from the exchange.⁴⁵ Public office thus became a site of material reward.

The same was true of the New Order. The New Order's policies towards rural areas were characterized by two conscious strategies: 'betting on the strong' and de-politicizing the rural 'floating mass'.⁴⁶ They had the effect of increasing the incentive to exploit public office as a means of getting richer and of cutting the heart out of popular opposition and control.

'Betting on the strong' involved attempting to co-opt rural elites by giving them privileged access to state resources through village office. Village heads were able to profit from state land through the system of *tanah bengkok*, whereby a portion of village land was set aside for the sole use and profit of the village head. Although the size and quality of this land varied, in some villages it could be extremely lucrative. Village officials were also given preferential access to state power, and discretion over bureaucratic procedures and their accompanying bribes. This strategy had a dual function. By operating through traditional local elites, the New Order was given some legitimation in villages. But by making it advantageous for those elites to co-operate with the State, potential sources of opposition to New Order rule were co-opted. This enabled the New Order regime to preserve its hold on power. But it also opened up opportunities for enrichment through state office. And, since official salaries were low and because it cost so much to run for office, pressure was high on village heads to use their term in office to amass as much money as possible.⁴⁷

Another New Order self-preservation strategy was to treat the rural population as a 'floating mass', de-politicized, docile and concentrated upon economic advancement. The New Order curtailed political activity in the countryside, and promoted the notion of 'family-ness' (*kekeluargaan*), whereby a community was seen not as a locus of political conflict but as a family, with problems resolved through consensus and a father-son relationship between villagers and the village head. Thus problems were supposed to be resolved through *musyawarah* without any attention to the power dynamics lying behind consensus, political protest was discouraged, and latent ethnic, social and religious conflicts were suppressed.

⁴⁵ See Ricklefs, M. C. *A History of Modern Indonesia since c. 1300*. Stanford: Stanford University Press, 1981

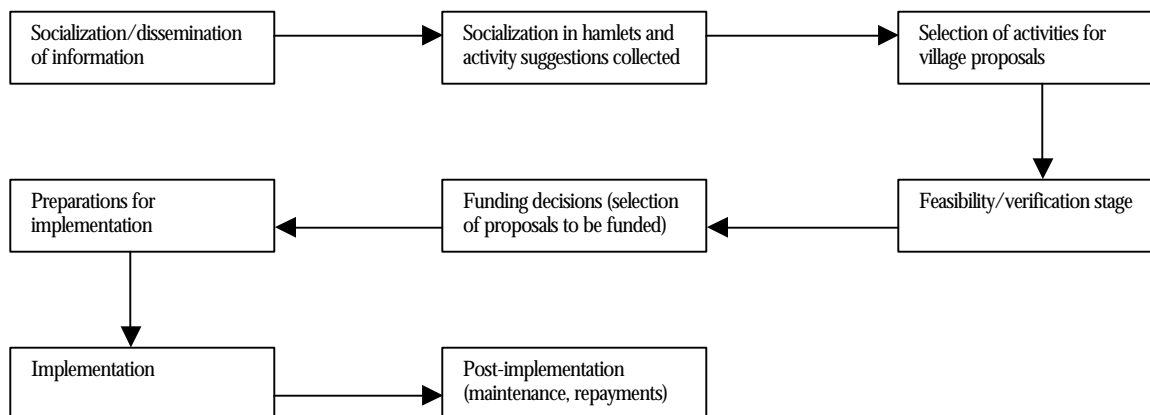
⁴⁶ See Antlöv, "Village Leaders and the New Order" for a discussion of 'betting on the strong'.

⁴⁷ For a discussion of the cost of running for office, see Hüsken, "Village Elections in Central Java: State Control or Local Democracy?" Hüsken found that candidates spent "amounts ranging from Rp. 15 million to Rp 90 million [then USD 8,000 to 50,000]" and that most had to rely on money-lenders and relatives to put up the large loans needed. After a few weeks, to pay back the loans, some were "busily trying to find other sources of finance: borrowing money from the village funds, renting out communal lands, or selling village property... The government regulations for local reform, aiming at "rationalized" and "professionalized" village administration, might therefore have accomplished quite its opposite by bringing out a system which forces village bureaucrats either to go bankrupt or to become corrupt."

Annex II

Corruption map of the KDP project cycle

In this section we present the breakdown of the cost/benefit analysis of incentives for corruption in the KDP project cycle. The cycle is broken down into eight stages.



Stage 1: Socialization & dissemination of information

Opportunities for corruption: LOW

Activities

- Workshops
- Training of *kecamatan* facilitators (FKs)
- First inter-village *kecamatan* level meeting (UDKP 1)
- First village meeting (Musbangdes 1)
- Selection of village facilitators (FDs)
- Training of village facilitators (FDs)
- Information boards placed in villages.

Selection of village facilitators

There is an opportunity here for nepotism. The monetary **incentives** are not high: the amount of money the village facilitator earns is reasonably low, and the amount of work the facilitator must perform is high. However, **non-monetary incentives** are attached: the position carries with it a great deal of prestige and it is perceived to be an avenue of influence over the project. In year one, village facilitators were effectively appointed, which meant that village elites tried to gain influence through getting friends or relatives selected. In year two, the procedure was changed. Village facilitators are now selected by a two-stage competitive process: candidates are elected by villagers, and the *kecamatan* facilitator & government *kecamatan*-level project manager (PjOK) then make an appointment. Since this change there have been very few reported cases of nepotism.

Stage 2. Socialization in hamlets and activity suggestions collected

Opportunities for corruption: LOW

Activities

- Inventory of village groups & poorer villagers
- Sub-village & group meetings
- Special meetings with women's groups
- Updating information on village boards
- Further dissemination of project information

No money changes hands at this stage, so the opportunities for corruption are low. However, village elites and other actors may see this stage as an opportunity to gain **influence** over the project, primarily in order to obtain later **kickbacks**. They may try to intervene to determine what suggestions are proposed.

This applies to other stages of the KDP process. At any stage, although there may be no immediate monetary incentives, elites may try to gain influence as a means to secure future kickbacks.

Stage 3. Selection of activities for village proposals

Opportunities for corruption: HIGH

Activities

- Second village meeting (Musbangdes II)
- Village technical assistance (TA) for proposal preparation selected
- Formation of team to prepare village proposals
- Preparation of proposals with designs and budgets
- Updating information on village boards

Selection of village technical assistance for proposal preparation

- Opportunity for nepotism/kickbacks

The official process for selection of village technical assistance is as follows: The *kabupaten*-level technical consultant (KM-Kab) has a list of people pre-certified to give technical assistance. The people on the list should be qualified. Villagers choose a candidate from that list and pay him/her market rates. The choice is approved by the KM-Kab. The person chosen has to be from outside the village barring special circumstances.

The process too often does not work the way it should. Unqualified people get on the KM-Kab list, villagers choose technical assistance even when they don't need it, under-qualified friends/relatives of the village elites are chosen, or candidates may offer kickbacks in order to be chosen. The root of the problem is that often the KM-Kab is reactive and either does not have a list of qualified candidates or simply puts names of candidates onto the list without checking their qualifications.

The problems with selecting technical assistance for proposal design are the same as the problems with selecting technical assistance for project implementation. However, the amounts of money involved for implementation are much higher and so the problem is correspondingly more serious.

Incentives & disincentives for main actors:

Kabupaten technical consultant/engineer

The **incentive** for the *kabupaten* engineer to put unqualified people on list, barring a genuine lack of locally qualified people, is low unless there are kickbacks involved. If there are kickbacks, the incentive is the amount offered.

The **disincentives** are high: the *kabupaten* engineer can be found out and fired easily, and the facts are easy to check. The provincial-level consultant (KM-Prop) can monitor the *kabupaten* engineer.

incentive is the amount offered.

This finding translated into certain measures being recommended to KDP to ensure that only qualified candidates made their way onto the list of candidates.

Technical assistance

The **incentives** for a potential technical assistance candidate to offer kickbacks in reward for being chosen are high: he/she has the opportunity to make money through this.

The **disincentives** are small. If a candidate attempts to offer a bribe to get picked for technical assistance and it gets turned down, it's extremely unlikely that the candidate will suffer either major social approbation or any official sanction. The probability that he/she would be charged with any crime is almost zero. The only disincentive is that the bribe might be accepted but that there would be no result.

Details of candidates for technical assistance for the *kabupaten* should be posted on information boards so that villagers can see who is available for what type of project. If villagers can see that there are TA candidates with qualifications appropriate to the village's project, they are much less likely to accept an unqualified candidate, regardless of whether the candidate is from that village.

Facilitators

The **incentive** to be involved in collusion here is fairly small, except where kickbacks are involved. There have been some cases of *kecamatan* facilitators receiving kickbacks for the selection of village-level technical assistance. This is especially easy when *kabupaten*-level supervision and control is weak.

The **disincentive** is that the *kecamatan* facilitator would be fired if discovered. However, unless some involved admit collusion, it can be difficult to prove.

Villagers

The **incentive** for a villager to consent to having an unqualified person as TA for proposal preparation is not monetary, but springs from a sense of village loyalty when the unqualified person is from the same village, or a desire to avoid conflict.

The **disincentive** is that if a proposal is bad it will not be funded.

The question here is whether the **disincentive** in this case outweighs village loyalties. This will depend on how well the *kecamatan* facilitator has done his/her job in convincing villagers that only good-quality proposals will be funded – in other words, that there will be competition and that funds will not simply be divided up among villages in the *kecamatan*.

PjOKs/local government staff

The **incentive** to be involved in collusion regarding technical assistance again is low, except as far as potential **kickbacks** are concerned.

The **disincentives** for involvement are, however, also low. Disincentives may be lower than for an FK, depending on how seriously corruption allegations are taken by the local government apparatus. In *kecamatan* where it is taken seriously, the disincentives to participate will be high; they include the risk of punishment. In places where such sanctions do not exist, the disincentives for involvement are low.

Village elites

The **incentive** for village elites to collude in arranging for a friend/relative to act as village TA is reasonably high, as they receive social benefits (gratitude from a friend) and possibly even material benefits (in the case of kickbacks). The **incentive** for them to consent to an unqualified person from the village being chosen over a qualified person from another village is also high: they can avoid being seen as supporters of outsiders to the village and thereby avoid conflict

The **disincentives** for them to consent in collusion are the threat of villagers' anger if discovered. This will be higher in places where the *kecamatan* facilitator has done a good job in socializing villagers. It will be lower in places that are hierarchical. The disincentive is also that the village proposal gets turned down, but in this case the cost is borne over the whole village and not just the individual. The **disincentive** for village elites to consent to having an unqualified person

and preserve their power base.

from that village be chosen over a qualified person from another village is villager anger if they don't co-operate: they may be seen as disloyal. This will be lower in cases where the *kecamatan* facilitator has been able to explain to villagers that only competitive proposals will be funded and that therefore the quality of technical assistance is of paramount importance.

This finding translated into a recommendation that the burden of proof be shifted so that villages needed to make a good case for hiring technical assistance from someone not from the approved list. It was recommended that the option be dropped and granted only if villages presented a special case to KDP.

Formation of team to prepare village proposals

Some of the same factors exist: village elites may see this as an opportunity to gain influence over what gets proposed, not for immediate monetary gain but for the opportunity of obtaining kickbacks as a subsequent stage.

Preparation of proposals, with design and budgets

There are opportunities here for collusion, budget mark-ups, kickbacks, formation of false groups

(a) For infrastructure:

- Here the opportunity for corruption is for **collusion** among the project-preparation teams to **inflate budgets**. However, it is far more common in KDP for implementation teams to substitute cheaper materials than those specified in the original budgets and pocket the difference than for project preparation teams to inflate original budgets.
- The **incentive** to inflate an original budget is reasonably low: a project that looks too expensive might not be approved at the second *kecamatan*-level inter-village meeting (UDKP II), so if the team wants the proposal to succeed, which is a prerequisite for any funds to flow, they need to make it seem as cost-effective as possible. The incentive will be made even lower when the *kecamatan* facilitator has done a good job in convincing all project participants that the KDP process is indeed competitive and that only good-quality, cost-effective proposals will be funded

(b) For economic activities:

- Here the opportunity for corruption is for false or new groups to be formed to borrow money. The incentives to do vary across actors, but are reasonably high across the board.

Incentives & disincentives for main actors:

<p>Facilitators</p> <p>The incentive for facilitators to collude in forming false groups is low: they do not benefit directly, and they run the risk of being accused of doing their jobs poorly if any supervision team finds that there are many false groups. However, they may be under pressure from communities to allow new groups to form proposals, since villagers may argue that there simply aren't any pre-existing groups of the kind specified. This is common.</p>	<p>The disincentive for facilitators is the risk of being discovered and fired.</p>
<p>Village elites</p> <p>The incentive to form false groups (where false groups mean not simply new groups but groups where the bulk of the money goes to the group head—often a member of the village elite—and then each member gets a smaller amount) to get money is high: they can potentially profit relatively substantially. The incentive will be lower in villages where the <i>kecamatan</i> facilitator has done a good job in socializing KDP's principles to all villagers.</p>	<p>The disincentives for them to attempt this are low. There are no formal sanctions and it is unlikely that any of these cases will be followed up through the law/government. The main disincentive is local and social: if villagers discover that they could have profited more by following the rules, they may become angry and enforce local (probably social) sanctions. This is more likely to happen in places that are politicized, have a low level of hierarchy, and where levels of socialization are high.</p>
<p>Villagers</p> <p>The incentive for them to participate in forming entirely false groups, where they receive a smaller proportion of money than the village head, is reasonably high if they are unaware that they would receive more money otherwise – i.e. if there has been bad socialization. The incentive for them to participate in forming new groups is extremely high: if they don't have pre-existing groups and they nevertheless follow the rules, they have no chance whatsoever to gain access to KDP</p>	<p>There are few disincentives, unless it is made clear to villagers that the process is competitive and that any group that seems likely to be false is unlikely to receive project funds, and unless it is made clear to them that sanctions for non-repayment of loans will be applied rigorously.</p>

funds. So, unless villagers want infrastructure, there is a **structural tendency towards the formation of false groups.**

This finding translated into a recommendation that much more emphasis be placed in KDP on the avoidance of false groups, especially through the *kecamatan* facilitators.

Stage 4. Feasibility/Verification Stage

Opportunities for corruption: LOW

Activities

- Formation of verification team to see if proposals are technically feasible
- Field visits & inspections
- Team meetings to compile results and recommendations
- Feedback to villages & groups

Formation of verification teams

Members of verification teams are appointed at *kecamatan* level by the *kecamatan* facilitator and *kabupaten*-level technical consultant, and are paid a salary from 'operational funds' based on local market rates and their qualifications. The possibility for **nepotism** and **kickbacks** does exist here, but there have been relatively few cases of it. Where there are cases of it, it is for reasons unrelated to corruption, such as a lack of locally-trained candidates.

This is because the monetary incentives for kickbacks are relatively small, and it is easy for this kind of corruption to be found out and exposed at UDKP II level.

Field visits & inspections; team meetings to compile results & recommendations, feedback to villages & groups

There is a formal possibility here for kickbacks so that verification teams judge proposals more easily. The main opportunity here, though, is for non-monetary influence.

- **If** the verification process works the way it should, the **incentive** for villages to try to influence the verification teams should be very low: the verification teams are supposed to be giving villages advice on how to **improve** their proposals, not simply saying whether their proposals are good enough to be approved or not. However, often the process does **not** work the way it should, and verification teams simply review proposals and give a verdict of '*layak*' (feasible) or '*tidak layak*' (not feasible). Because of this, and because villages know this, a strong **incentive** is created for villages to influence the verification team to pass verdict in their favor. The incentive is enormous: if proposals don't get rated 'feasible', the village will not get any money.

This finding translated into recommendations to improve the verification process, including a recommendation that a small review team in villages simply sign and state that they were satisfied with the work of the verification team.

Stage 5. Funding Decisions (Selection of Proposals to be Funded)

Opportunities for corruption: LOW

Activities

- Second *kecamatan* inter-village meeting to select projects for funding and to select financial management units (UPK).

Second *kecamatan* inter-village meeting

Here there are few opportunities for straightforward corruption because the mechanism involves so many people and is so transparent. However, there are opportunities here for the circumventing of competition – for simply dividing money up among villages.

This finding led to the recommendation that more attention be paid to preventing the simple division of money at this stage of the project cycle. For the third year of KDP, changes to original budgets are forbidden at this stage, to avoid this problem.

Selection of financial management units (UPK)

Members of financial management units are selected by the second *kecamatan* meeting by election in an open forum, which makes the level of discretion involved virtually non-existent. The opportunity for nepotism is thus fairly low, though not unknown.

Stage 6. Preparations for implementation

Opportunities for corruption: HIGH

Activities

- 3rd village meetings (Musbangdes III) to discuss results of UDKP II, elect community implementation team (TPK) and decide on village technical assistance
- Updating information on village boards
- Training for implementation teams, UPKs, village technical assistance (TA)
- Administration and release of funds
- Release of funds: from the state treasury in 3 stages (40%, 40%, 20%), from collective village accounts as needed (not by pre-set %)

3rd village meetings: election of village implementation team, decide on village technical assistance.

There are opportunities here for **nepotism**, especially for the purposes of later collusion. The same factors apply as those above for the selection of village technical assistance in proposal preparation, but the amounts of money involved are higher. We have experienced **more** problems with selecting technical assistance for implementation than in project preparation.

Administration & release of funds

The process for the release of funds is as follows: First, 40% of the total allocation for the *kecamatan* gets released from the state treasury to the *kecamatan*-level collective village bank account (that should be in the name of the collective account of the village council (LKMD) - '*Rekening Kolektif LKMD*'). In the villages' budgets, there should be a rough schedule of when they need what funds. Based on this, the *kecamatan* facilitator makes a collective schedule for the villages: for instance, in Week 1, Rp. 10 million gets taken out in total, Rp. 2 million to go to Village A, etc. Every withdrawal from the bank needs three signatures: the *kecamatan* facilitator, the head of the financial management unit, and the head of one of the LKMD. The cash then is given to the LKMD head (*Ketua 1 LKMD*), who disburses it to his/her village's implementation team.

Opportunities for corruption:

(a) From the State Treasury Office (KPKN) to village collective bank accounts

We have not experienced many problems here. This is because the mechanism is simple and it would be immediately noticeable if some was cut. In other words, the process is transparent and discretion is limited. All actors know how much money should be transferred into the bank accounts, and the *kecamatan* facilitator, financial management unit head & village council head are able to see how much money goes into the bank accounts. There are few opportunities for collusion among the KPKN and the trio of the *kecamatan* facilitator/financial management unit head/village council head because there is little contact among them and, because accounts have to be made transparent, they would be easily discovered.

(b) From collective bank accounts to village council head

The opportunity here is for collusion among the *kecamatan* facilitator, financial management unit head and village council head so that each gets a cut of the money before it goes down to the individual villages. There are relatively few cases of this. This is because each actor has limited discretion (three people are involved) and, unless both of the others agree, each runs the risk of being reported. Even if they do agree, it is easy for them to be discovered – unless there is collusion with the bank also, it is easy for a village audit team to check how much was taken out of the bank, and it should be possible for the teams to check how much money the village implementation team received, if the implementation team keep records and also do not collude. Thus each actor's motivation depends on how certain they are of agreement with the others, how big the amount of money involved is, and the sanctions he/she will suffer if found out.

Incentives & disincentives for main actors*Kecamatan* facilitator

The **incentive** for the *kecamatan* facilitator to collude is small. Their salaries are relatively high and the sanctions for corruption are high (being sacked). The **incentive** will be made even smaller if sanctions are enforced all the time and this is publicized among facilitators.

The **disincentive** is the risk of being discovered and fired.

Head of financial management unit

The **incentive** for the UPK head to collude is bigger than the *kecamatan* facilitator's because the honorarium is smaller and the sanctions for corruption are lower.

The **disincentive** is the possible risk of social and other local sanctions.

Head of village council (Ketua 1 LKMD)

The **incentive** for the head of the village council to collude is small: it is in interest of the village council head to take a cut of the money not at this stage, where the *kecamatan* facilitator & UPK head are involved, but at the subsequent stage, where there are fewer checks and balances.

(c) From village council head to village implementation team

There are two opportunities for corruption here: (i) for the village council head to keep a cut of the money before giving it to the village implementation team or (ii) to collude with the village implementation team in keeping a cut of the money.

Village council head taking a cut: incentive is medium.

- The **incentive** of the head of the village council here is reasonably high: it is measured by the amount of money he will stand to gain. The incentive is higher when the village council head does not follow the KDP process and instead deals directly with suppliers and/or works with the village implementation team to do so; in this case it is easier for him to take a cut of money without it being noticed.
- The **disincentives** are the possible social sanctions if discovered and the threat of being fired or forced to resign. This in turn rests on how open the village is and how well the *kecamatan* facilitator has done his or her job in socializing villagers and ensuring transparency. For instance, if village implementation teams know how much money they should be receiving, they are unlikely to accept less without protesting.

(ii) Head of village council colludes with implementation team for a cut of money: incentive is medium.

- The **incentive** for each actor is the amount of money each stands to gain
- The **disincentives** are the threat of sanctions if discovered. The head of the village council runs the risk of being fired or forced to resign. Village implementation team members also run the risk of being fired by villagers and thus losing their honoraria. Their risk of being discovered depends on the *kecamatan* facilitator's success in socializing villagers, and could be increased **considerably** if the small village checking teams ('Victors', in unofficial KDP terminology) are set up.

Stage 7. Implementation

Opportunities for corruption: EXTREMELY HIGH

Activities

- Mobilization of village laborers
- Procurement of materials and equipment (less than Rp. 15 million demands 3 unwritten quotations, more than Rp 15 million demands 3 written quotations)
- Implementation of village activities, loans disbursed
- Supervision, monitoring, reporting and monthly meetings of facilitators
- Village meetings to account for funds (when about 50% of funds expended).

Mobilization of village laborers

Opportunity for corruption here is for the village implementation team to take a cut of the village laborers' pay.

- The **incentives** are medium: they are measured by the amount of money the village implementation team stands to gain
- However, the **disincentives** are high because the risk of being found out is high (many laborers are involved but it only takes one laborer to report a problem to cause difficulty) However, this depends, though, on the *kecamatan* facilitator's success in socialization and transparency, and in how well the books of the village are kept. Often, information in the books of the village implementation team is kept in a confusing style: for instance, they may specify how much each laborer ought to receive each day, how many days worked and the total amount allocated, but fail to specify how many laborers are involved. Such 'opacity' clears the space for corruption.

Procurement of materials and equipment; implementation of village activities; loans disbursed

The opportunity for corruption here is **extremely high** and cases are **extremely common**. **This is the most common type of corruption in KDP**. The process is supposed to work as follows: the village implementation teams receive money from the village council heads to procure materials and equipment. Materials and equipment should already be specified in the village's original proposal. The implementation team is responsible for buying only and exactly the materials and equipment specified, at the best possible price. For this end, they need to get three quotations (written if the materials are worth more than Rp 15 million, unwritten if not) from three different suppliers and announce the bids at an open village meeting before picking the one with the best price.

Village implementation teams almost never do this. The most common case of corruption is when they substitute cheaper materials for those specified in the budget and pocket the difference: for instance, they

may substitute smaller pipes than those specified, or a different type of wood. They may also collude with the supplier so that the supplier issues them with false receipts.

When questioned about their activities, village implementation teams often reply that it is difficult to find the materials that are specified in the budget, so they are unable to get three quotations or may have to make substitutions. This in itself does not pose a problem. The problem arises when substitutions are made without the prior consent of villagers, without technical assistance to advise whether cheaper materials can be substituted, and without informing villagers of both the changes and the amounts of money involved.

A second major source of corruption is when village implementation teams do not use direct suppliers at all, but instead contract all the work out. This is explicitly against KDP rules and creates an extra layer of cost, inefficiency and corruption.

Incentives and disincentives for main actors:

Village implementation team (TPK)

The **incentive** for members of the implementation team to collude & take a cut of project funds is high. Their discretion is low, because there are at least three members of the TPK, but accountability is also low – they need only explain their actions at the village meeting to account for funds (*Musbangdes Pertanggungjawaban*) and, since most villagers are not experts either on the market price of goods or of different types of equipment, it is easy to explain away discrepancies in terms of changed prices or lack of supply. They have a large amount of money at their disposal – up to 40% of project funds, or more in cases when the village needs to buy an expensive piece of machinery – and can potentially profit quite substantially

The **disincentives** are the perceived sanctions that they would suffer if discovered, combined with the risk of discovery. These sanctions are usually local and outside legal channels; however, there may be fairly stringent social and/or adat-related sanctions. The main mechanism by which they can be discovered is through the *Musbangdes Pertanggungjawaban*, held after 50% of funds have been spent, where the implementation teams have to account for their actions, and where villagers sometimes refuse to accept the implementation team's version of events. If the FK has been successful in socializing villagers, if original budgets are made transparent and if price lists of materials are made public, it hugely decreases the incentive for the implementation teams to skim off funds and increases the risk that they will get caught.

Suppliers

The **incentive** for suppliers to collude is high: they may receive a cut of funds, and there is virtually no risk that they will be discovered or that, if discovered, they will suffer any sanctions.

Stage 8. Post-implementation stage

Opportunities for corruption: MEDIUM

Activities

- Formation of maintenance teams
- Training for village councils and maintenance teams
- Repayment of loans and re-lending of repaid funds, on instructions of *kecamatan* meeting
- Maintenance of infrastructure
- Evaluation
- Village meetings for hand-over of completed projects, to account for funds used.

Repayment of loans and re-lending of repaid funds:

(a) *Repayment of loans*

The process for the repayment of loans is fairly flexible. Villages are expected to set up their own systems for managing repayments. Officially, each borrower group is collectively responsible for paying its loan back to the financial management unit. The official agreement for paying back the loan is usually with the group head. In year one, funds had to be repaid directly to the financial management unit, who then could re-lend the money to other borrower groups from different villages in the *kecamatan*. However, this often acted as a disincentive to repay: low inter-village loyalties meant that the social incentives to repay were low, and often borrowers did not believe the repaid funds would stay in the *kecamatan* or that they would not be misused. So for year two, the system was changed. It was agreed that, with the approval of the UDKP II, funds could be paid back to the village and they could be revolved to borrower groups from that village only. The role of the financial management unit in this case would be not to collect but to repayments. With both systems, there are few sanctions for non-repayment of loans.

- There are some opportunities for misuse of funds. For instance, heads of borrower groups may collect repayments from group members but not repay all of the funds to the financial management unit. Where the *kecamatan* facilitator has done a good job in ensuring transparency, the **incentive** to do so will be small, as members of borrower groups should be able to see the total amount of money that should have been repaid to the financial management unit versus the amount they have collectively paid back to the group head.
- The main point of leakage, though, is not straightforward misuse of funds but leakage due to the **cyclical effects of corruption**. There are few official sanctions in KDP for non repayment of funds. One of the incentives for villagers to repay money is supposed to be that the funds can then be revolved to other borrower groups in the same village or *kecamatan*. This is supposed to create social pressure to repay funds. However, repayments are very low. In part, this is because villagers are used to corruption, and believe that if they repay all the money they owe, it will simply get misused.

Incentives and disincentives of main actors:**Heads of borrower groups**

The **incentive** for heads of borrower groups to misuse funds is the amount of money they would stand to gain from keeping a portion of funds.

The **disincentives** are possible social sanctions if discovered, coupled with any village-instituted, local sanctions. They depend on the risk of being found out, which will be higher in places where the *kecamatan* facilitator has done a good job in ensuring that the repayments system is transparent – in this case, villagers will know how much is supposed to be paid.

Borrowers

There is a small possibility that borrowers may collude with each other and/or the group head in not repaying money.

The **incentive** is the amount of money they save by not repaying.

The **disincentives** depend on what kinds of sanctions, if any, exist for individual borrowers for non-repayment of funds. Where sanctions apply, they are much less likely to collude.

The **disincentives** depend on what kinds of sanctions, if any, exist for individual borrowers for non-repayment of funds. Where sanctions apply, they are much less likely to collude. The most likely leakage scenario, though, is not a concerted collusion effort, but rather that *borrowers will be not feel a compulsion to repay if they think the money will be misused* once paid back.

(b) Re-lending of repaid funds

Once KDP funds have been repaid once, the funds pass out of the KDP remit. Possibilities for corruption once funds have been repaid are **high**. Funds are supposed to be managed by the financial management unit so that they can revolve and be lent again to villagers. The more times this happens, the **looser the controls** become, and the more scope there is for corruption by all actors: the financial management unit, *kecamatan*-level government officials, village officials, and heads of borrower groups. Government auditors seem interested only in the initial project investment, not in revolving funds.

Because funds at this stage have passed beyond KDP's remit, it does not strictly concern KDP. Nevertheless, it is worth mentioning because the possibilities for leakage are so high. If KDP has worked as well as it should – and as well as it can – then the possibilities for corruption even at this stage should be small: as more and more villagers participate in the project and know KDP processes, the less likely they are to accept the misuse of money.

Maintenance of infrastructure

There are opportunities for corruption here. Maintenance of infrastructure often involves the collection of fees. For instance, villagers may charge user fees for a road built with KDP funds, or they may collect fees from vendors for the maintenance of a KDP-built market. The fees may then be misused and managed in a non-transparent way.

The management of revolving funds and the long-term maintenance of infrastructure is outside the KDP project cycle and thus the strict remit of KDP project staff. However, because KDP's objectives are not simply to alleviate poverty but also to strengthen community institutions and improve good governance, this finding nevertheless translated into a recommendation that KDP staff should consider the creation of sustainable, transparent systems of managing revolving funds and maintaining infrastructure as important an objective as the initial setting-up of loans and building of infrastructure. It was suggested that their tasks and evaluation criteria should reflect this.

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