

Indonesia

Country Background

Indonesia, known to be the world's fourth-most populous nation is unique for many reasons, among which is its size and cultural diversity. Some 240.3 million people (July 2009) million people with numerous but related yet distinct cultural and linguistic groups live on over 17,000 islands that stretch for more than 5,000 kilometers from east to west. Cultural variations between ethnic groups may be as great as the differences between countries in Europe.

Indonesia is administratively divided into 32 provinces and 437 districts. Its capital, Jakarta, is one of the most densely populated areas in the world with an estimated 124 million inhabitants.⁹

More than half of Indonesia's population has very little education. As of 2007, the better-educated middle class only occupied a thin layer in society.¹⁰

9 US Department of State. (October 2009). Background note: Indonesia. www.state.gov/r/pa/ei/bgn/2748.htm

10 Synnerstrom, P., et al. (2004). Country governance assessment report: Republic of Indonesia. Asian Development Bank. Page 2.



A Glimpse of the Present: Economic and Political Conditions

Indonesia has a market-based economy where the government plays a significant role. After recovering from the 1998 Asian crisis, the government recapitalized its banking sector, improved oversight of capital markets, and took steps to stimulate growth and investment. However, there is a growing disillusionment with the slow pace of economic reform (e.g. labor reforms have been abandoned due to strong opposition from trade unions) and a failure to create jobs (the unemployment rate is still around 10%). The economy faces two major challenges: huge external debt (nearly 45% of GDP) and the high rate of inflation, which was reduced to 6% in 2007.

Since the fall of the Suharto Regime in 1998, many new political parties have been formed, with 48 parties participating in the 1999 elections for parliamentary representation and 38 parties participating in the 2009 elections.

In 2007, Indonesia's Human Development Index (HDI) was at 0.734, which put it in the category of Medium Human Development.¹¹ Based on UNDP's Human Development Report 2009, Indonesia's Human Poverty Index (HPI-1) was 17.0% ranking it as 69th among 135 countries. Therefore, 17.0% of Indonesia's population is living below threshold levels in health, literacy, and standard of living.¹² In 2009, Indonesia placed 131st in the Heritage Foundation and the Wall Street Journal's economic freedom index, with a score of 53.4. This is a marginal improvement

11 http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_IDN.html

12 http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_IDN.html

from its score in 2008, but still below world average.¹³ Out of the 41 countries in the Asia-Pacific region, Indonesia ranked 27th in the aforementioned index. In 2009, the country ranked 126th among 180 countries, with a score of 2.6 in Transparency International's corruption perception index. The score refers to the degree of corruption as perceived by the business sector and country analysts (10 being highly clean and 0 being highly corrupt).¹⁴

A Peek into the Past: Historical Backdrop

The Indonesian transition toward democracy and market economy affected the political system, the business community, civil society, and in particular the system of governance. Indonesia's governance institutions previously operated in an environment where the state managed essential parts of the corporate sector and good governance was neglected, the rule of law was almost absent, and corruption ruled over public interests.

The fall of Suharto in May 1998, triggered by the Asian financial crisis, led the country into a new phase called the era of reformasi or Reform Era. Indonesia targeted specific areas for governance reform as well as created an enabling environment for a market economy.

A Look into Reforms Towards Good Governance

Policy changes during the Reform Era were initially aimed at pursuing market based economic activities such as dismantling state monopolies deregulating trade, finance and industry. This was followed by major governance reforms

13 <http://www.heritage.org/Index/Country/Indonesia>

14 http://www.transparency.org/policy_research/surveys_indices/cpi/2008

targeting poor public expenditure management cutting across budgeting, auditing, and public procurement. An important aspect of the governance reforms that took place was involving civil society in policy deliberations and implementation to ensure transparency and accountability.

Other reforms that influenced social accountability mechanisms include the following:

Decentralization

Decentralization implemented in Indonesia is distinct. Functions and resources were decentralized by virtue of Law 22/1999 on Regional Government and Law 25/1999 on Fiscal Balance between the Region and the Center to make government more responsive and regional executives more accountable for their actions. In 2001, some 2.3 million civil servants and more than 20,000 government assets were transferred from the national government to the regions to enable them to carry out the decentralized functions. Law 22/1999 assigns most implementation responsibilities to the regions, mainly to the district (regency or city) level. District governments have exclusive mandate over functions that do not specifically belong to national or provincial governments, which are defined in a government regulation (PP 25/2000). Law 25/1999 defines sources of finance for decentralized and co-administered functions. Its enabling regulations provide for fund transfer mechanisms. With decentralization, the provinces lost their hierarchical relationship with the districts. Decentralization reforms in Indonesia decongested the flow of power and contributed to opening doors for CSO participation.

Anticorruption

Anticorruption experts in the region hail reforms in Indonesia. The anticorruption policy and legal framework is not only present, but also works. The very law that defines corruption allows public participation in surveillance (Law 31/1999). This proves to be one of the incentives for civic engagement. Several laws have been issued to combat corruption. Law 28/1999 on Clean Government mandates the asset declaration of public officials before assuming public posts with the agreement to have their assets officially audited during and after their term in public office. The Commission for the Audit of the Wealth of Public Officials (KPKPN) was established to do just that.

Law 15/2002 on Anti-Money Laundering was passed in 2002. In the same year, a bill providing for the establishment of the Commission for Eradication of Corruption was signed into law. A corresponding Anticorruption Court was established in 2004. Deemed most vital among the legal reforms is Law 20/2001, which puts the burden of proof on the accused and not on the prosecutor (Country Governance Assessment Report-Republic of Indonesia, 2004).

Public Expenditure Management

Recognizing the poor state of public expenditure management, reforms in budgeting, accounting and audit were also initiated through the passing of significant laws. The regulations were intended to foster accountability, transparency in government transactions as well as empowerment of professional managers to deliver optimum agency performance and independent oversight by the Supreme Audit Institution (BPK).



Procurement Initiatives

Government procurement in Indonesia is highly decentralized, with its line departments procuring goods and services according to state budget coordinated by the Department of Finance and National Development Planning Agency (Bappenas). The Procurement Committee and the Department Project Manager does the purchases, assisted by a Tender Committee.

Two events provided an external impetus for procurement reform in Indonesia. The first was the meeting of the Consultative Group on Indonesia (CGI) in October 2000, which identified procurement reform as a priority in the fight against corruption. The second was the release in of the World Bank's Country Procurement Assessment Report (CPAR) for Indonesia. The Report concluded that Indonesia's procurement system was not market driven, prone to misuse and abuse, and reduced value for money for public funds due to the presence of conflicting objectives in public procurement, lobbying efforts by interest groups and collusive practices. In response to these events, Bappenas was made responsible for procurement reform.

Bappenas established a steering committee, supported by a secretariat and three working groups responsible for legal and policy development, institutional development, and human resource development. Under the steering committee, procurement legislation was prepared and issued as Presidential Decree 80/2003. The said decree promotes the basic principles of procurement: transparency, open and fair competition, economy, and efficiency. It scrapped prequalification procedures (often manipulated to aid

corruption) and established a National Public Procurement Office (NPPO) to oversee its the implementation. The NPPO drafts procurement policy and procedures for presidential endorsement; develops standard bidding documents; disseminates procurement information; monitors procurement practices; and provides the services of an ombudsman on procurement matters.

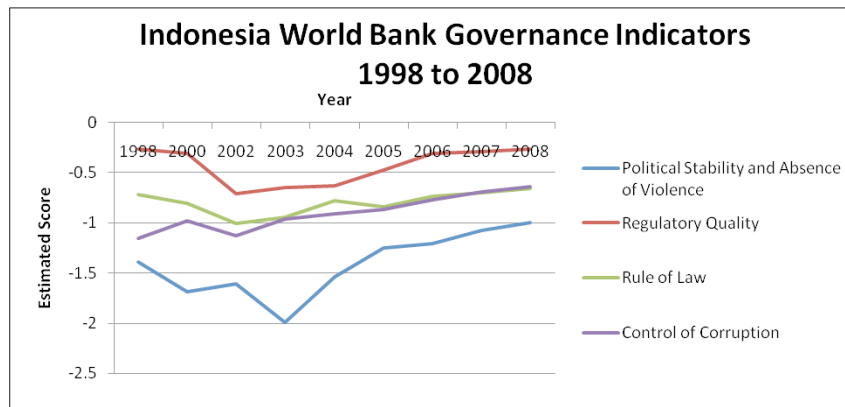
The Construction Law (18/1999) contains important procurement provisions, which need to be reconciled with Presidential Decree 80/2003. Law 25/1999 allows regional governments to develop their own regulations for procuring goods and services, through Government Regulation 105/2000.¹⁵

In 2007, the government also issued a Presidential Decree on revised procurement regulations.

Despite the evolution of better procurement practices and laws, the procurement system continues to be inefficient due to a number of factors, one of which is the multiplicity of procurement laws that often times becomes the source of confusion as well as overlapping jurisdiction and lack of clarity in implementation. World Bank's CPAR also points to weak compliance with existing procurement rules and procedures, as well as lack of oversight and enforcement as reasons for the inefficiency in the system. This environment created the need for civic engagement in the area of procurement.

¹⁵ An excerpt from "Country Governance Assessment Report: Republic of Indonesia". (Dec. 2001). The poor speak out: The partnership for governance reform in Indonesia and the World Bank. Page 66.

In the 2008 World Bank Governance Index Report, Indonesia garnered a score of -0.29 for Government Effectiveness, which is an improvement from the -0.85 it acquired in 1998. Under Control of Corruption, the country received -0.64 in 2008 - a 0.51 increase from its Control of Corruption score a decade prior. Slight improvement in the state of Political Stability and Absence of Violence/Terrorism was also observed during this period. Regulatory Quality remained the same. Positive strides were seen in the Rule of Law index.¹⁶



Overview of Civil Society Organizations

Recent developments show that civic engagement is a promising approach not only in improving performance in the public sector but also in exacting accountability. Accountability being a proactive process cannot be fully exercised without civil society engagement. The success or failure however of achieving the

objectives also depends on the interplay of key factors such as incentive structure, level of institutionalization, the depth of civil society involvement, and inclusiveness of participation among others.

Today, despite the growth of civil society and the democratization of Indonesia, the experience of prolonged repression still has a significant impact. During the three decades of authoritarian rule, civil society was perceived as part of the problem. To date, since 1998, many CSOs have had to rethink their strategies. There is much uncertainty in the position and strategies in civil society, which is magnified in the increasing call for accountability.

A Picture of Years Gone by: A Brief History of CSO Involvement

Civil society in Indonesia, civil society only began to emerge in the 1970's with modest development in funding and scale of projects. During this time, the government was very cooperative and accommodating towards CSOs.

However, during the 1990's, under Suharto's leadership the only way to affect political change and liberalization was to go against the Administration. With the New Order government, civil society involvement was traditionally disregarded. A viable way to work around the New Order was through the environmental movement.¹⁷ In fact it was through the Ministry of Environment that Environment Management Act of 1982 was established.

¹⁶ Kaufman, D., et al. (June 2009).

¹⁷ Gordon, J. (Fall 1998). NGOs, the environment and political pluralism in New Order Indonesia. *Journal of the Southeast Asian Studies Student Association*. Vol. 2, No. 2.

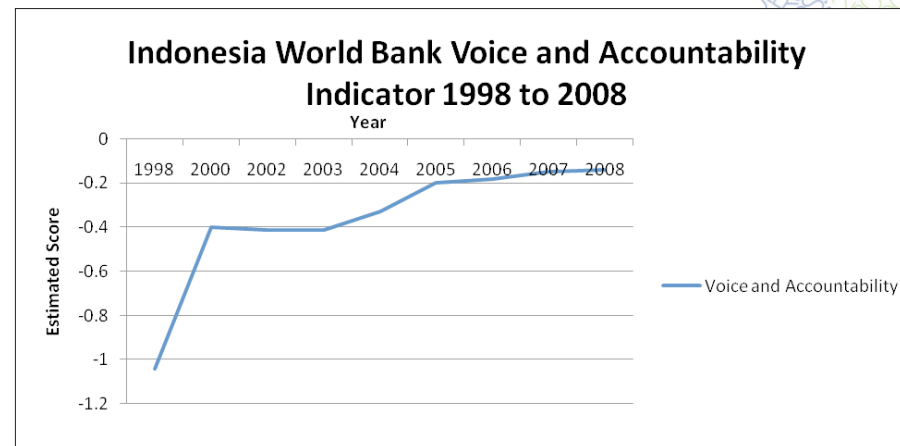
It called on CSOs to play a more participative role in the development process and recognized the right of CSOs to act as community institutions for environmental management and development. (Indonesia Country Governance Assessment, 2004)¹⁸

The series of reforms under the New Order government opened various other areas of engagement. Given Indonesia's poor public expenditure management at that time, public financial management issues including procurement highlighted the vulnerabilities of the existing system and this easily gained public attention. With support from development partners, significant reforms were initiated to ensure people's participation. CSOs took advantage of these strides. Government gave in to pressure from the development partners and the embedded incentives to reform. It was the existence of considerable public support for governance reforms as well as its positive impact in the field of anticorruption served as the biggest incentive for CSO participation in Indonesia.

Through the partnership of UNDP, World Bank and ADB, a Partnership for Governance reforms was established. This facilitated the conduct of several consultations between the development partners and the government, which hastened the participation of the CSOs in government operations.

World Bank's Governance Indicators for 2008 gave Indonesia a score of -0.14 in the area of Voice and

Accountability. This reflects a marked improvement within the decade, as its 1998 score was -1.04.



A Glance at CSOs Involvement in Governance Reforms

PATTIRO, a CSO focused on policy advocacy and CSO strengthening, began from the realization of the importance of transparency and accountability. The organization believes that government procurement should not only be advocated and monitored by members of civil society, but also by the general public, as its beneficiary. Thus, since 1999, PATTIRO has been building community networks concerned with public policy and services.

Transparency International Indonesia (TII) promotes anticorruption reforms. An impetus for TII to start their initiative, Integrity Pact, was grounded on the reality

18 Gordon, J. (Fall 1998).

that procurement takes up more than half of the national budget and is very sensitive to corruption. Launched in 2003, the Integrity Pact serves as a monitoring tool for promoting public participation in the government procurement processes to deter corruption. Vital in exacting accountability is its Complaint Handling System that is deemed to be its basic tool during complaint resolution process. This encourages government bodies to open up and engage the community during public service activities. Partnership with local CSOs and government counterparts proved to be useful. According to TII, the community saw the need to involve themselves in public procurement processes to fight corruption only after being educated and informed on what this process entails. Because of their active involvement with the government, the Procurement Service Unit/PSU (ULP/Unit Layanan Pengadaan) was set up to address access to information needs regarding procurement processes. TII's simplest measurement of Integrity Pact's success is in the people's effort to access information.

A Snapshot of Civil Society – Government Relations

The history of Indonesia illustrates that the shift in focus of its government from agricultural to industrial development altered the relationship between its government and CSOs.

The move of the Indonesian government to industrialize necessitated the exploitation of its forests and natural resources. This situation gave rise to a new series of advocacies, such as assisting people displaced by large projects to get better compensation from the government. When it came to political issues, CSOs demanded the government to pay more attention to concerns on human rights, rule of law, and social injustice. In pursuing the newfound advocacy, CSOs criticized the quality of development adopted by the government while in turn the government felt that the CSOs were actually violating the

original mandate of community development. They believed that the CSOs had no right to criticize how they were conducting the country's development.

With this, the relationship between the government and civil society became tense. To address the needs that government could not fill, CSOs resorted to lobbying rich countries to respond to the development needs of the Indonesian poor. This further aggravated the relationship between the government and civil society. To some extent the situation prevented people's participation in government's decision-making processes to the fullest and thus reversing the earlier picture drawn in 1970s when the government was very accommodating to the CSO.

Another reason for the souring of relationship between government and civil society may be attributed to the fact that they treat one another as a competitor for development partners' resources. Without the characteristic bureaucracy, development projects of CSOs gain more immediate success than those of the government. Because of the friction between government and civil society, public officials tend to question the legitimacy of the latter's programs and projects. The government perceives CSOs as *lembaga swadaya masyarakat* or LSMs (self-reliant community institutions).

Despite the competition between the government and civil society, there are still sectors where they cooperate. Much of this cooperation happens in primary health care, clean water development, rural credit programs, small-scale irrigation development, and other programs in community development.

A Preview of Issues Past, Present and Future

The preceding discussion shows that there are various factors that influence the impact of social accountability. Vital to the process are those that shape the role, depth and quality of participation of the CSOs as well as the level of impact and institutionalization or the process of embedding civic engagement into the formal structures of the government.

Indonesia's cultural diversity, a result of the country's vast expanse has made the formation of the nation-state difficult. Concurrently, it made the issue of decentralization too strong for the central government to ignore. The era of reformasi opened the floodgates of many issues that were previously subsumed under national concerns and security. This process motivated people to participate in the discussion of local and regional issues. Citizens began questioning the long and complicated process in the delivery of public service. Civil society started to appreciate the need to access public information in order for them to effectively participate in government policy-making and major decisions.

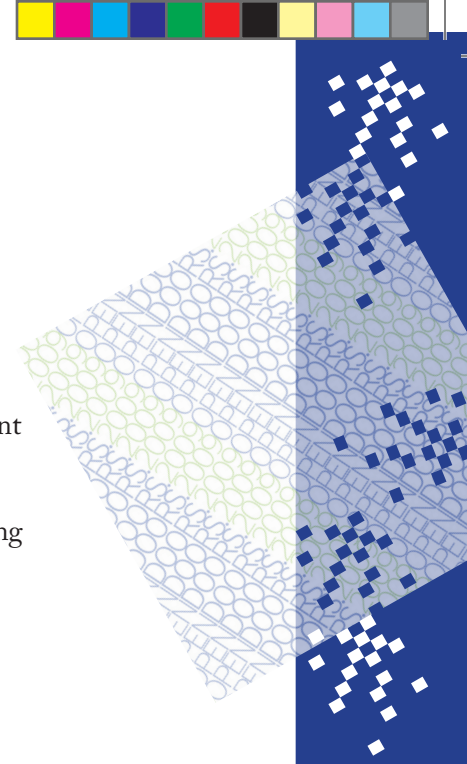
Decentralization signaled the decongestion of power and resources from the center of government to the localities. It posed as a hurdle to some CSOs especially those who were forced to engage less committed regional heads. It contributed to conflicting rules and issuances that affected the process of social accountability. Moreover, the decentralized system created the need for homogeneity in social accountability forces and ownership of social accountability tools. This highlights the role of sectoral groups and the need for specialization. Thus in the case of PATTIRO, it was important for them to understand the processes of government before starting the civic engagement. They had to observe, conduct research, and

attend actual biddings before they could feel they were part of the process and could wield power to a certain extent. TII also needed to understand public procurement processes for the Integrity Pact to take effect. Public procurement and aspects of social accountability can be very technical. This poses a challenge for TII in increasing the capacity of its community.

Indonesian CSOs are said to be elitist, where middle-class members with university degrees usually from abroad and top universities in Indonesia often occupy high positions. In general, it is perceived that social accountability initiatives are initiated by pro-democracy activists comprised of intellectuals and the highly educated, but with limited knowledge on grassroots mobilization. This partly explains why CSOs in Indonesia are seen as detached from the everyday reality of the common people. Only few CSOs are engaged with the masses and are based in the countryside.

Most CSOs in Indonesia are based in large cities in Java and Jakarta though projects are implemented in the outer islands. Large development organizations have regional branches that have limited autonomy. Given the geographical condition of the country, this limits the impact of social accountability initiatives. As mentioned by a World Bank officer, the presence of CSOs are concentrated in cities of Indonesia. Their presence is hardly felt in far-flung areas where there are massive infusion of foreign funds for the construction of roads, bridges, dams and irrigation system.

There are CSOs that are deemed to be sectoral and fragmented, implying a need for more coordination among organizations. Many lack managerial,



organizational, and advocacy skills as they are micro-oriented and elitist. Numerous CSOs are involved in activities without necessarily having the skills in the field. It is said that there are organizations that constantly evolve to follow the development money trail. The lack of capacity in some CSOs limits the extent of their participation to specific projects, which they can handle.

There is a dearth of confidence in members of civil society in terms of what they can achieve and how they can achieve them. Under all this pressure, the internal governance of NGOs and also their performance seen in the public domain are both under great scrutiny. But, there have also been many initiatives geared towards improving CSO governance and accountability that are beginning to gain momentum today.¹⁹ Media and the general public are increasingly highlighting the lack of CSO accountability. There are only a limited number of mechanisms to keep CSOs accountable to communities.²⁰

19 Antlöv, Hans; Ibrahim, Rustam; & Van Tujil. NGO Governance and Accountability in Indonesia: Challenges in a Newly Democratizing Country. July 2005.

20 Antlöv, Hans; Ibrahim, Rustam; & Van Tujil. NGO Governance and Accountability in Indonesia: Challenges in a Newly Democratizing Country. July 2005.