

Indonesia

2015 Country Summary

Recommendations

Indonesia GI ranking in Band D places it in the high risk of corruption category; but this is an increase on the 2013 result. To reduce corruption risk and continue to build integrity, security sector reforms are urgently needed across the following areas:

Scrutiny and active enforcement of military owned businesses

Government reforms aimed at dismantling the military's business empire began in 2004 and were resumed again in 2010, though these efforts have not yet been fully effective and there is evidence of private enterprise at all levels of the military. The military is estimated to control a significant portion of the country's licit and illicit economy. Legal military-owned businesses continue due to legislative loopholes whereby companies are still owned by military-controlled foundations and co-operatives. There is also evidence of military involvement in illicit economic activity, such as drug trafficking. Clashes have occurred between the police and the military as a result of military personnel providing security for illegal private enterprises.

According to our assessment, an inter-ministerial oversight team tasked with reviewing military cooperatives and foundations has been assessed by Human Right's Watch as having 'no clear authority over the Indonesia armed forces or its businesses, lacking independence, no requirements to report publicly on its progress, and no deadline to complete its work. We recommend that the government clarify the inter-ministerial oversight team's mandate, set a deadline for their work and require the team to share their findings with parliament. The government should explicitly outlaw private enterprise by defence and security institutions and personnel, with this law overseen by an appropriate enforcement agency, such as the Komisi Pemberantasan Korupsi (KPK), with strong sanctions in place for offenders.

Scrutiny of off-budget expenditures

Exact figures are not known but off budget military expenditure, previously estimated at around 70% is now estimated to be between 1.5 – 20 per cent of the budget. The Parliamentary Defence Committee, Commission I, has drawn attention to the fact that large-scale spending has not been accounted for in the budget.

There is evidence that, prior to a governmental takeover of military owned assets, the military sold off much of these assets and we recommend that the TNI personnel comply with the regulation to submit reports on wealth and assets to KPK. It is unclear which institution has the responsibility to externally monitor off-budget funding and military-

owned assets and asset disposal. An oversight team was created after 2009, but this does not investigate asset disposal prior to takeover. This has led to situations where those no longer serving in the military have misappropriated the Indonesian National Armed Forces (TNI) assets, such as land. While there is an oversight team within the Ministry of Defence that monitors the military's foundations and cooperatives (that own and control assets), it is also composed of members of the military and has lacks independence and accountability. Asset disposal is potentially problematic within the TNI due to the prevalence of these military-owned businesses, some of which are illicit.

Enforcement is unclear, even parliamentarians that operate within Commission I seem uncertain whether police or the KPK have jurisdiction over corruption in military business. These issues need to be resolved in the longer term and the first step might be to review military law and ensure this enables effective civilian oversight.

In addition the government should prioritise identifying business interests and an outline of the process for public disclosure, audit and transfer of interests within strict timelines. We recommend the process be overseen by an independent team headed, with periodic public reporting of progress.

While legally off-budget expenditure does not appear to be permitted, loopholes and uncertainties in the legislation mean that in practice off-budget expenditure is still a significant issue and often involve illicit activities. The legislation should be clarified to either outlaw off-budget expenditures or record all off-budget expenditures on the budget shared with parliament to help ensure appropriate scrutiny.

Further, the Military Discipline Law, passed in 2014, did not succeed in ensuring independent oversight of military prosecutions. The anticorruption programme of the TNI needs to be built on, including the commitment to opening up the military to oversight.

Effective procurement systems

The overall procurement process could be improved. In practice, there is evidence that brokers have often already been involved in the procurement process, before the requirement is even communicated to the Ministry of Defence. A legal framework that addresses brokerage, and the position of the government is essential, given that our assessment points to a significant increase in cost to the procurement process of up to 30-40%.

Oversight mechanisms are in place but could be strengthened and consistently transparent. There is some evidence that oversight can be successful, but this is limited and the cases unsurprisingly revolve only around the later stages of the process, such as Parliamentary approval - specifically Commission I has to approve all purchases over IDR50billion and has already demonstrated it can have impact. Internally, procurement goes through a dedicated procurement centre and evaluation team, and oversight is provided by a High Level Committee which involves other ministries and institutions, such as BAPPENAs (Ministry of National Development Planning), the Indonesia Bank, the Ministry of Finance.

However, a lack of defence training in Ministries other than the Defence Ministry results in a lack of expertise, which means there is a reliance on the Defence Ministry's suggestions and insight. A more consistent approach regarding the releasing of information concerning procurements would also strengthen public oversight and increase public confidence.

Additional transparency around the practices of tender boards is also important, as these all operate internally and release very little information. While Tender boards can be audited by the BPK, there is no publicly released information that this has occurred within the Defence Sector, and there are no reports concerning this. Finally, strengthened mechanisms for companies to complain of malpractice or discrimination alongside clear sanctions for poor behaviour would strengthen the overall system.

Scorecard

Political	Defence & Security Policy	Legislative Scrutiny	2
		Defence Committee	2
		Defence Policy Debated	2
		CSO Engagement	2
		International AC Instruments	3
		Public Debate	2
		AC Policy	2
		AC Institutions	1
		Public Trust	2
		Risk Assessments	1
	Defence budgets	Acquisition Planning	2
		Budget Transparency & Detail	2
		Budget Scrutiny	2
		Budget Publicly Available	2
		Defence Income	0
		Internal Audit	1
		External Audit	2
	Other Political Areas	Natural Resources	0
		Organised Crime Links	1
		Organised Crime Policing	1
Intelligence Services Oversight		2	
Intelligence Services Recruitment		1	
Export Controls		0	
Finance	Asset Disposals	Asset Disposal Controls	1
		Asset Disposal Scrutiny	0
	Secret Budgets	Percentage Secret Spending	0
		Legislative Access to Information	2
		Secret Program Auditing	2
		Off-budget Spending in Law	1
		Off-budget Spending in Practice	0
		Information Classification	2
	Links to Business	Mil. Owned Businesses Exist	0
		Mil. Owned Business Scrutiny	0

Personnel	Leadership	Unauthorised Private Enterprise	1
		Public Commitment	2
		Measures for Corrupt Personnel	2
		Whistleblowing	1
	Payroll and Recruitment	Special Attention to Sensitive Personnel	0
		Numbers of Personnel Known	0
		Pay Rates Openly Published	4
		Well-established Payment System	2
		Objective Appointments	1
		Objective Promotions	1
		Conscription	Bribery to Avoid Compulsory Conscription
	Bribery for Preferred Postings		
	Salary Chain	Ghost Soldiers	3
		Chains of Command and Payment	2
	Values, Standards, Other	Code of Conduct Coverage	2
		Code of Conduct Breaches Addressed	2
		AC Training	2
		Prosecution Outcomes Transparent	1
Facilitation Payments		2	
Operations		Controls in the Field	Military Doctrine
	Operational Training		2
	AC Monitoring		0
	Controls on Contracting		0
	Private Military Contractors		2
Procurement	Government Policy	Legislation	3
		Transparent Procurement Cycle	2
		Oversight Mechanisms	2
		Purchases Disclosed	2
		Standards Expected of Companies	2
	Capability Gap	Strategy Drives Requirements	3
		Requirements Quantified	2
	Tendering	Open Competition v. Single-Sourcing	3
		Tender Board Controls	1
		Anti-Collusion Controls	2
	Contract Delivery / Support	Procurement Staff Training	2
		Complaint Mechanisms for Firms	2
		Sanctions for Corruption	2
	Offsets	Due Diligence	1
		Transparency	1
		Competition Regulation	2
	Other	Controls of Agents	0
		Transparency of Financing Packages	1
		Subsidiaries / Sub-Contractors	0
		Political Influence	3