

Bribery and corruption

ENSURING ANTI-CORRUPTION STRATEGIES ARE BUILT TO LAST

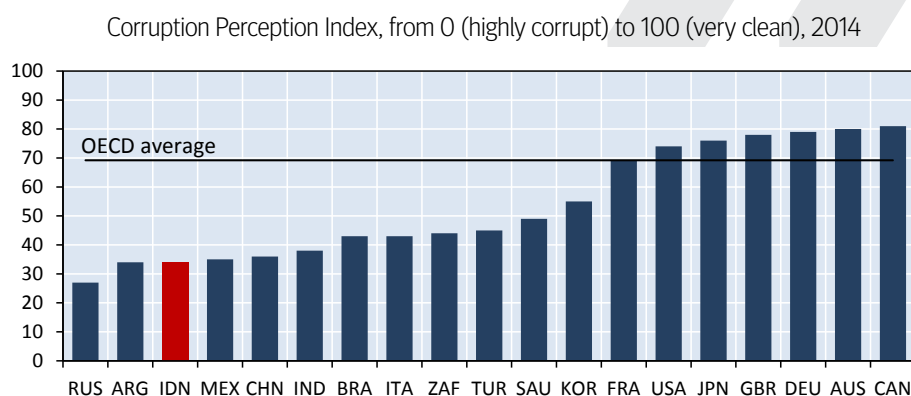
- ▶ Corruption raises the costs of doing business, reduces investment incentives, and undermines public values and government effectiveness.
- ▶ About a quarter of businesses cite corruption as the main barrier to doing business, and recently 88% of citizens reported in Gallup polls that corruption was widespread in government.
- ▶ The establishment and work of the Corruption Eradication Commission (KPK), as well as the countries' anti-corruption courts, have been positive game-changers in the country's fight against corruption.
- ▶ While international corruption indicators suggest some improvement, Indonesia needs to address gaps in integrity and anti-corruption laws, policies, and implementation to ensure continuing progress.
- ▶ Joining the OECD Anti Bribery Convention would be a strong signal within the G20 and towards international investors.

What's the issue?

Corruption is a recognised problem in Indonesia, robbing the economy of its competitiveness as well as eroding trust in government and thereby threatening its effectiveness. According to the World Economic Forum, corruption is cited as the top concern for doing business, with 16% of those surveyed reporting this as a significant barrier. Also civil society reports reveal that bribery – in the granting of public procurement contracts, in infrastructure, and in the issuing of licences and permits – is commonplace. According to the 2013 World Gallup Poll, 88% of citizens feel corruption is widespread in government. Rankings such as Transparency International's Corruption Perceptions Index confirm this impression (see Figure).

However, there is evidence of improvement, perhaps reflecting stronger measures by the government to curb corruption. Indeed, established in 2002, the Corruption Eradication Commission (KPK) was given a broad and ambitious mandate which includes responsibilities for prevention, investigation of corruption and recovery of proceeds of crime. The institution is viewed as a model of good practice by many countries, in particular because it does not shy away from difficult or sensitive cases. The work of the KPK and the national anti-corruption courts has brought to light many high-profile cases, and they boast an impressive conviction rate.

Corruption is perceived as a more severe problem in Indonesia than in many other countries



Source: Transparency International (2014).

Nonetheless, this record could be enhanced with additional resources, as well as a stronger criminal legislative and institutional framework for combating corruption, including by establishing an offence prohibiting the bribery of foreign public officials, and corporate responsibility for corruption offences. Increased safeguards to protect the independence of investigations and prosecutions would also help to strengthen Indonesia's ability to address corruption at every level of government.

Why is this important for Indonesia?

Corruption deprives the economy of its full potential and erodes trust in markets and institutions. As Southeast Asia's largest economy, the economic impact of corruption in Indonesia is significant not only nationally but also regionally and internationally. For example, corruption in the public sector can deter FDI and affect growth. Currently, it is estimated that Indonesia needs to address critical infrastructure gaps that require investments of USD 600 billion in the next 10 years to restore the country's GDP and longer-term growth prospects. In 2015, the government expects public investment in infrastructure will total USD 22.65 billion, a 41% increase on the previous year. As an activity prone to corruption, and given the potential economic gains at stake, it becomes essential for Indonesia to safeguard the integrity of infrastructure projects. The Indonesian government currently enjoys high levels of confidence from citizens, but this should not be taken for granted and international experience shows such situations can be fragile.

What should policymakers do?

- ▶ Protect the policy cycle from undue influence and capture by implementing standards for integrity in lobbying and managing conflict of interest situations.
- ▶ Strengthen the first line of defence against corruption: internal control and audit.
- ▶ Ensure integrity strategies are put in place for high-risk activities and sectors, such as infrastructure, public procurement, resources, customs and tax agents.
- ▶ Reinforce the aforementioned efforts with greater transparency, allowing for an additional layer of external social control and oversight.
- ▶ Ensure an effective legislative and institutional framework for addressing corruption, including cross-border bribery and corporate liability for such offences.
- ▶ Improve the international perception by adhering to the Anti-Bribery Convention.



Further reading

OECD (2011), *OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, OECD Publishing. http://www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf

OECD (2013), *Principles for Transparency and Integrity in Lobbying*, OECD Publishing. <http://www.oecd.org/corruption/ethics/oecdprinciplesfortransparencyandintegrityinlobbying.htm>

OECD (2015), *Recommendation of the Council on Public Procurement*, OECD Publishing. <http://www.oecd.org/gov/ethics/recommendation-on-public-procurement.htm>

OECD (2015), *Curbing Corruption - Investing in Growth*, OECD Publishing, forthcoming.

OECD (2015), *Compendium of Good Practices for Integrity in Public Procurement*, forthcoming.

