

Bribery and corruption

FIGHTING CORRUPTION TO ATTRACT RESPONSIBLE INVESTORS

- ▶ Fighting corruption is crucial for Indonesia as many of the sectors that are central to the country's economic development are at high risk of corruption.
- ▶ The Indonesian government has stepped up its anti-corruption efforts and these reforms need to continue, with a particular focus on local governments, the police and the private sector.

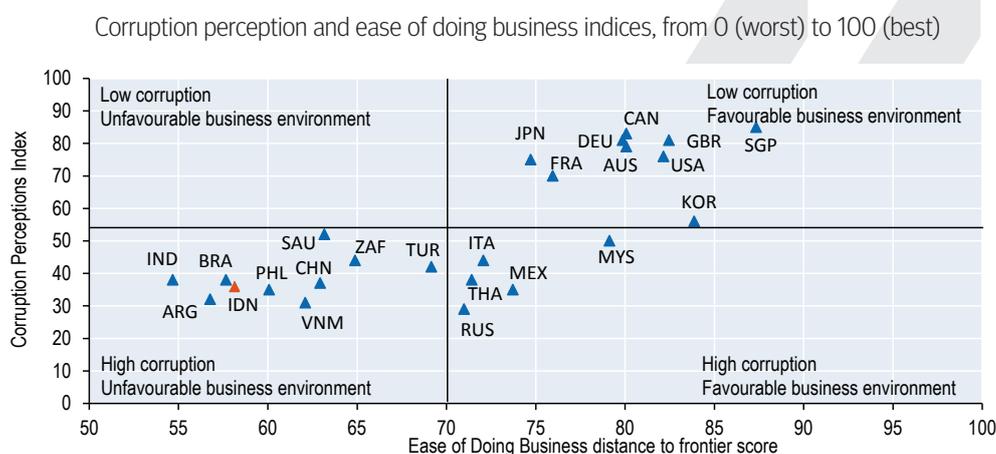
What's the issue?

According to a recent study by the Centre for Strategic and International Studies (CSIS), 58.5% of respondents believe that the Indonesian government is serious about combating corruption. Public optimism is likely due to leadership in promoting open government practices, enhancing institutional coordination for corruption prevention, and empowering the ombudsman institution, including at the subnational level. Furthermore, citizens and businesses welcome initiatives to streamline the licensing and passport application processes, to increase transparency in the mining sector, and to shift to online procurement. The National Strategy of Corruption Prevention & Eradication provides a solid multi-stakeholder framework for monitoring and advancing integrity in government and society. The Corruption Eradication Commission (KPK) also plays a major role in building public awareness and confidence by steadfastly pursuing graft despite political backlashes. The CSIS survey ranks the KPK as the most trusted state institution by 85% of the respondents. Although Indonesia has not criminalised transnational bribery, the

KPK shares information with parties to the OECD Anti-Bribery Convention, which has led to major penalties imposed on corrupt foreign companies.

But despite these achievements, further efforts are needed to effectively combat corruption. Reforms must target corruption in local government, the police and the private sector, which are trusted by respectively 47%, 45% and 32% of respondents in the CSIS survey. Local government procurement is an obvious area for reform. The CSIS study shows that 56% of respondents believe that corruption is widespread in government procurement. Although the developments in e-procurement are moving in the right direction, the system will only reduce corruption once the entire procurement cycle is covered, which is not yet the case. Limited capacity, both in terms of human and technical resources remains a challenge in merging effectiveness and integrity in public procurement, including in regency and city administrations. Increasing trust in the police must also be a priority. The KPK and the police need to work together to enforce laws against

Indonesia suffers from both high corruption and a business-unfriendly regulatory environment



Note: The ease of doing business index is the distance of each economy to the "frontier," which represents the best performance observed across all economies. The vertical and horizontal lines depict the G20 averages at 54.1 (corruption perception index) and 70.7 (ease of doing business index).
 Source: World Bank Doing Business; Transparency International.

corruption. And the KPK needs to decentralise to better address corruption in the provinces, and the forestry and oil and gas sectors. Additionally, the KPK is mandated to only focus on corruption above a specified monetary value. Measures are needed to broaden the scope of anti-corruption activities.

A World Economic Forum survey of firms reports that corruption is the single most problematic factor in doing business in Indonesia. Moreover, with 70% of entrepreneurs believing that corruption increased recently in Indonesia, low trust in the Indonesian private sector is a major obstacle to foreign investment. Foreign companies need local business partners for joint ventures. But they risk prosecution at home, under laws such as the United States' Foreign Corrupt Practices Act and the United Kingdom's Bribery Act, when their local partners engage in corruption. They also risk debarment by multilateral financial institutions such as the Asian Development Bank. Foreign companies are therefore increasingly obliged to conduct costly third-party due diligence to assess local partners' anti-corruption compliance measures and whether there are clear corruption prohibitions in the law that are fairly and consistently applied.

Why is this important for Indonesia?

Stepping up the fight against corruption is crucial for Indonesia as sectors at high risk of corruption are central to the country's economic development, such as telecommunications, transportation, and oil and gas. Also the energy sector is at high risk of corruption and here major investments are needed to cover Indonesia's USD 30 billion funding gap for its power system over 2015-2019. Corruption in Indonesia's forestry industry is a major cause of deforestation; related losses are estimated at USD 1 billion in 2014 from forest fires and USD 4 billion per year from illegal logging. Attracting responsible investors, including for sustainable investments in the forestry, energy and oil and gas sectors, will remain a challenge unless corruption is substantially reduced. Currently, it is easier to conduct business in several of Indonesia's regional neighbours that are also seeking investors for infrastructure development (see Figure).

What should policy makers do?

- ▶ Urgently adopt legislation to make it an offence for Indonesian nationals and companies to bribe foreign public officials, in compliance with UN Convention against Corruption and Indonesia's G20 commitment to possibly adhere to the OECD Anti-Bribery Convention.
- ▶ Take steps to ensure that Indonesian companies establish effective compliance measures for preventing corruption.
- ▶ Continue efforts in mainstreaming anti-corruption across government and society, by implementing the National Strategy of Corruption Prevention & Eradication and by applying the National Integrity System.
- ▶ Expand the e-procurement system to protect the entire procurement cycle and to cover procurement at subnational levels.
- ▶ Increase KPK's local presence in provinces, especially in those with business sectors at high risk of corruption or conducting infrastructure procurements.



Further reading

OECD (2016), OECD Recommendation on Public Integrity, OECD Publishing, forthcoming.

OECD (2016), *Integrity Framework for Public Investment*, OECD Publishing. <http://www.oecd.org/gov/ethics/integrity-framework-for-public-investment-9789264251762-en.htm>

OECD (2011), *OECD Anti-Bribery Convention and Related Documents*, OECD Publishing. http://www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf

OECD MAPS Methodology for Assessing Procurement Systems. <http://www.oecd.org/fr/developpement/efficacite/commonbenchmarkingandassessmentmethodologyforpublicprocurementsystemsversion4.htm>