

## **“Democracy and Governance in Indonesia: Four Views”**

*An Open Forum Panel Discussion with*

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**September 21, 2011**

Indonesia’s macro economic performance has been very impressive in recent years, and Indonesia’s political system has undergone profound transformation. Despite the successes, some economic and political challenges remain. Therefore, persistent and consolidated efforts to address these challenges are required to sustain Indonesia’s democratic transition.

On September 21, 2011 USINDO and the World Bank hosted an Open Forum Panel Discussion, featuring a panel of four distinguished experts, who discussed Indonesia’s democratic development and its broader governance transition from varied perspectives.

*Shubham Chaudhuri*, the World Bank Lead Economist for Indonesia, provided an overview of several underlying socioeconomic trends that present both opportunities and challenges for Indonesia’s ongoing democratic transition.

*Amien Sunaryadi*, a senior governance and anti-corruption officer at the World Bank in Indonesia and a former KPK (corruption eradication agency) Commissioner, discussed the roles KPK, the corruption courts, and the Attorney General’s office have played and can potentially play in Indonesia’s efforts to prevent and combat corruption.

*Gerald Hyman*, President of CSIS’s Hills Program on Governance, spoke on the challenges that Indonesia and other young democracies face in ensuring a constructive role for electoral politics in the process of deepening democracy and strengthening governance.

Finally, *Dr. Dewi Fortuna Anwar*, the Deputy for Political Affairs in the Office of Vice President of Indonesia, described Indonesia’s role in advancing good governance and democratic reforms in the region and globally.

## ***Socio-economic Trends and Challenges***

Shubham Chaudhuri began with a brief overview of the various aspects of Indonesia's government, based on the Government Matters database, that have evolved since the 1998 crisis.

There have been overall gradual improvements of the various dimensions of Indonesia's government, including among others, accountability, political civility, and government effectiveness in promoting the rule of law. Meanwhile, civil society is also playing an evident role, for example, in seeking to reinforce the role of the state to improve the rule of law or to combat corruption.

There has been a clear break in governmental effectiveness between Suharto's New Order and the post-1998 periods, as it transitions from centralized authoritarianism to decentralized democracy. In the past, coordination dealt primarily with military authority; now it involves multiple power discourse with vertical and horizontal accountability measures. The New Order had a good capacity at delivering certain development goods; now it has become more complicated, as the local governments have to do the work. The nature of the challenges also changes, for example, from building schools to ensuring the provision of qualified teachers.

Within a decentralized democratic structure, it is hard for internal reform to come out organically. Chaudhuri argued that pressures for reform thus have to come from outside, from civil society, political parties, and population at large.

The following four socio-economic trends in Indonesia will set the stage for whether or not these external pressures will emerge.

*First*, and foremost, is the emergence of the middle class, generally a key role in democratization. This is accompanied by growing inequality and large population of vulnerable households. While they grow in absolute terms (over 100 million by 2020), they are not as dominant in relative terms (50 percent of the population still in the lower income bracket by 2025). Unlike China, Indonesia has not yet succeeded in moving a big part of its population to the middle class. The bulk of the population will still be above and around the poverty line.

*Second*, there will be a growing population of the young and increasingly educated in the next 10 to 25 years. The dependency ratio is going down as the proportion of young working age population is going up and the birth rate is going down. Indonesia still has another 20 years to enjoy this demographic dividend before arriving at an aging population.

This young and educated population is more adamant in terms of demanding the accountability of the government, and is very tech savvy in mobilizing public opinion. Chaudhuri however cautioned that this group is not a productive one. Youth employment everywhere is generally higher than adult employment, but Indonesia is exceptional, particularly unemployment among the university educated.

*Third*, the booming energy related commodity prices are going down,

though they remain relatively high compared to the pre mid 2000s peak level. This permanent increase in the level of commodity prices was driven by the growth of the emerging regional economies such as China and India.

Revenues from the booming commodity prices in Indonesia are useful for all sorts of development purposes. While it is not clear whether Indonesia experiences a “Dutch Disease” (a declining manufacturing sector due to an increase in revenues from extractive activities), other commodities and non-tradable commodities have become more expensive, too. Construction costs, for example, are increasing due to exchange rate appreciation. This can lead to stagnation in the relatively labor-intensive manufacturing sector, hence a further increase in youth unemployment. Other bigger concerns include increasing activities in illegal loggings and mining concessions, which in turn may have an impact on governance (money politics).

*Fourth*, rapid urbanization that has happened mostly in the last two and a half decades will likely continue, creating social transformation. To put external pressure on government requires an urban population that is positively engaged. While youth unemployment remains a major issue, other concerns include the level of livability of the cities.

### ***Challenges to Combating Corruption***

Amien Sunaryadi discussed to what extent the anti-corruption institutions have been instrumental in setting up checks and balances.

To date, KPK investigation and prosecution has led to the conviction of more than 45 current and former MPs, Supreme Court justices, governors, former police general, and other high level officials. Sunaryadi argued that this is far from satisfactory. KPK has a very limited capacity. It has offices only in Jakarta, with approximately 700 staff, while other law enforcement agencies, including the national police, have regional offices all the way to the district level. The Attorney General, for example, has approximately 6000 attorneys and 435 district offices. KPK can only prosecute 40 corruption cases each year, a pale comparison to AG’s 2000 cases each year.

Sunaryadi asserted that the nature of corruption in Indonesia is different from that of other countries. Indonesia’s law identifies 30 types of corruption, categorized into the following 7 groups:

1. Unlawful act or abuse of authority that create financial loss to the state
2. Bribery
3. Embezzlement
4. Extortion
5. Fraudulent construction
6. Conflict of interest in procurement
7. Graft

According to a recent AG research, 94% prosecuted cases fall under the first category. Project managers are now hesitant to make any decisions, afraid of being suspected of corruption. Former VP Kalla suggested that the law should not be blindly enforced as it had slowed down decision-making at the project level and therefore resulted in slow budget absorption.

Many law enforcement officers, government officials, and auditors do not consider bribery as a form of corruption. Nor there has been any research conducted on corruption from bribery. Sunaryadi stated that in reality, bribery is the most frequent case of corruption, followed by extortion and fraudulent construction.

The success of KPK to date is therefore not an adequate measure of Indonesia's anti-corruption efforts. Many district attorney offices only understand the first group as the only type of corruption; thus, they are not afraid of asking for money when dealing with anything.

There is a pressing need to enforce the law and its complete categorization of corruption. Bribery and extortion will most likely happen not only among government officials, but also in the parliament, both central and local. The practice of bribery will distract any policy making process.

Sunaryadi noted that the challenges with conviction cases most of the time do not lie with the judges or the prosecutors, but with the court system. US court proceedings, for example, are very detailed compared to Indonesia where only the main points are recorded by the clerks. KPK has started using video recording to document court proceeding. Conviction rate has since been very high.

### ***Democracy and Good Governance: An Outlook***

Gerald Hyman noted that democracy and good governance in Indonesia have generally moved forward. Democracy in Indonesia was generated as a positive

impact of the 1997 financial crisis. Many broad-based social and civil society organizations existed during Suharto's era, but they did not have enough opportunity to initiate democratic transition, and therefore Indonesia's democracy might not necessarily be seen merely as a response to the financial crisis. Civil society seized the opportunity that the financial crisis provided.

Media are becoming more robust, complementing horizontal and vertical checks of government accountability. The role of students is also apparent; this supports the reference to a growing middle class. Democracy results from an educated middle class and is also sustained by that class.

Civil society will continue to play a role in Indonesia's democracy. The last election was highly criticized by NGOs. Regulation and implementation are key in the next election. Election is critical as it provides the ultimate check and accountability. NGO checks are insufficient measures without election.

Large businesses and conglomerates are potential spoilers for good governance, especially in the area of corruption. The extractive industries are controlled by a relatively small number of very powerful actors. Small and medium businesses can play a role in providing the necessary accountability check.

The party elites will likely stay around to support their vested interest in the bureaucracy. The military is no longer a major political actor, although Golkar still has a strong relation to the army.

Indonesia's perceived corruption index of 2.8 (2010 Transparency International) is still below neighboring Thailand (3.5), China (3.5), Malaysia (4.4) and Singapore (9.3), and only slightly better than Congo (2.1) and Nigeria (2.4). TI index (the higher the index, the better) is problematic as it only measures perception of corruption, but it has the advantage of comparison across countries and over time.

Indonesia fares better on the Freedom House's political rights and civil liberty index (the lower the score, the better). Indonesia scores 2 for political rights and 3 for civil liberty. In comparison, Singapore scores 5 and 4, Thailand 5 and 4, and Malaysia 4 and 4, for political rights and civil liberty, respectively. Indonesia is considered doing well, some concerns on minority rights (for example Ahmadiyah) notwithstanding. Hyman cautioned however that there is a potential for democratizing the opportunity for corruption under decentralization.

Democracy and good governance are now deeply rooted in the Indonesians' conception of themselves. Consolidation however is key. Many of the potential candidates in the next presidential election do not have a deeply democratic history.

Indonesia should see itself as a leader in the democracy and good governance movement. Hyman argued that such a movement should not be run primarily by North America or Europe, but rather by emergent democracies such as Indonesia, Brazil, and India to bring different perspectives to the table.

### ***Advancing Governance and Democracy***

Dewi Fortuna Anwar presented her remarks based on some lessons learned from Indonesia's democratic transition that can be applied to the Arab Spring, as well as from Indonesia's foreign policy through its leadership in various regional fora, such as ASEAN, the G20 and the upcoming East Asia Summit.

Indonesia needs to be cautious in its global role to promote democracy. Indonesia has to be aware of its shortcoming, and be careful not too overstretch its goals. Anwar maintained that there are two faces of Indonesia. From an outside perspective, Indonesia seems to be a good example and a possible player in the global democracy movement. International media view Indonesia as a good example for democratic transition and consolidation.

In 2001, many observers thought that Indonesia would break up, but there is a basic resilience inside. Ten years later, Indonesia is doing well in terms of territory. There is a problem in Papua, but Indonesia hope to be able to address it with a new policy on acceleration and a special attention to socio political issues. Indonesia's economy is doing well despite global crises.

The Freedom House gave Indonesia good grades as a role model for democracy. WB is also supporting us with outreach to Middle Eastern countries on the importance of democracy. Indonesia is now regarded as having an important role in the global democracy movement and not merely occupying the periphery of the Muslim world.

Within ASEAN, Indonesia is definitely playing a very active role with its democracy credentials. In 2003, Indonesia presented the ASEAN political security community idea, to introduce universal values of democracy. In 2008 when the ASEAN charter was ratified, Indonesia pushed for a transformation of ASEAN from government and state centric to people driven organization, where democracy and human rights would be the basic principle. Indonesia also fought for the establishment of a human rights body in ASEAN. The new values have since been voted down. But Indonesia will push the idea of a more people centric ASEAN, through its chairmanship this year.

In 2008 Indonesia launched the annual Bali Democracy Forum (BDF). It is first track diplomacy, a response to President SBY 2005 foreign policy speech highlighting Indonesia's credentials as the world's third largest democracy and the world's largest Muslim population with a generally moderate orientation and open economy.

Attendance at BDF is governmental, from Asia Pacific to Middle Eastern countries, and inclusive, from both democracies and those aspiring to be a democracy. BDF aims at desensitizing democracy. Indonesia is not an aggressive new convert and carefully avoids becoming preachy.

From an internal perspective, Indonesia's domestic problems mentioned above are very real. While democracy is an important end in itself, it cannot necessarily deliver high economic growth. Political leaders committed to democracy will argue that

democracy is good but it also has to be able to root out corruption, deliver public services, and make government more effective and efficient. Unlike the Philippines, Indonesia's authoritarian regime was fairly efficient in delivering public goods. Foreign observers, including WB and IMF, also identified Indonesia as one of the economic miracle countries.

Indonesia's democracy thus has to be able to benchmark itself to the best years of Suharto's New Order era. This is very challenging. Indonesia needs to combine the best of both the 1950s democracy and the services delivery of the authoritarian regime.

A question and answer session followed the panelists' presentation.

*Q: With the absence of ideology, today's political parties are organizations that are totally transactional, unlike those in the 1950s. There is no political channel for new political people with aspirations but without huge amount of money. This is a threat to democracy. Is there a way out?*

Dewi - I believe there is still a channel for new political people to emerge. In politics three years is a long time. The current politics indeed is transactional, but maybe not too much ideology is a good thing. Voters should at least have the ability to choose based on what political leaders can do in terms of development.

There is a need to consolidate political parties. The current system is not effective when a political party has 2-3 party representatives in the parliament then divided themselves into 10



commissions. A critical mass in parliament is needed to affect changes.

Money politics is a real issue. Political parties are not always interested in the best candidate in terms of ideas.

Coalition of parties are pooled together based not on ideology, but on the electoral threshold. We need to reform the electoral process.

*Q: Pushing democracy in Southeast Asia and ASEAN deals with non-interference with others internal affairs and respect for sovereignty. But China presents a real challenge to the sovereignty of other smaller countries in South China Sea issue. Your comment on this?*

Dewi - Indonesia's role is not trying to contain China, rather we want to make sure that no single hegemony dominates the region. Since the first East Asia Summit, Indonesia has always pushed for more inclusive participation, beyond the East Asian grouping (ASEAN+3, China, Japan, South Korea). EAS is now a premier grouping in the region, with the US and Russia joining, together with India, Australia, and New Zealand.

*Q: As democracy demands better public services, how is the bureaucracy doing with the prevention of corruption within itself?*

Shubham – There is so much that is left for government to do, even for the most forward thinking government. But ultimately the pressure for reform has to come from outside.

Amien - Unfortunately, the State Ministry for State Apparatus and Administrative Reform is the one that is not yet reformed. In my opinion, the

President has to 1) remove all first and second echelons, 2) do a selection process open to all public servants to fill the vacant positions, and 3) assign the minister to lead the reform.

Dewi- The Office of the VP oversees the reform. The current priority now is to reform those of concern particularly to investors, such as the Customs and Police departments. Currently, too many agencies are doing oversight; too many forms to fill. If it is too difficult, it is not going to work.

*Q: Is social media such as Facebook potential as a vehicle for political donation?*

Floor- Indonesia now has the world second largest group of Facebook users. It may be difficult to use social media to fund-raise for a national election; however, it may be an effective tool for political advocacy at the local level.

*Q: On the question of hard versus soft power, what is Indonesia's strategy using its soft power to deal with China's claim on the South China Sea?*

Anwar - Indonesia's military expenditure is one of the lowest in the region. Although it is increasing, most expenditure goes to welfare and not to modernization. Unlike Pakistan, which was under military government for three decades, Indonesia was an advocate of soft power.

Now all ASEAN countries want to modernize their weapons for the following reasons: economic growth, prestige, and real or perceived threats. ASEAN does not want to prompt accusations that they are anti-China;

they are very careful not to project themselves as such. China has a stake in the security of the region, not just as an outsider.