

# Village Corruption in Indonesia:

## Fighting Corruption in the World Bank's Kecamatan Development Program

Andrea F. Woodhouse



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## **Fighting Corruption in Indonesia's Kecamatan Development Program**

Andrea Woodhouse

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When writing the paper, the author was a consultant working on a World Bank-funded community development program 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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## Preface

This paper was written in 2001. At the time, Indonesia was only three years into *reformasi* (political reform), the era of political change ushered in by President Suharto's resignation in 1998. Indonesia was also about to embark on one of the most far-reaching decentralization programs in the world.

At the time of writing, I argued that corruption in any village development program in Indonesia could not be understood outside the context of village politics and government. The paper thus analyzed the conditions of village life that enabled corruption to flourish easily during the Suharto era. These included political conditions such as a ban on village political activity, a history of impunity and a weak judicial system, and administrative conditions, such as high levels of bureaucracy and hierarchical village government structures that provided few avenues for villagers to complain.

In the paper, I argued that political reform and decentralization were likely to affect these conditions, but that we knew little about how. Political reform, I argued, could provide the space in villages for open criticism and protest. Decentralization brought with it the possibility for greater village transparency by introducing an elected village representative board but, because the laws gave great leeway to district governments in determining village affairs, the effect of decentralization on corruption was likely to vary.

I shall not attempt here to assess precisely what effect these changes have had, four years later, on corruption in Indonesian villages. To do so would be a huge empirical undertaking, and much has been written elsewhere about these changes, particularly on the impact of decentralization on corruption. Two things, however, can be said with confidence.

First, the era of political openness ushered in after Suharto's resignation has solidified. *Reformasi* was a shaky process, and Indonesia is still democratizing. But, four years later, politics in Indonesia has become a vibrant and open arena, with plenty of activity and competition. In late 2004, Indonesia had its first direct elections for president, an election contested and held in thousands of villages across the country without any major disruptions. The government of Susilo Bambang Yudhoyono (SBY) came to power on a platform of anti-corruption and transparency.

Second, decentralization has introduced much greater variance in village government across the country. There is now diversity where once there was uniformity. Village representative boards have been introduced, but the way they have been put in place—and their effectiveness as an agent of transparency and participation—varies widely across the country. Decentralization has also provided for the revival of local forms of government. The challenge for village development programs seeking to prevent corruption will be to find ways to respond to these local environments while maintaining key principles of anti-corruption.

Andrea Woodhouse  
Jakarta, March 2005

## 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 \$273 million World Bank-funded community-driven development project in Indonesia that funds infrastructure and small loans in over 20,000 villages nationwide.<sup>1</sup> 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. Concrete measures underlying this 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 villagers charged with procuring goods obtain at least three quotations for doing so and share the results at public village meetings.
- Insisting that details of all financial transactions are posted on village notice boards
- Requiring regular village meetings to be held to account for project funds—and giving villagers the right to suspend further disbursements 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 project facilitators
- Independent monitoring of the project by NGOs and local journalists

Although these measures have had some success, corruption persists in KDP. This paper examines where, why, and how this takes place. Its findings are based on a series of ethnographic field interviews, a review of the KDP field experience, an incentives analysis of the KDP project cycle, and a survey of the literature on Indonesian village governance. 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 the kinds of anti-corruption measures that are likely to succeed in local projects that operate in a systemically corrupt environment and in an overall project whose size and breadth (20,000 villages nationwide) makes centralized control and monitoring of funds impossible. The paper also uses corruption as a lens through which to view snapshots of social and political change in Indonesian villages.

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<sup>1</sup> The follow-on project (2002-2006), KDP 2, is a \$300 million project; its successor, KDP 3, \$250 million. Combined, this makes KDP the largest World Bank poverty reduction/community development project in Asia.



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 also argues that local contexts and social norms are key to understanding how these incentives can be changed to reduce corruption.

The first part of the paper examines the conditions that enable corruption to flourish in Indonesian villages. That corruption is encouraged by a combination of factors. High levels of bureaucracy and red tape multiply opportunities for rent seeking in villages. A history of impunity for the perpetrators of corruption, combined with a legacy of oppression for whistleblowers, means that it is almost never in the interest of an individual villager to protest corruption. The Indonesian state's administrative structure concentrates power in village elites; this, combined with a weak and corrupt judicial system, impedes poor people's access to justice and control over decision-making. Finally, the 1966-1998 Suharto government's conscious strategy of curtailing political activity in villages, combined with its 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 markups, collusion, bribes, and kickbacks 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 independent of local government and, because they are backed by the central KDP structure, they are more protected 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 non-KDP projects.

The incentives analysis of the project cycle identifies the stages most vulnerable to corruption. These lie in 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 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 whose history and state structures have embedded the conditions for corruption. It makes explicit the 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.

## 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, diverts public services from the poor; it discourages foreign investment in developing countries.<sup>2</sup>

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

- Preventing and reducing corruption in World Bank-funded 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 Bank-funded projects. A first step toward this is an examination 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 analyzes where, why, and how corruption occurs in a large decentralized community development project in Indonesia, the *Kecamatan* Development Program (KDP).<sup>3</sup> KDP is one of the first World Bank projects to make anti-corruption measures an explicit design element. Reviewing the analytical framework and samples of the project's field experience gives us useful material for improving future programs.

The key assumption of the report is that corruption is primarily a problem of incentives, and can only be fought effectively by changing incentive structures. 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 and where the incentives for corruption in the project cycle lie, which project design features enable or prevent corruption, and what the best strategies have been for fighting corruption in the project
- Recommendations for improvement

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<sup>2</sup> 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.

<sup>3</sup> 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?

Three features of KDP make it an especially interesting subject of study:

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 differences make 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 anti-corruption agents 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—combating corruption.<sup>4</sup> But we do not yet know how well this hypothesis will be sustained in practice. 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 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 Bank-funded 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, so KDP could not bypass the government completely even if it wanted to do so. And KDP operates in a specific Indonesian 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.<sup>5</sup> The proposed reforms threaten the interests of powerful forces in Indonesia, including those of the influential military.<sup>6</sup> Against this background, Indonesia is trying to push ahead with an 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 and,

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<sup>4</sup> 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.

<sup>5</sup> The 2001 Corruption Perception Index, released by Transparency International in June 2001 ranks Indonesia as 88<sup>th</sup> out of a survey of 91 countries, above only Nigeria and Bangladesh. The survey is a “poll of polls” from different sources and attempts to measure perceptions of corruption across countries. Transparency International. *Corruption Perception Index 2001*. Transparency International: 2001.  
<<http://www.transparency.org/documents/cpi/2001/cpi2001.html>>

<sup>6</sup> Only about 25 percent 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](http://www.crisisweb.org/projects/asia/indonesia/reports/A400054_05092000.pdf)>.

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 toward 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. While 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 2,000 facilitators working in over 20,000 villages across Indonesia. It, thus, affords us a rare insight into 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*.<sup>7</sup> This kind of definition is common in the corruption literature.<sup>8</sup> 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.<sup>9</sup> Furthermore, by mentioning neither the law nor morality, it allows two important distinctions to be made: between what is corrupt and what is illegal, and between what is corrupt and what is immoral. Although there may be

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<sup>7</sup> World Bank, *Helping Countries Combat Corruption*, p. 8.

<sup>8</sup> 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.

<sup>9</sup> 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.

large overlaps between these concepts, their contours are distinct and it is important to keep them analytically separate.

### Analytical approach

Picking the right kind of analytical approach to 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.<sup>10</sup>

Legalistic anti-corruption strategies attempt to combat corruption by strengthening laws or creating rules. They focus on creating regulatory environments that tighten the loopholes that allow 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 sufficient. 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 by 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 moral language fail for similar reasons. Such anti-corruption strategies talk of “cleaning up” and a return to “honesty” and “values” in public life. They imply that corruption would be rooted out if 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; the important failure is not in her, but in the system that 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 anyone’s interest.

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 changing the underlying system of incentives so that agents are no longer motivated toward 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 for corruption.

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 whatever 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 of the claim, which may have diminished explanatory power but which we believe better captures 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

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<sup>10</sup> See Klitgaard et. al., *Corrupt Cities*.

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 other intangible rewards. 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 social norms work in the context of those projects and set up 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 knowledge of both local context and 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:

- Benefits may include the amount of money an agent stands to gain, the social benefits that might accrue from this money, and the increase in power that might come from the transaction
- 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 an 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 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 (including those

accused of corruption), 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 their villages.

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. We therefore broke the project cycle down into a series of small, discrete steps, and then analyzed the incentives for corruption at each step. 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.

## Chapter 1. Community Development in Indonesia

### Political change and 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 Suharto's New Order government in 1998. 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 governments. 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 made 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 place, tensions have emerged over issues such as land, access to resources and political power—tensions often manifested in ethnic terms. What it means for these villages is that once-set relationships are in flux: old hierarchies are being redefined and crosscut with new cleavages, leading to a shift in the way villagers perceive their 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.<sup>11</sup> Its impact at village level is unclear. Almost no evidence has come forward to suggest what impact, if any, *reformasi* is having on political expression in villages. Anecdotal evidence in 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.<sup>12</sup> 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 this changes local power dynamics remains to be seen, given that many New Order institutions remain in place at village level.

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<sup>11</sup> 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.

<sup>12</sup> 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.



## 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 toward 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”.<sup>13</sup> 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 village heads.

*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 and the operation 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.<sup>14</sup> 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 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.

<sup>13</sup> 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.

<sup>14</sup> See Evers, Pieter, *Resourceful Villagers, Powerless Communities (Rural Village Government in Indonesia)*. Jakarta: World Bank/Bappenas Local Level Institutions Study, Mimeo, 2000.

## Village life in Indonesia

The experience of village life and previous projects in villages 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 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. Many of these had originally been smaller and organically formed.<sup>15</sup> Because villages are political, rather than social, units, their boundaries may cut across traditional boundaries of land drawn according to *adat* (local custom). They are divided into hamlets (*dusun*), groupings that, being small and generally homogeneous, are often socially more cohesive than villages. Hamlets are sometimes physically far apart from one another, and communication among hamlets varies. Some hamlets consist of people from an ethnic group entirely different from others 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 upward to the district head.<sup>16</sup> Because running for office is expensive, village heads tend to be from richer families, 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.<sup>17</sup> 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 forums 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 them<sup>18</sup>

<sup>15</sup> 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)>

<sup>16</sup> See Evers, Resourceful Villager, Powerless Communities for details.

<sup>17</sup> 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 Sevn Cederroth, *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”.

<sup>18</sup> Usually ‘his’. Village heads are rarely female.

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 and centralized state bureaucracy, government rural policy, and state administrative mechanisms on the incentives for corruption in villages. The second is the effect of a corrupt and inaccessible legal system on village accountability and corruption. The third is the way in which development projects themselves have been run.

### **The state, politics, and 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—including creating the conditions for widespread corruption.

The environment in an Indonesian village is one in which 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.<sup>19</sup> 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 small 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. This enhances even further the culture of impunity.

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<sup>19</sup> 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.”

*[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*

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 toward rural areas.<sup>20</sup> 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 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, as the village head may be put under 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 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.<sup>21</sup>

### **Rural justice and 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.<sup>22</sup> Some of these weaknesses are peculiar to the Indonesian legal system; others are more a function 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 in which the other mechanisms of accountability have failed.

This is not true of the Indonesian courts. Instead, the courts are where impunity for the perpetrators of corruption 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

<sup>20</sup> See Annex I: Historical Background.

<sup>21</sup> 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.

<sup>22</sup> I would like to thank Pieter Evers especially for contributing background information and analysis of the workings of the rural justice system.

the highest bribes or with the most important contacts.<sup>23</sup> 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 is often found to drop cases or otherwise skew the court process. Potential perpetrators of corruption 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 personal. 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.<sup>24</sup> 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 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 a 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 are 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 a day or more. 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 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 participating 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 Foundation found in a survey of Indonesian citizens that only 56 percent of respondents were able to

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<sup>23</sup> This is borne out by the empirical evidence that is available concerning people's attitudes toward 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 percent 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).

<sup>24</sup> Internal World Bank note (*Note on Rural Judiciary*), Pieter Evers, 2002.

identify a single right to which they were entitled. In rural areas, that figure dropped to 33 percent.<sup>25</sup> This lack of awareness makes the environment in villages even more conducive to corrupt behavior.

### **Development projects and village corruption**

Development projects themselves have contributed significantly toward 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 and 30 percent of the government's development budget funds were lost due to leakage, Bank-sourced funds included.<sup>26</sup>

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 implementing agencies to misuse foreign aid funds. Each agency's projected revenue is divided into "routine" and "development" budgets. Routine budgets are funded from government sources and development budgets from external sources. Although routine budgets are designated not for development but for paying civil servant salaries and other routine operational costs, they are almost always woefully inadequate. This creates a strong incentive at ground level to use development funds to cover routine agency costs and to supplement civil servant salaries.<sup>27</sup>

Foreign aid funds have also been relatively large and 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 tacit donor agreement 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 large sums of money—and strong incentives to misuse them. They were able to use this money, however, not only to supplement civil servant 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 on a village without the active participation of its members. There was almost no local involvement in development planning. Villagers became passive subjects of development, not active agents in it. The projects were perceived by communities as handed down by an external government over which they had little control; there was no perception that villages had any rights—or even a right to protest—under the process. Indeed, according to one experienced development practitioner in Indonesia, a common phrase used by villagers to describe development assistance to their communities was *Bantuan sudah di-drop*: "the help has been dropped."<sup>28</sup>

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<sup>25</sup> Asia Foundation. Survey Report on Citizens' Perceptions of the Indonesian Justice Sector - Preliminary Findings and Recommendations. Jakarta: Asia Foundation, 2001.

<sup>26</sup> Internal World Bank memorandum, Stephen Dice, 1997.

<sup>27</sup> 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, Mimeo.

<sup>28</sup> From talk with a former head of Oxfam in Indonesia, September 2001.

Furthermore, projects existed in an environment where *all* decisions, from tax to service delivery, were top down. In a system that is almost completely formalized and non-participatory, the only means of control and redress for complaints are formal channels—which did not work in Indonesia as 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 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.

## Chapter 2. Corruption in 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 and supervision.

The project works by giving block grants directly to each participating sub-district (*kecamatan*), which usually contains about 20 villages. Each village then prepares proposals for entry into an inter-village funding competition at *kecamatan* level. Villages can submit two proposals if the second comes from a women's group. 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 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 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 a project there are checks, balances, and mechanisms villagers can use to hold the project accountable. There are multiple channels of accountability in projects. 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.



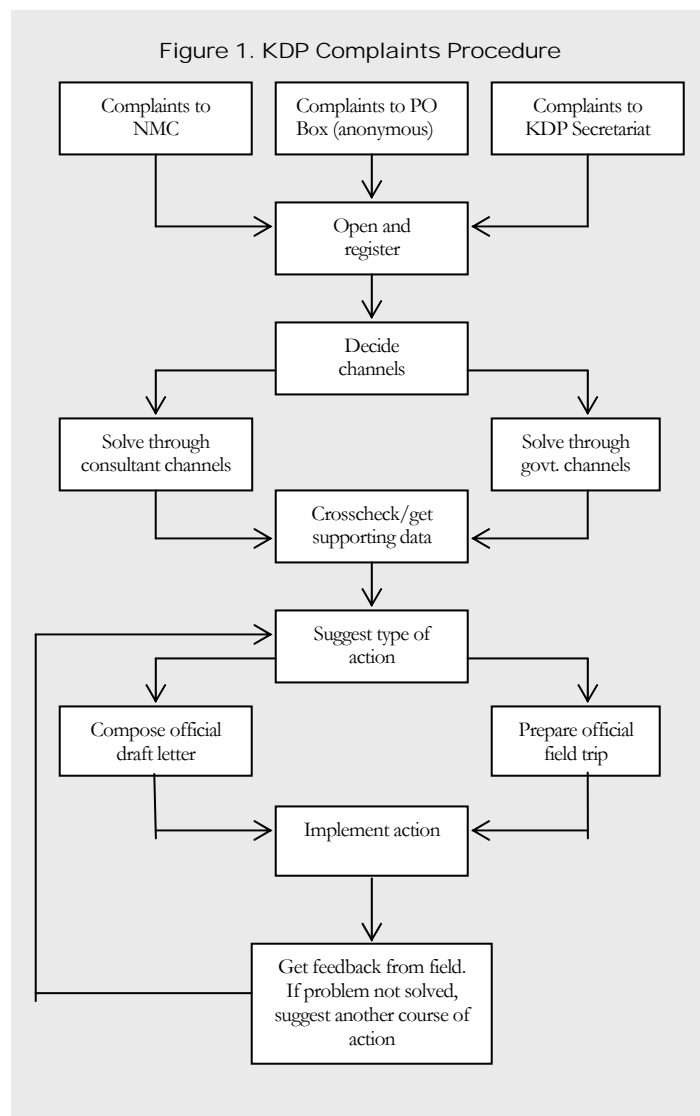
In addition, the project has other mechanisms of accountability. Among them are that:

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

### Complaints

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, which sets into motion an automatic complaints resolution process (Figure 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 mechanisms 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 small honorariums to help spread information about KDP, ensure broad participation, especially by marginalized groups in villages, and serve as help and contact points. *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 contact points between villages and projects, 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.<sup>29</sup>

The role facilitators play in limiting corruption in KDP is crucial. First of all, they act as conveners for projects, by getting villagers to come to project meetings. The extent to which villagers participate depends largely on the quality of facilitation. If a facilitator succeeds in ensuring wide participation and transparency, it makes it much more likely that corruption will be protested. 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 villager experiences of political change. Third, the facilitators have a power base independent of government and local elites. They therefore have less fear of 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 percent of alleged corruption cases reported to KDP involve facilitators. Because villagers tend to report corruption through facilitators, it is especially difficult for villagers to report corruption when the facilitators themselves are implicated. It is thus important that villagers know that the perpetrators of corruption will be pursued in KDP, even if they are KDP facilitators.

### ***Fear of complaining: why would a villager complain?***

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 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—local 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. Complaining as groups spreads risk, but does not dilute the benefits of complaining. Villagers tend also to use facilitators as channels for complaints. 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

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<sup>29</sup> 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.

will be taken if they do. This depends mainly on the strength of 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 for corrupt behavior. Government officials may be fired or, more commonly, rotated to less desirable posts. 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 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 disincentives toward corruption.

### Types of corruption in KDP

Corruption cases in KDP range from the imaginative—20 chickens being valued at a somewhat expensive US\$2,000—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 budget mark-ups, which usually involve some element of collusion. Most of the time, these involve reverse budget mark-ups: budgets are not inflated in advance, implementation teams substitute cheap materials for those originally specified and budgeted—and pocket the difference (Box 1).

#### Box 1: Proving corruption can be difficult

Villagers in Panasakan, a small village in Central Sulawesi, noticed that the amount of wood delivered to the village for building a bridge 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 wood, worth about Rp 3.6 million, should have been delivered to the village. They suggested that the head of the village implementation team had bought less wood than specified in the budget and pocketed the difference. He was accused of colluding with a wood seller to verify his story. At the same time, the head of implementation accused the villagers themselves of stealing some of the wood, and at a meeting to discuss the problem some villagers admitted doing so. They claimed, however, to have taken only a tiny portion of the amount missing. 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 at least a year. 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.<sup>30</sup>

A third type of corruption seen in KDP consists of bribes and kickbacks to officials (Box 2). These are rarely overt, but will come in the guise of money to “process” papers for KDP or other such administrative needs. Success in obtaining these bribes depends on villager ignorance of KDP’s principles and an expectation on their part that KDP will be like previous development projects in the village.

#### **Box 2: Tips and bribes in the middle of the night**

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 to “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 village 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*” (a tip) they said, and was standard practice. They also claimed that, because the money came from villager pockets and not 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 village technical advisors 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 among 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 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 corruption-related

<sup>30</sup> 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.

complaints had been made to the national KDP Secretariat.<sup>31</sup> If taken at face value, such low figures would be unprecedented for a project operating in so many thousands of 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. 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, there has been no previous Indonesian project of the type and size of KDP, 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 to 30 percent less than other projects to deliver the same kinds of benefits.<sup>32</sup> 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, providing fewer opportunities to skim off funds. A second indicator that there is less corruption in KDP is that villagers say so. 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 (Box 3).

### Box 3: Anti-corruption, politics and protest: the white shroud of Sidoardjo

According to one *kecamatan* facilitator in Central Sulawesi, villagers in Sidoardjo 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 by each major actor. Figure 2 presents a summary of this mapping exercise; the full map is found in Annex 2. Throughout the project cycle, there are three important areas of risk. The first is that village elites will try to dominate a project, mainly to give themselves opportunities 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 quality and safety of infrastructure built. The third is that village implementation teams misuse funds to buy

<sup>31</sup> *Kecamatan* Development Program. Second Annual Report 1999/2000.

<sup>32</sup> This figure is drawn from a study conducted on infrastructure in KDP. *Kecamatan* Development Program. *Studi Teknis Sarana/Prasarana*. Jakarta: *Kecamatan* Development Program, 2001.

materials. Again, apart from the money misused, this usually has a detrimental impact on the quality of infrastructure.<sup>33</sup>

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 percent of total project funds. Facilitators for KDP at the *kecamatan* level and above are recruited and managed by consulting companies hired to administer the project. The administrative funds allocated are supposed to cover facilitator 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.

Figure 2. Incentives for Corruption in KDP village projects	
Project Preparation/Implementation Stage	Opportunities for Corruption
Dissemination of information and selection of consultants	<b>Low</b> But risk of nepotism in choosing consultants and elite capture for later kickbacks
Socialization: villagers learn how the project works and what their rights are	<b>Low</b> But risk of elite capture
Villages prepare proposals	<b>High</b> Kickbacks with selection of TA; collusion; budget mark-ups; false groups formed to get micro-credit
Technical teams look at the proposals to see if they are feasible	<b>Low</b> But incentive to try to influence results of assessment in village's favor
Villages choose proposals that will be funded	<b>Low</b> But incentive to simply split funds among villages: leads to bad projects
Preparations for implementation: funds are released	<b>High</b> Main threat is collusion among three signatories of bank withdrawal to take a cut of funds before transferring to village
Implementation: Materials are bought Village labor is mobilized Roads and bridges are built	<b>Extremely high</b> Most common source of corruption in KDP (apart from operational funds and consultants' payments) is with procurement of materials. Implementation teams buy cheaper materials than those specified and pocket the difference.
Post-implementation: Loans repaid; revolving funds set up Maintenance of infrastructure	<b>Medium</b> Loan repayments managed badly; risk of corruption with user fees for maintenance.

<sup>33</sup> Sometimes it means that projects cannot be built at all. In one village project to build a clean water system, the village implementation team bought pipes that were narrower and cheaper than those originally specified. The pipes were suitable only for electric wires and not for water and could not be used.

## 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 as it is spread out over more than 20,000 villages. 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 this without support and without a project design that limits the opportunities for corruption. Figure 3 shows the KDP design features that are most effective in limiting corruption.

Figure 3. KDP Project Design Features Designed to Limit Corruption	
Community control and simplicity	<ul style="list-style-type: none"> <li>• Direct transfer of funds</li> <li>• No local government control</li> <li>• Villagers control budgets</li> <li>• Financial formats are simplified so villagers can understand them.</li> </ul>
Socialization	<ul style="list-style-type: none"> <li>• Villagers learn how the project is supposed to work, what their rights are, and what to do if they are unhappy.</li> </ul>
Transparency	<ul style="list-style-type: none"> <li>• All financial information is made public and publicly displayed in villages</li> <li>• Complaints database will be published in newspapers</li> </ul>
Limited monopoly	<ul style="list-style-type: none"> <li>• All goods to be procured require at least three quotations</li> </ul>
Limited discretion	<ul style="list-style-type: none"> <li>• All financial transactions require at least three signatures</li> </ul>
Accountability mechanisms	<ul style="list-style-type: none"> <li>• Regular village meetings to account for funds. Disbursements can be suspended if misuse of funds is suspected.</li> </ul>
Monitoring and follow-up	<ul style="list-style-type: none"> <li>• Regular project monitoring, complaints tracking and follow-up</li> <li>• Independent monitoring by civil society groups and journalists</li> </ul>

### 1. Community control and simplicity

KDP hands control of village projects from local government to villagers and, by making village projects simple, enables villagers to participate. First, funds are transferred directly from the center to *kecamatan*-level bank accounts, with *no local government control* over them. This 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 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 a 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. 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 (Box 4).

### Box 4: The sadness of Pak Darmen

Pak Darmen [not his real name], a poor fisherman in Sungai Beremas village, West Sumatra, borrowed money from KDP to expand his fishing business. But the night he received the money, the village head knocked on his door 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 he 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.”

## 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 from complaints by villagers, though villagers tend to report through their facilitators rather than directly. Under 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 “informal payments” under previous development projects. And, as people tend not to demand what they do not know, communities tend not to insist on transparency. There are, thus, concrete obstacles to achieving high levels of transparency in the field. In more than one *kecamatan* in Aceh, for instance, *camats* 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. The rationale is that written invitations send a message of exclusivity rather than inclusiveness, as people who are not formally invited feel they cannot come. KDP insists instead that meetings be arranged by public announcement. Second, KDP has moved away from written media toward oral media. It has also moved away from disseminating information at village-level meetings toward hamlet-level meetings, which tend to be better attended, especially by poor people. Furthermore, following a study of local institutions, it has moved toward using such institutions as prayer groups 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 under KDP is privatized. Supplies for building infrastructure are procured not centrally but by individual village implementation teams. Each team is free to buy materials from any supplier, as long as they get three price quotations first and read the quotations out at a village meeting. This keeps costs down and limits supply-side corruption.

#### **5. Limited discretion**

Discretion refers to the extent to which an 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 to others for monies spent.

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 a single actor to misuse money. The areas most at risk of corruption are those where discretion is not limited enough, such as the procurement of goods for building infrastructure. KDP is trying to limit discretion in villages further by encouraging the formation of unpaid village teams to check and verify all expenditures.

#### **6. Accountability mechanisms**

Accountability mechanisms built into KDP require those involved in running village projects to account *downward* 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 percent 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 the likelihood that they will be found out if they do.

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 accounts of project expenditures refused at a *Musbangdes Pertanggungjawaban* (Box 5).

**Box 5: Villagers take action**

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 also tried to follow-up the problem 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.

**7. Monitoring and 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 internal and external monitoring system. Villagers, 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 monitor village projects internally. Independent external monitors, consisting of local NGOs and AJI, the Association of Independent Journalists, also regularly scrutinize the project. All complaints are made public.

The Complaints Handling Unit at the KDP Secretariat follows up corruption cases and maintains a database of complaints. It does not have the capacity to investigate 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 an 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 AJI are independent channels of information, all of which can be crosschecked against one another. These institutions form a coalition of actors that can work in concert to support anti-corruption in KDP (Box 6).

**Box 6: Whistleblowing leads to investigations**

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

The local *camat* was accused of distributing funds for the first installment of KDP directly to village heads and keeping a portion for himself. He was accused of calling six village heads to his office to give them their village's "share" of KDP funds, and of keeping Rp 20 to 30 million from each village for himself. One of the village heads, however, sent out a letter reporting that this had happened to local newspapers and the police. The other five village heads later sent letters of complaint.

The local government coordination team and local KDP consultants, reported the case to the Complaints Handling Unit in NMC. At this stage, the governor of the province sent a letter to the district head asking him to resolve the problem or risk administrative sanctions. Later, however, it was discovered that the district head 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.

When there had been little progress on the case after a few months, NMC tried to garner support for the case from a broad range of actors. It approached the local legal aid NGO, and the six village heads gave power of attorney to this NGO to act on their behalf in prosecuting the case. During the following month the NGO and one of the village heads met with the police, the district attorney's office, the local parliament and newspapers to press for action. Six months after the case had originally been reported, villagers from five villages protested in front of the district attorney's office. Finally, the district attorney agreed to call the *camat* in for questioning. In June 2002, after months of pushing by the NGO, villagers, and local media, the *camat* was found guilty of corruption by the local court and, after a long delay, 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 when 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 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 project management to make a more concerted effort to do so. Nevertheless, KDP has enforced sanctions in a few clear and highly visible cases: the district of Jayawijaya in West Papua was dropped from the project, funds for the 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.

There is evidence that these actions have had a serious impact, particularly on the perception of the boundaries of corrupt behavior in KDP. Project staff report that few things have enabled them to convince local governments that KDP will not tolerate corruption more than the evidence that it has followed through on its threats to cut funding elsewhere.

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.<sup>34</sup> 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 a district has been particularly corrupt, KDP can threaten to drop the entire province from the project, which gives the provincial government an incentive to combat corruption.

## 2. Publicize

Publicity is crucial. It creates community involvement, raises the social costs of corruption, makes it more likely that people will protest, and reduces the risks of protests. 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.

### Box 7: Holding powerful figures to account

In Kecamatan Palipi, North Sumatra, a new *camat* was accused of ordering a subordinate 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 percent 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 subordinate 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 him 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, and it proved difficult to press charges against her based only on the word of her subordinate. 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 similar actions in future. Community members in Palipi have also formed a special team, consisting of the *kecamatan* secretary, NGO representatives, and local villagers to monitor the performance of the financial management unit.

An important part of a successful anti-corruption drive is to *start with something easy and visible*.<sup>35</sup> If a starting point can be picked where the chances of success are good, it encourages people's involvement and strengthens the chances of success later on. Similarly, if a powerful and well known figure is involved in corruption and can be held to account publicly, it sends a powerful message that the anti-corruption measures are not simply cosmetic (Box 7).

Attention must also be paid to the methods chosen for disseminating publicity. Distributing posters and posting information on notice boards is often not the best way to reach people. 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 the methods of publicity that work best locally. In KDP, this has

<sup>34</sup> See Klitgaard et. al., *Corrupt Cities*.

<sup>35</sup> This point is made by Klitgaard et. al. in *Corrupt Cities*.

meant thinking about how villagers lead their lives, how news travels in villages, and which points in villager lives can be harnessed to distribute information. The strategy arising from this has focused on a few key areas, beginning with using media appropriate to the community. This includes not just the type of medium, but also the way information is conveyed in it. For instance, KDP encourages groups to produce posters in local languages and that show people from local ethnic groups. Second, it has focused on training village facilitators well. Facilitators are usually well known village figures who have good networks of information and contacts. Third, it has focused on using local institutions, such as prayer meetings, savings groups, and other gatherings to spread information. .

### 3. Involve villagers and others who benefit from the project

The key to combating corruption in the field is to involve local participants in the anti-corruption drive—in KDP's case, villagers. Involving villagers creates much greater a momentum for resolving the corruption problem than ever could be sustained by an 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 (Box 8). 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 case, it does not 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 context and that acts as a deterrent for future corruption.

### 4. Piggyback onto 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.*

*Villager in Pagar Batu, North Sumatra*

Involving local institutions in anti-corruption drives is an important element in making them 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 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.

**Box 8: Resolving problems locally**

In Rao Mapat Tunggal 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 the original road proposal specified that rocks should be purchased, they knew that the rocks and earth used for the road had simply been taken from land surrounding the road site—and suspected that some of the money had been pocketed. Furthermore, only 10 percent of the road's budget remained, but the road was far from being 90 percent complete.

The villagers decided to take action to resolve the problem. With the help of the village head, they organized a *musyawarah* and 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—and 13 village meetings—to resolve. 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 in the misuse of funds and that the other members of the team were not fully involved.

After several rounds of debate, the villagers decided to finish building the road by contributing their labor. “At first some of the villagers didn’t want to do this,” said one village official, “but in the end they thought it was better to finish the road 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 decided not to because their “emotions had died down,” the road was complete—and the main culprit feared the severity of impending social sanctions so much that he had left town. When asked why, we were told that he would have suffered complete social ostracism: he would not have been able to participate in village *musyawarahs*, parties, weddings, and other celebrations, indeed, “all the activities ... that people have.” The villagers thus considered the case closed.

There is one caveat. It should not be assumed that because institutions are local they are democratic, beneficial to poor people, or 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**

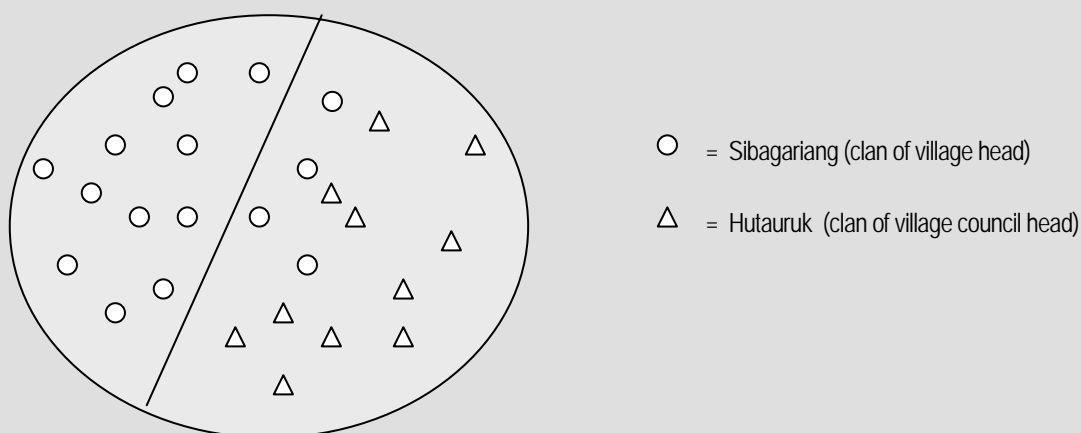
Successful anti-corruption strategies start with an understanding of local power dynamics. It is important to identify leaders and try to involve them in the anti-corruption fight. It is also important to understand local power dynamics to see if they can be exploited to support anti-corruption: are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

KDP anti-corruption strategies have worked best when those fighting corruption have had allies. These allies need not be from government or 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 their recognition of Indonesia’s changing political context and a desire to secure broader power bases. Local rivalries can sometimes work to aid the fight against corruption:(Box 9).

### Box 9: Rivalries and other social factors

In Hutaraja village, North Sumatra, the village head reported to KDP that he suspected that members of a village council had misused money allocated to build a road. After reporting the problem to KDP, villagers formed an audit team, which found that some 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 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, and 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:



The rivalry between 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 that the law should be 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 shows the preeminence of social sanctions over legal sanctions.

### Modeling corruption: analysis of a case in KDP

The World Bank defines "the *opportunity* for corruption" as 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.<sup>36</sup> Discretion refers to the exclusive power an official has to allocate rents, a function of whether others are involved and how many checks and balances there are. Accountability refers to the likelihood that the official 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:

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

In this model, the level of monopoly power and amount of discretion encourage corruption and 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.”<sup>37</sup>

This formulation tells us that we tend to find corruption where monopoly and discretion are high, and accountability is low. However, it should be used as a rough guide only, not an equation. It is hard to measure monopoly, discretion, and accountability, and this approach is not intended to be quantifiable, but simply as a guide to the elements of corruption cases. The interaction of rents, discretion, and accountability can be seen through a deeper look at the *Tangga Batu Dua* corruption case discussed earlier in the report in Box 5.

### **Analysis of the case of *Tangga Batu Dua***

In *Tangga Batu Dua* villagers fired—and sought repayment from—an implementation team accused of misusing money to build a village water system. The corruption was two-fold: the implementation team bought pumps and other materials cheaper than specified in the project proposal, and paid themselves daily salaries in addition to their official project honoraria.

Under the formulation above the implementation team’s decision to cheat on the project would have been based on the potential rents involved, the amount of discretion they felt they had, and the low level of accountability they expected to face from villagers.

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<sup>36</sup> World Bank, *Helping Countries Combat Corruption: the Role of the World Bank*, p.12. This derives from Robert Klitgaard’s (*Corrupt Cities*, p. 27) formulation that  $\text{CORRUPTION} = \text{MONOPOLY} + \text{DISCRETION} - \text{ACCOUNTABILITY}$ , in which the level of monopoly power and amount of discretion encourage corruption, and 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,” Klitgaard argues.

<sup>37</sup> Klitgaard, *Corrupt Cities*, p. 27



### 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 benefits and costs attached to corrupt behavior:

#### Box 10: Benefits and Costs in Tangga Batu Dua

- 1) **Benefits.** The benefits, or the size of the "rents" under the control of the implementation team, were substantial. 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 five-member team was accused of misusing Rp 12 million.
- 2) **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.
  - a) **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.
  - b) **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.
  - c) **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.
- 3) **Probability of being caught.** The village implementation team recorded their extra salary payments in the village books and defended these payments on the grounds that their official honoraria were only supposed to cover certain tasks, such as arranging meetings, 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 alleged 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. The framework for corruption: monopoly, discretion, and accountability**

Under the World Bank and Klitgaard formulations of corruption opportunities, the implementation team clearly had monopoly power over the procurement of equipment for the water project. The members of the implementation team had a great deal of discretion over their actions. There were only five members of the implementation team, so it would be relatively easy for them to collude in misusing funds.

Accountability was the new factor in the equation. Tangga Batu Dua villagers were well informed about their rights in KDP and felt—unlike in traditional development projects—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.*

*A Tangga Batu Dua villager*

There was a relatively high degree of community participation in the project, which translated into a high degree of ownership and, therefore, a demand that it work well. Each KDP village meeting was 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. Although the implementation team was not transparent about how it 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 to—we 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. The KDP project rules also established the village *Musbangdes Pertanggungjawaban* at which the implementation team had to account to villagers for monies spent. The checks and balances built into the project design thus played an important role in limiting corruption by making implementation more transparent.

## Chapter 3. Recommendations for Improvement

Recommendations for improvements are in four parts :

- Introduce measures to change the underlying system of **incentives** for actors in KDP
- Introduce measures to **limit monopoly, clarify discretion, and increase accountability** for the project as a whole.
- Introduce measures to **improve training and information** for KDP staff
- 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 freer 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.

### 1. Incentives

A key premise of the report is that corruption is primarily a problem of incentives. It argues that the most important part of any sustainable anti-corruption strategy will be to change the underlying system of incentives so that agents are no longer motivated toward corrupt behavior. It suggests that anti-

corruption strategies that focused simply on morals or on strengthening regulations are 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.<sup>38</sup> In a system where the judicial system is unable to enforce contracts and regulations, it makes little sense to make it 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 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 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 KDP incentives analysis and fieldwork: the effect of “socialization,” or information spreading, on how villagers perceive their interests, and the importance of social norms as motivations for action. Both need to be addressed when making recommendations for change.

### **a. Information**

KDP defines “socialization” as the process through which communities learn about KDP's procedures, their rights, and what to do if they have complaints about village projects. It consists of a long process of information dissemination that starts about six months before village project proposals are submitted. This process emphasizes anti-corruption. Facilitators stress to communities that KDP 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 can only take this on 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 not, it sets deeper into stone a culture of apathy and cynicism. Villagers are taking a gamble when they believe that KDP is different and that they can protest against corruption in it.

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<sup>38</sup> 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.”

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 perpetrators of corruption perceived their interests. When villagers possessed information about their rights and, crucially, when the potential perpetrators of corruption *knew* that villagers had this information, it raised the perceived cost of corrupt behavior and reduced the cost of fighting it. When 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 Muslim religious leaders, 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.

#### b. Social sanctions and 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 on 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 Bardhan has pointed out, such arguments can be tautological, claiming that corruption tends to be found in places whose cultural norms favor corruption.<sup>39</sup>

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 based on 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 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.
- 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.

### **c. Incentives to fight corruption**

KDP facilitators often face an environment hostile to whistleblowing. Facilitators depend on KDP and not local power dynamics for their power base, so it is unlikely that 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.

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<sup>39</sup> Bardhan, “Corruption and Development.”

**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.

**2. Monopoly, discretion, and accountability**

The second set of recommendations concerns making structural changes to the project to limit monopoly, clarify discretion, and strengthen accountability. It follows 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.”<sup>40</sup>

**a. 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.

**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) be obtained for supplies. The requirement that these be 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.

**b. Limiting discretion**

KDP needs to institute measures to limit the discretion of any single participant 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 agents who have any say over—or knowledge of—a transaction makes it much harder to be corrupt and, in particular, makes it harder to collude. Any cost/benefit calculation over whether to collude depends on

<sup>40</sup> Klitgaard et. al., *Corrupt Cities*.

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 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* that have had worse facilitators, and villagers are more likely to notice poor facilitator skills if they have had experience with good ones. The right administrative level of rotation should be picked: rotating staff simply across *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 KDP policy that **unpaid village verification teams** be 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 facilitator evaluations. 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 scorecard evaluations by villagers. These evaluations would have to be done in such a way that they do 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 evaluations could work in practice. Close attention should be paid to avoiding extra administration.

### c. 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 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.

Measures should be taken also to improve transparency and participation. Close attention should be paid to the participation of marginalized groups especially, to avoid elite capture of village projects. This is especially important at the early stages of village projects. Improving transparency is also a priority.



**Recommendation 6: Institute measures to improve participation & transparency.**

- *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 sub-projects. When doing so, they should think about the interest local leaders would have in participating in such projects, 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.
- Enforce more strongly the KDP policy that unit price lists of materials be published. These give villagers the information they need to detect and pursue corruption at one of the KDP stages most at risk of corruption. Almost every village we visited was one in which villagers had complained of a discrepancy between what materials ostensibly cost and what they should have cost.
- Posting price lists 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.

### 3. Training and information

Throughout KDP's history, 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 7: Help KDP facilitators fight corruption by improving training and information**

- For cross-fertilization learning purposes, 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.

### 4. Future strategy

One of the changes created by Indonesia's 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 rather than as individuals. This creates an interesting context for KDP: as 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, as there is no direct accountability to voters. Parties will thus have to find favor with constituents in a way that

parliamentarians will not. Nevertheless, compared with the previous system, power will less concentrated at the top.

But there are caveats. Sub-district heads continue to be appointed and, according to the new laws, are still accountable not downward but upward to district heads.<sup>41</sup> 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 toward 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 that KDP think systematically about the incentive structures created by decentralization: how do they affect the environment for corruption?

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

- Decentralization incentives should be reviewed 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 in their districts, what the incentive structures 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 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 facilitators should draw up a village level governance map 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 also 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 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.

<sup>41</sup> See Article 66, Law 22/1999. From Law 22 text.

## Conclusion

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 to turn ordinary people into their own agents of anti-corruption.

Anti-corruption should not be considered an end in itself, but 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 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 to give them access to advocacy services to fight corruption. This is an important marker of reform.

Such things are milestones in Indonesia's reform. Indeed, the process of reform is developing quickly in Indonesia. 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 against corruption 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 the village, sub-district, and district levels. 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 village heads. This could work to strengthen accountability in village government and increase sanctions for corrupt behavior. On the other hand, the necessity of obtaining campaign financing 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.<sup>42</sup> This is true. But nevertheless, some of the changes even at higher levels affect the corruption environment lower down.

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<sup>42</sup> Opening Remarks to World Bank Board for preparation of KDP II, Scott Guggenheim, June 2001

Such immense uncertainties can mean that it is difficult to plan projects. But it also provides opportunities. One thing the report 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 toward reform. In such an uncertain environment, enabling people to take control of the things that affect their lives is the only way that sustainable reform can be put in place. It places an emphasis on the micro level, on letting people take their own decisions. Corruption, in a community development project, is about starting at 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 about corruption come from villagers. If these complaints rise to a level that shows greatly increased resistance to corruption it will mean that KDP will have achieved its most important objectives, strengthening community institutions and improving local governance.

## 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 village heads, 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.<sup>43</sup> Public office thus became a site of material reward.

The same was true of the New Order. The New Order's policies toward rural areas were characterized by two conscious strategies: "betting on the strong" and de-politicizing the rural "floating mass".<sup>44</sup> 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 offices. Village heads were able to profit from state land through the system of *tanah bengkok*, which set aside a portion of village land 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 terms in office to amass as much money as possible.<sup>45</sup>

Another New Order self-preservation strategy was to treat the rural population as a "floating mass," de-politicized, docile and concentrated on 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

<sup>43</sup> See Ricklefs, M. C. *A History of Modern Indonesia since c. 1300*. Stanford: Stanford University Press, 1981

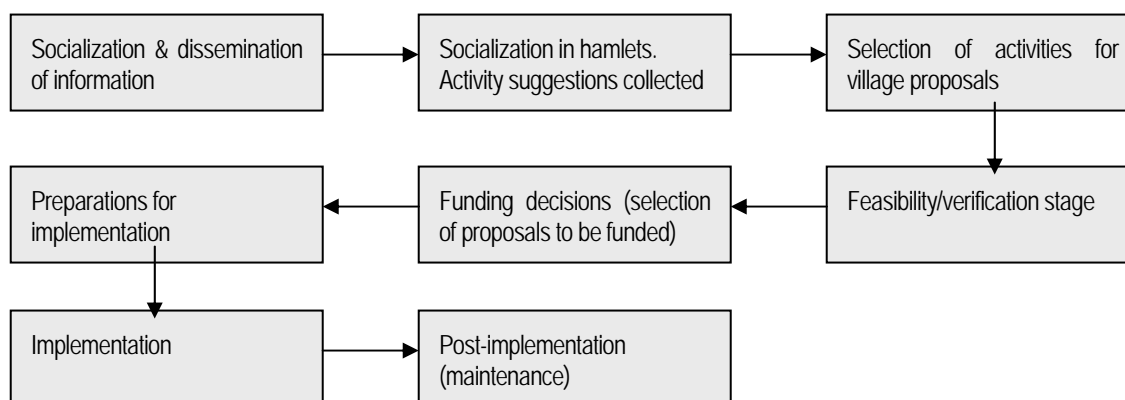
<sup>44</sup> See Antlöv, "Village Leaders and the New Order" for a discussion of 'betting on the strong'.

<sup>45</sup> 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."

behind consensus, political protest was discouraged, and latent ethnic, social and religious conflicts were suppressed.

## Annex II. Corruption Map of the KDP Project Cycle

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



For each of the eight stages, we identify the activities that comprise each stage of the project cycle, highlight which of those activities are most vulnerable to corruption, and explain how they are vulnerable to corruption.

### Stage 1: Socialization and 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.

In Stage 1, there is an opportunity for nepotism to take place while choosing village facilitators. 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 as 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 and government *kecamatan*-level project manager 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 and poorer villagers.
- Sub-village and group meetings
- Special meetings with women's groups
- Updating information on village boards
- Further dissemination of project information

During Stage 2, the opportunities for corruption are low because no money changes hands. However, village elites and other actors may see this stage as an opportunity to gain influence over the project, primarily 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)
- Selecting village technical assistance for proposal preparation
- Formation of team to prepare village proposals
- Preparation of proposals with designs and budgets
- Updating information on village boards

During Stage 3, the activities most vulnerable to corruption are (a) selecting village technical assistance for proposal preparation, (b) formation of team to prepare village proposals, and (c) preparation of proposals with designs and budgets.

#### a. Selecting village technical assistance for proposal preparation

The official process for selecting village technical assistants begins with the *kabupaten*-level technical consultant, who has a list of people pre-certified to give technical assistance. Villagers choose a candidate from that list—subject to approval by the *kabupaten* consultant—and pay him/her market rates. 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 list, villages choose technical assistance even when they do not need it, under-qualified friends/relatives of the village elites are chosen, and candidates sometimes offer kickbacks to be chosen. The root of the



problem is that often the consultant is reactive and either does not have a list of qualified candidates or simply puts candidates on 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.

Annex Table 1. Stage 3a: Incentives and disincentives in selection of village TA

Incentives	Disincentives	Comments
<b>District level technical consultant</b>		
Low incentives to list unqualified people, unless kickbacks are offered	High disincentives to list unqualified people, because of risk of being discovered and fired by KDP.	
<b>Technical assistance</b>		
High incentives for a TA candidate to offer kickbacks in reward for being chosen, because being on the technical assistance team offers a chance to make money	Low disincentives: candidates for TA are unlikely to suffer much social sanction, and are unlikely to be charged with any crime.	Candidates' details should be posted on village information boards: if villagers can see the full range of TA available, they are less likely to approve an unqualified candidate
<b>Facilitators</b>		
Low incentive to collude, unless kickbacks are involved. Incentives are higher where supervision is weak.	Medium disincentives to collude: if discovered, the facilitator will be fired, but collusion is hard to prove.	
<b>Villagers</b>		
Medium incentives to accept unqualified candidate for TA: possible social obligation to do so if candidate is from the same village	Medium disincentive: if a proposal is bad and has bad TA, it is unlikely to be funded.	
<b>Project manager/local government staff</b>		
Low incentive to collude, unless kickbacks are involved.	Low disincentives to collude, but depends on how seriously corruption allegations are taken by the local government	
<b>Village elites</b>		
Medium/high incentive to collude in arranging for a friend/relative to act as village TA: social benefit and possible kickbacks. High incentives also to consent to choosing a villager rather than outsider to act as TA: social and political benefit of supporting village insiders	Disincentives depend on level of socialization. Where the facilitator has done a good job, the disincentive to collude will be high, as villagers will be angry if collusion is uncovered. Where the facilitator has done a poor job, the disincentives to collude will be low, as villagers will be unaware of their rights.	The burden of proof should be shifted so that villages need to make a good case for hiring technical assistance from someone who is not on a pre-approved list. Villages should be allowed to do this only after making a special case to KDP.

## b) Formation of team to prepare village proposals

Some of the same factors as in the previous stage 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.

## c) Preparation of proposals, with design and budgets

Infrastructure projects offer an opportunity 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

Economic activity projects offer an opportunity 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.

Annex Table 2: Stage 3c: Incentives and disincentives for corruption in proposal-preparation by forming fake borrower groups

Incentives	Disincentives	Comments
Facilitators		
Low incentives to form false groups to borrow money: facilitators do not benefit directly.	Medium disincentive to form false groups: facilitators are liable to be discovered and fired.	
Village elites		
High incentives to form false groups to borrow money, as village elites can control these groups and get direct financial benefit.	Low disincentives to try to form false groups: the main disincentive, as attempts at such collusion are unlikely to be prosecuted, is social. But where socialization is high, the disincentive will be higher.	
Villager		
Medium/high incentive to form false groups, unless they are aware they would receive more money by forming real groups. If villagers have no pre-existing groups, the incentive to form new ones solely to receive KDP funds is extremely high: if they do not form a group, and if the village chooses micro-credit, they do not have any access to the funds. So there is a structural incentive here to bend project rules.	Low disincentives to form false/new groups to borrow money, unless it is made clear that fraud will be prosecuted.	

## Stage 4. Feasibility/Verification Stage

### **Opportunities for corruption: LOW**

#### Activities

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

During Stage 4, there are a few opportunities for corruption in forming village verification teams and during field visits and inspections. Members of verification teams are appointed at *kecamatan* level by the *kecamatan* facilitator and *kabupaten*-level technical consultant, and are paid a salary 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, 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.

During field visits and inspections, there is a formal possibility 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 do not 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 to be funded and to select financial management unit

During Stage 5, the opportunities for corruption are relatively low. During the second inter-village meeting to select projects to be funded, there are few opportunities for straightforward corruption because the mechanism involves so many people and is so transparent. However, there are opportunities here for circumventing competition—by simply dividing money up among villages. In order to circumvent this problem, KDP is forbidding that changes be made to original budgets once they have reached the inter-village decision stage.

The opportunities for nepotism are low in the formation of financial management teams. The teams are selected in the inter-village meetings by election in an open forum, which makes the level of discretion involved virtually non-existent.

## Stage 6. Preparations for Implementation

### Opportunities for corruption: HIGH

#### Activities

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

During Stage 6, the main risk of corruption is during the administration and release of funds from the state treasury into collective village bank accounts.

The process for the release of funds is as follows: First, 40 percent of the total allocation for the *kecamatan* gets released from the state treasury to the *kecamatan*-level collective village bank account (which should be in the name of the collective account of the village council). Village budgets should include 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 the village council. The cash then is given to the village council head, who disburses it to his/her village's implementation team.

The opportunities for corruption here are threefold:

- From the State Treasury Office to village collective bank accounts
- From collective bank accounts to the village council head
- From the village council head to the head of the village implementation team

#### a. From the State Treasury Office to collective village bank accounts

KDP has not experienced many problems here. This is because the mechanism is simple and it would be immediately noticeable if some money was cut; 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 and 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 also collusion with the bank, 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 large the amount of money involved is, and the sanctions he/she will suffer if found out.

Annex Table 3: Stage 6b: Incentives and disincentives for corruption in fund transfers from bank to village council head

Incentive	Disincentive	Comments
<b><i>Kecamatan</i> facilitator</b>		
Low-medium incentives to collude (salaries are high compared to likely benefit)	High disincentive: risk of being discovered and fired.	
<b>Head of financial management unit</b>		
Medium incentive to collude: honoraria are relatively small	Medium disincentive: threat of social sanction	
<b>Head of village council</b>		
Low incentive to collude: easier to skim off funds at a later stage, where there are fewer checks and balances		

#### c. From village council head to village implementation team

There are two opportunities for corruption here. The village council head can keep a cut of the money before giving it to the village implementation team, or he/she can collude with the village implementation team in keeping a cut of the money.

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 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.

The incentive for the head of the village council to collude with the implementation team for a cut of money is medium. The incentive for each is the amount of money each stands to gain. The disincentives are the threat of sanctions if discovered. 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 the project to villagers, and could be increased considerably if village verification teams were 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 requires 3 unwritten quotations, more than Rp 15 million 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 percent of funds expended).

#### **a. 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 for this vary by the amount of money the village implementation team stands to gain. The disincentives are high, because of the risk of being found out. However, this depends on the *kecamatan* facilitator's success in socializing the project to villagers and ensuring transparency. Often, the books of village implementation teams are badly kept. Such 'opacity' clears the space for corruption.

#### **b. 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 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.

Annex Table 4: Stage 7b: Incentives and disincentives for corruption in procurement of materials and equipment

Incentives	Disincentives	Comments
<b>Village implementation teams</b>		
High incentives to collude and take a cut of project funds: discretion is low, and accountability is quite low, because, despite the existence of a <i>Musbangdes Pertanggungjawaban</i> , most villagers are unaware of the market price for materials.	Disincentives vary depending on how successful the facilitator has been in socializing villagers and publicizing budgets and price lists of materials. The main mechanism of accountability is the <i>Musbangdes Pertanggungjawaban</i> held after 50% of funds have been spent, at which implementation teams have to account for their actions, and where villagers can choose to refuse their version of events.	
<b>Suppliers</b>		
High incentives for suppliers to collude: they may receive a cut of funds	Low disincentives to collude: there is virtually no risk that they will be discovered or held accountable.	

## Stage 8. Post implementation

### Opportunities for corruption: MEDIUM

#### Activities

- 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.

#### a. Repayment of loans and re-lending of repaid funds

The process for repaying 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.



Annex Table 5. Stage 8a: Incentives and disincentives of main actors

Incentives	Disincentives	Comments
<b>Heads of borrower groups</b>		
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 <i>kecamatan</i> 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.	
<b>Borrowers</b>		
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 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, they are less likely to accept the misuse of money.

### c. 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 are 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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