

RESEARCH REPORT

PRIVATE SECTOR ENGAGEMENT

Understanding the Impacts of the Changing Landscapes of Democracy and Anti-Corruption Regime in Indonesia's Business Sector's Behavior, Transparency & Accountability

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Background

Democracy should not only be seen as the presence of election and civil liberties, but also as supporting citizens in their demands for accountability and transparency within governments, independent judiciaries, and law enforcement as part of political checks and balances. However, when the power structure and decision-making processes remain unchanged and when the top political leader is inclined to be silent and prefer to use a 'face-saving strategy', corrupt forces have the potential to re-group to operate as 'new but old players' dominating the newly shaped polity.

After 23 years of reform era, currently under President Joko Widodo's administration, Indonesia is experiencing a significant democratic setback indicated by systematic political operations to cripple the capacities of anti-corruption agencies and actors in the country (ANU, 2020; Transparency International, 2021). At the same time, other democratic pillars are also suffering fundamental fragmentation and regression, indicated by weakening of civil liberties (SMRC, 2020; LSI, 2020), and deepening social polarization due to the exploitation of political identity (Azra, 2020; Umam, 2019). Independent media and civil society are also under attack — hoax, fake news and hate speech runs rampant in the developing space of digital democracy in Indonesia (Wijayanto, 2021).

These changing landscapes of democracy and anti-corruption regime in Indonesia are allegedly impacted on business and investment players' behaviors. Political operations to limit the liberal democracy and anti-corruption regimes has been claimed as part of the business players' aspirations. As after experiencing a long period of economic stagnancy, in which Indonesia's national economic growth were only around 5 percent during the first period of administration (2014-2019), the ruling government accused that the liberal democracy merely caused political chaos and the KPK's anti-corruption operations also often caused political instability consequently resisting potential foreign direct investments to come into the Indonesia's domestic market. Therefore, the government frequently warned the KPK for being in 'order' and not producing political instability which resulted in uncertain business climate in the country (Sindo, 4 February 2016; Kompas, 19 May 2015).

Some civil society elements and anti-corruption activists speculatively alleged that this government's perspectives were seriously influenced by policy analysis and recommendations suggested by influential individuals associated to Indonesian Chamber of Commerce (KADIN) and Indonesian Business Players Association (APINDO). They were reportedly expressed the national business players' restlessness due to the KPK's aggressiveness in targeting big corrupt practices involving many



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names from big corporations which directly or indirectly frightened several foreign investors to enter Indonesian market.

Against this backdrop, it is relevant and important for Paramadina Public Policy Institute (PPPI) to understand how the business players' behavior is in responding this changing landscape of democracy and anti-corruption regime in contemporary Indonesia. Because one of the important factors behind improved governance and economic growth is a positive response from the business world to the stronger pillars of transparency and accountability. In the same time, the time series data from the World Bank's annual Ease of Doing Business (EoDB) survey also shows that corruption is an important factor contributing to a country's poor EoDB, and something which ultimately has a negative impact on the national economy (World Bank, 2019; Norwegian Energy Partners, 2017). This is because corruption can lead to inefficient bureaucracy, complicated rules, extortion, and the inability of the state to enforce the rules of the game, especially contracts.

Therefore, PPPI aims to understand further how the business actors' behavior in the contemporary Indonesia perceives the current changing landscapes of democracy and anti-corruption regime, as well as how the business world perceives the government's efforts to reform the business sector, in particular reforms to the more transparent and accountable foreign direct investment. This research assesses the relationship between the business sector and the government or bureaucracy and looked at how changes in democracy and anti-corruption regimes also change and influence these interactions, in turn affecting overall quality of public and corporate governance in Indonesia.

METHODS

PRIVATE SECTOR SURVEY

The population researched in this survey consisted of business people who had experience with government policies and services in licensing and other business-related administrative matters, and been corresponded with the government employees in the past two years. Respondents came from wide range of business sectors and from various regions, but most likely their offices are located in Jakarta as the capital city of the country. The respondents came from companies which are part of the Indonesian Chamber of Commerce (KADIN), Indonesian Business People Association (APINDO), and also Indonesian Palm Oil Association (IPOA).

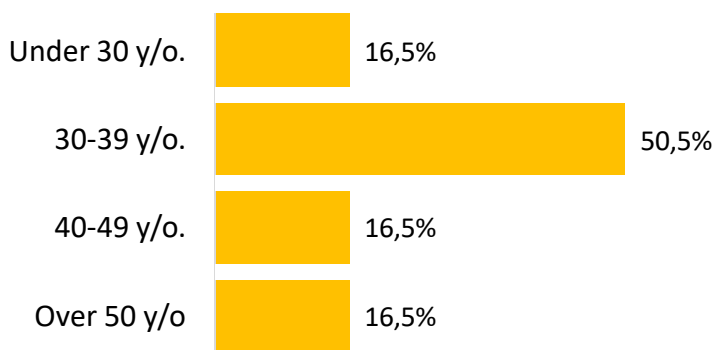
The survey instrument was developed based on the main research questions, particularly to understand the business actors' behavior in



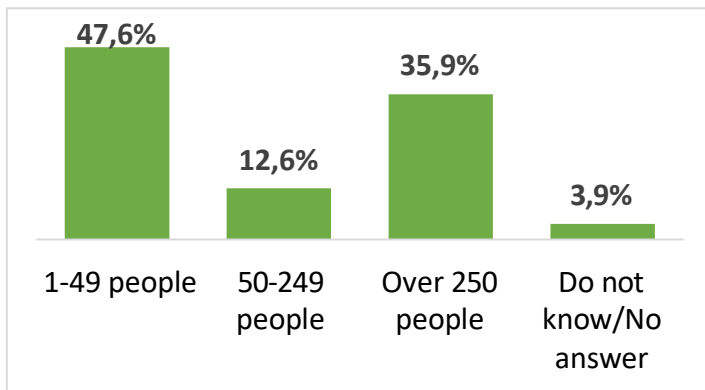
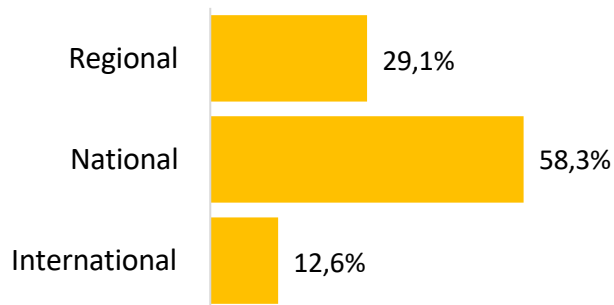
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responding the changing landscapes of democracy and anti-corruption regime, the business actors' perception of corruption levels and their direct experience with corruption in contemporary business and foreign direct investment environment, as well as to find the business players' suggestions to improve Indonesia's transparent, healthy and competitive business environment. A total of 103 respondents were interviewed face-to-face by trained interviewers using a structured questionnaire. Its survey instrument has been formulated during September to December 2022, while the interviews were conducted from January 10 to March 15, 2023. Respondents were determined by purposive non-probabilistic sampling from among those who fit the sample criteria.

The composition of profile respondents, in terms of the gender and age, can be seen below:



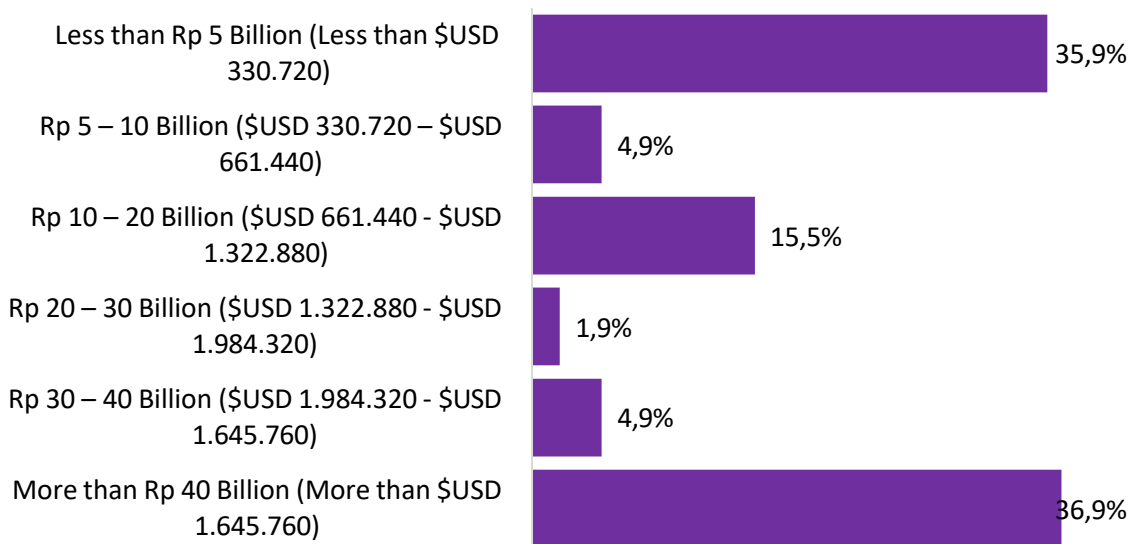
Meanwhile the level of companies' coverage and their number of employees can be seen below:



Meanwhile the level of the respondents' positions in their companies can be seen below:



Meanwhile the number of the companies' turnover per year can be seen below:



Methodologically, quality control was carried out by supervising 10% of interviews, and by calling back 30% of respondents to make sure interviews had been conducted according to the provisions. No significant errors were found in the quality monitoring process. It should be noted that sampling was non-probabilistic, so the survey results were not intended to generalize for the total population.

FOCUS GROUP DISCUSSION & INDEPTH INTERVIEW

Furthermore, one phase of Focus Group Discussions (FGD) was conducted with business actors in Jakarta. The FGD was held in the mid of February 2023. The FGD was planned to be attended by five (5) participants. The participants were drawn from the private sector who understood the many contexts in which corruption occurs and understood Indonesia's political dynamics and democracy.

Meanwhile during data collection through survey, in which PPPI's researchers were also deployed to meet business players forum involving many Crude Palm Oil (CPO) companies in Bali during 7-10 March 2023, PPPI's researchers also conducted in-depth interview to further deepen the data and information obtained in the FGD. Since the in-depth interviews were intended to follow up on the results from the FGD, the interviews were held to get more valid and detailed information from the private sector who understood the many contexts in which corruption



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occurs and also understood Indonesia's political dynamics and democracy. Around 7 respondents or informants were interviewed for a maximum of one hour with semi-structured in-depth interview approach to gather improvised information from the respondents.

FINDINGS

The perception of the business world towards the quality of governance in Indonesia has been a topic of discussion among many in recent years. Some argue that Indonesia is experiencing a democratic setback, while others point out the weakening of the country's anti-corruption agenda.

Firstly, it is important to understand the perception of the business world towards the quality of governance in Indonesia. According to a survey conducted by the World Economic Forum, Indonesia's ranking in terms of the quality of governance has been declining in recent years. In beginning of 2023, Transparency International (TI) has released its Corruption Perception Index (CPI) showing that Indonesia's 2022 CPI drastically declined than its CPI in 2021.

In general, based on the data of the 2022 Corruption Perception Index (CPI), issued by Transparency International (TI) for 180 countries, showed stagnation in the rankings of several Southeast Asian countries and deepening democratic regression in some others that directly or indirectly impacted the quality of public-sector governance. On a scale of one to 100, where one represents maximal corruption, Singapore's CPI declined slightly from 85 in 2021 to 83 in 2022, followed by Malaysia from 48 to 47. Meanwhile, Vietnam improved from 39 to 42 and Thailand from 35 to 36. But Indonesia fell from 38 to 34, and the Philippines remained stagnant at 33. Laos went up from 30 to 31, Cambodia from 23 to 24, but Myanmar fell from 28 to 23.

On the other hand, Indonesia, which was once considered the "big jumper" in corruption prevention in Southeast Asia, representing the "best practices" in combating graft, is currently experiencing significant regression. Indonesia's CPI 2022 saw the sharpest decline in its post-reform history. It was caused by decreases in constituent indexes, such as the Political Risk Service (PRS) International Country Risk Guide, IMD World Competitiveness Yearbook and PERC Asia Risk Guide, which assess political corruption, conflicts of interest, potential for abuse of power and bribery.

Considering that most of the respondents in the survey were from the business community, this means that the free fall of the 2022 CPI shows

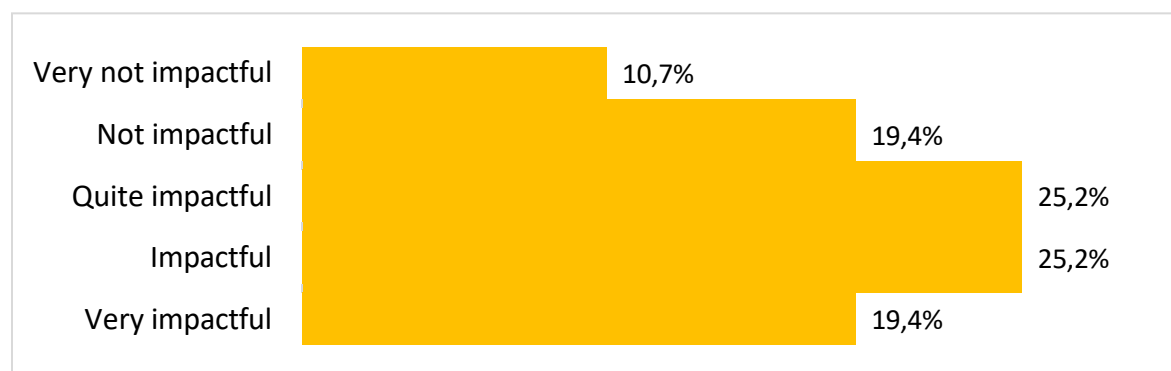


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the concern of business actors about the government's commitment and political will to support democratic pillars and anti-corruption measures. This decline in ranking is largely due to the weakening of the rule of law, corruption, and lack of government effectiveness. The perception of the business world towards the quality of governance in Indonesia has a significant impact on investment and business decisions. Therefore, a study which was conducted by the PPPI is relevant to understand the current business perception on the current Indonesia's democracy and anti-corruption regimes.

1. Perceptions of Business Players on the Declining Trend of Anti-Corruption Quality in Indonesia

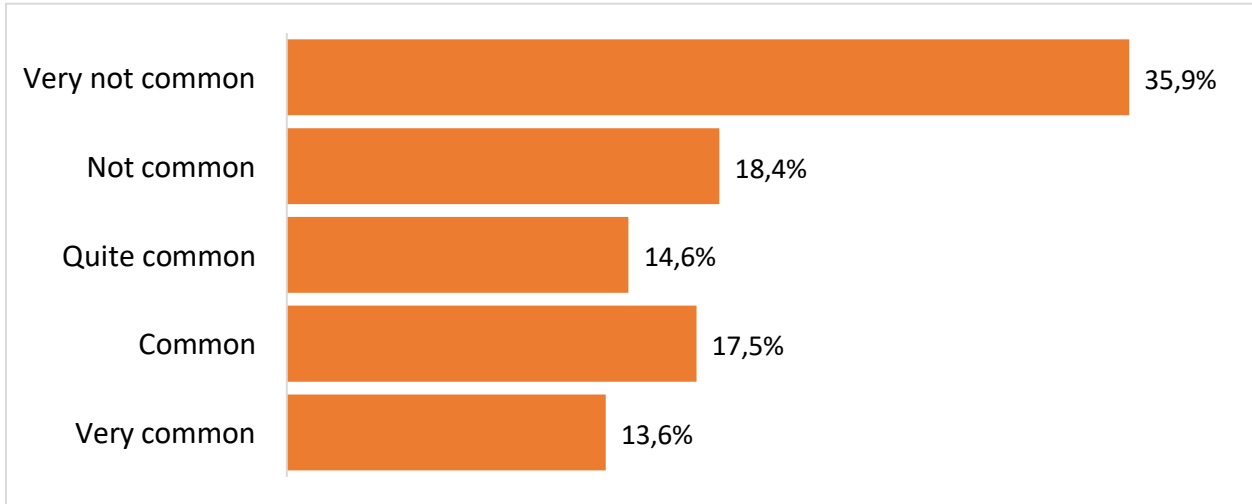
When the respondents were asked about a number of international institutions including Transparency International, World Bank, IMF, and others, assessed that there is a serious decline in the quality of anti-corruption in Indonesia, how big is the impact of the decline in the quality of anti-corruption in Indonesia on the smooth running of the business of the company where you work?



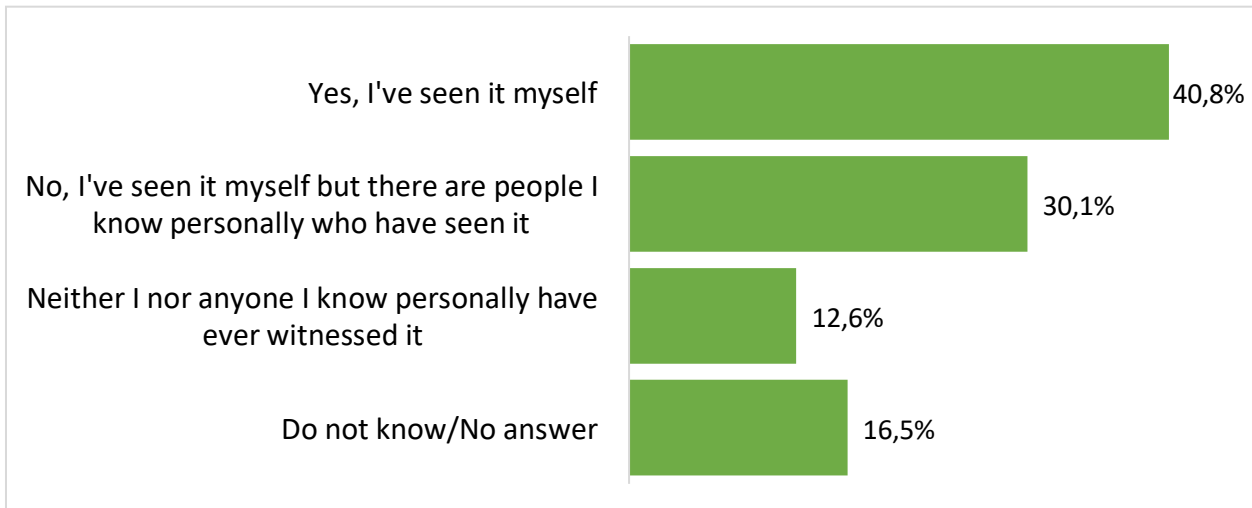
In general, the largest proportion (44.6%) of business actors thought that the decline in the quality of anti-corruption in Indonesia is impactful to their companies, while 25,2% said quite impactful and 30.1% considered not impactful.

Furthermore, when the respondents were asked about their behavior, is it normal for business actors to give things such as money, goods, entertainment, gifts outside of the terms or conditions to expedite a process or as a form of gratitude when dealing with agencies government?

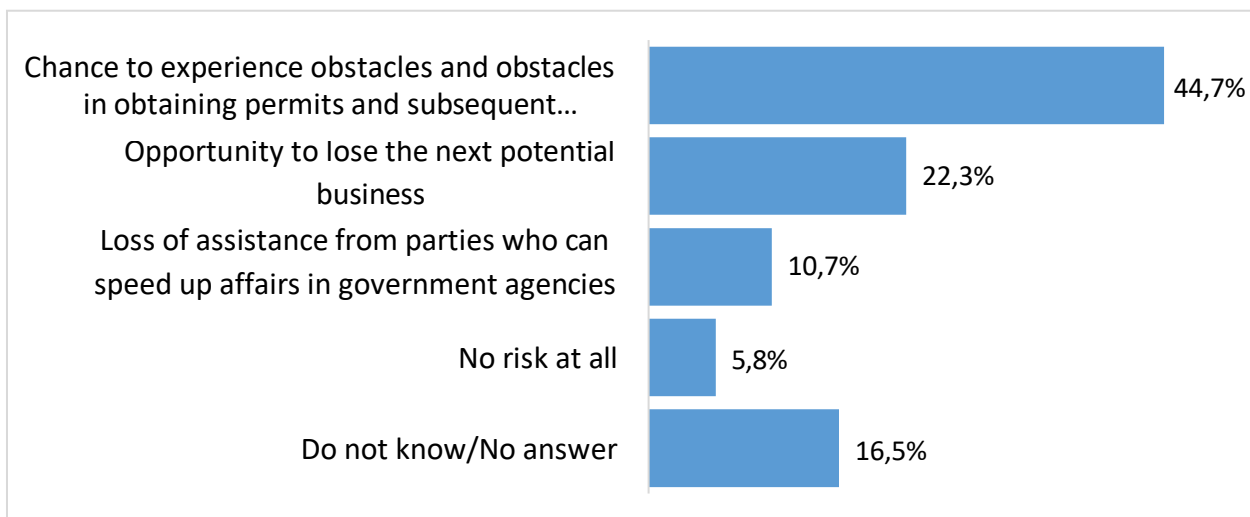
Around 54.3% of the respondents said that is uncommon, while there are still 45.6% in total who recognized that gift-giving is normal or common for them when dealing with the government offices. See the detail below:



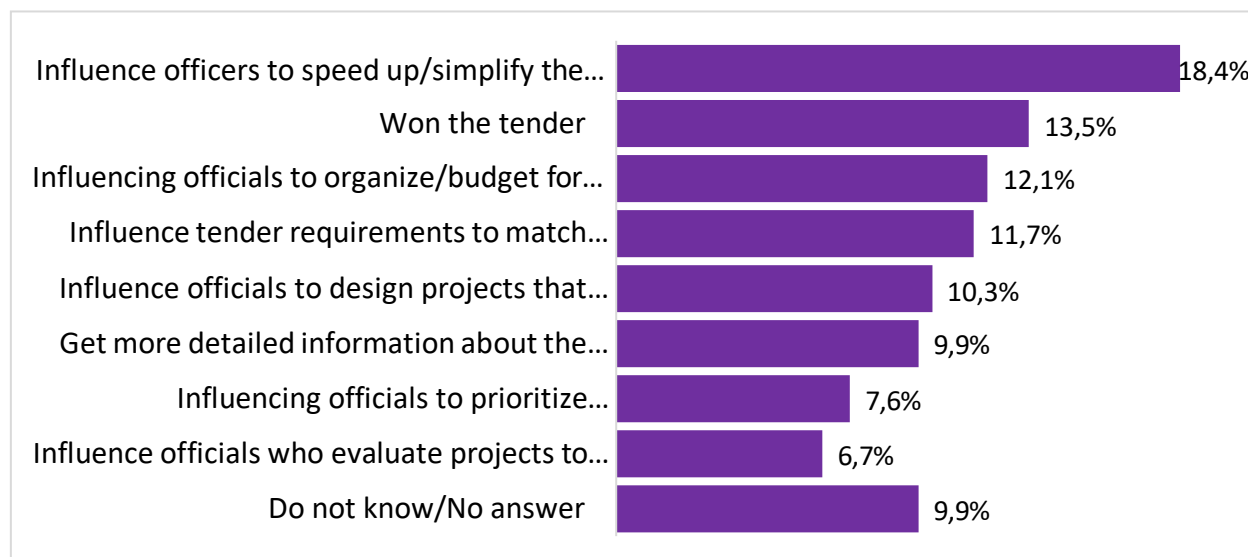
Subsequently, when the respondents were asked, “Have you personally, or anyone you may know personally within your scope of work, ever witnessed a businessman or entrepreneur giving money or gifts outside the official provisions to government employees or state apparatus in the past year? Around 40,8% respondents recognized that there have seen my themselves. See below:



Furthermore, when the respondents were asked, “According to you or the company where you work or your friends work that you may personally know within the scope of your work sector, if when dealing with a government agency you don't give something, such as money, goods, entertainment, gifts outside the terms/conditions to expedite a business process, what risks will your company face? The main consequence that they may get are mostly about to face more obstacles to obtain permits more easily (44,7%), loosing opportunity for the next potential business (22,3%), loss assistance from parties who can speed up affairs in government agencies (10,7%), while only 5,8% who mentioned that there is no risks at all. See below:



Furthermore, in terms of the motivation of giving money or gifts, when the respondents were asked, “There are various purposes for businesses to provide money/gifts/services to government officials outside of the official provisions. Among the following objectives, what are the three main objectives of a businessperson giving money/gifts/services to government officials in the business sector/your scope of work?”, they show various motivations. Most of the respondents acknowledged that they did it to influence government officers to speed up or simplify their permits or licenses (18,4%), to win tender or procurement (13,5%), influencing the gov officers to influence the budget allocation for the project they run (12,1%) and others. See below:



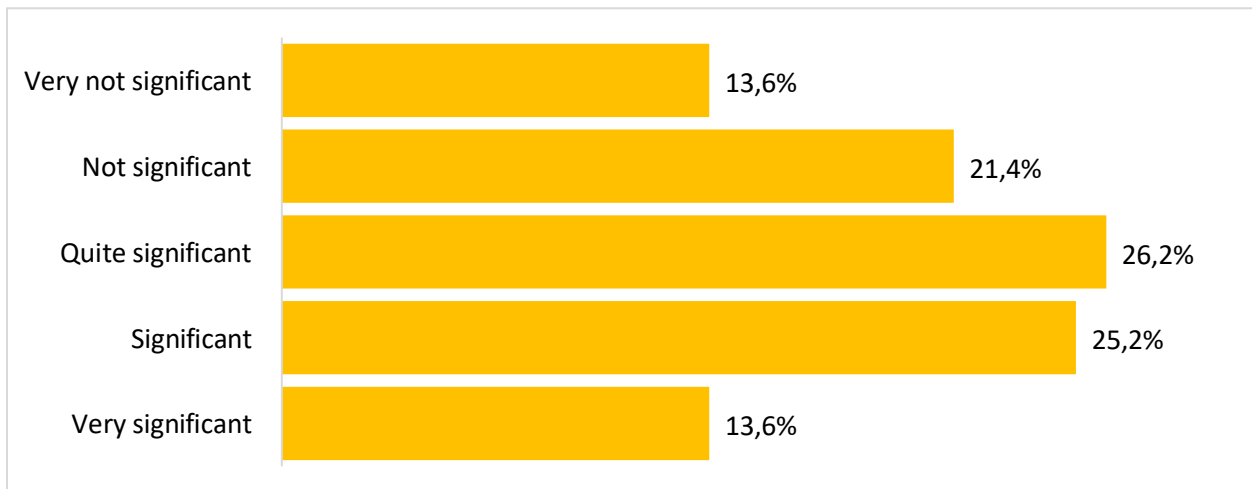
Furthermore, when the respondents were asked, “How influential are the following things in causing business people or entrepreneurs to give money or gifts outside the official provisions to government employees or state apparatus in the business sector/your scope of work? Is it very influential, moderately influential, not very influential, not very influential?”, they have various answers related to the questions. Please see below:

Reasons	Very impactful	Impactful	Not impactful	Very not impactful	Total
Poor law enforcement	56,3%	35,0%	3,9%	4,9%	100,0%
The amount of profit that can be obtained by entrepreneurs	32,0%	48,5%	14,6%	4,9%	100,0%
Get used to doing	33,0%	48,5%	12,6%	5,8%	100,0%
There are no clear provisions regarding management procedures	33,0%	44,7%	15,5%	6,8%	100,0%
Proximity of business with officials	44,7%	42,7%	8,7%	3,9%	100,0%
There is political interference from the more powerful	53,4%	32,0%	10,7%	3,9%	100,0%
Return culture	38,8%	40,8%	15,5%	4,9%	100,0%
The perpetrator did not understand that what he was doing was a violation	22,3%	39,8%	22,3%	15,5%	100,0%
To solve complex business quickly	48,5%	43,7%	3,9%	3,9%	100,0%
The official procedure is too complicated	43,7%	41,7%	7,8%	6,8%	100,0%
Mutual benefit between officials and business people	34,0%	49,5%	11,7%	4,9%	100,0%
Requested by state/government officials	37,9%	43,7%	11,7%	6,8%	100,0%

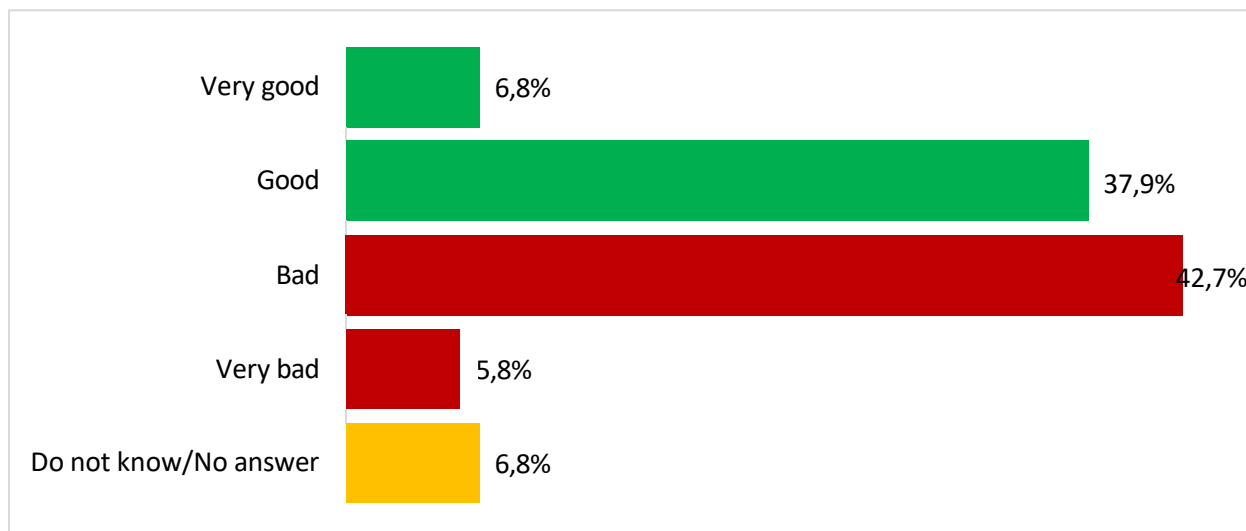
These findings above are important. On one hand, respondents in the private sector had witnessed more corruption than the public, whether directly or through hearsay, but on the other hand, private sector respondents considered they are forced by the situation to do it for some motivations. It means that there are still some problematic matters in terms of the quality of governance within the business environment in Indonesia right now. The finding also does indicate the level of permissiveness among the private sector within the still improving quality of governance in the country.

2. Perceptions of Business Actors on the Trend of Declining Quality of Democracy in Indonesia

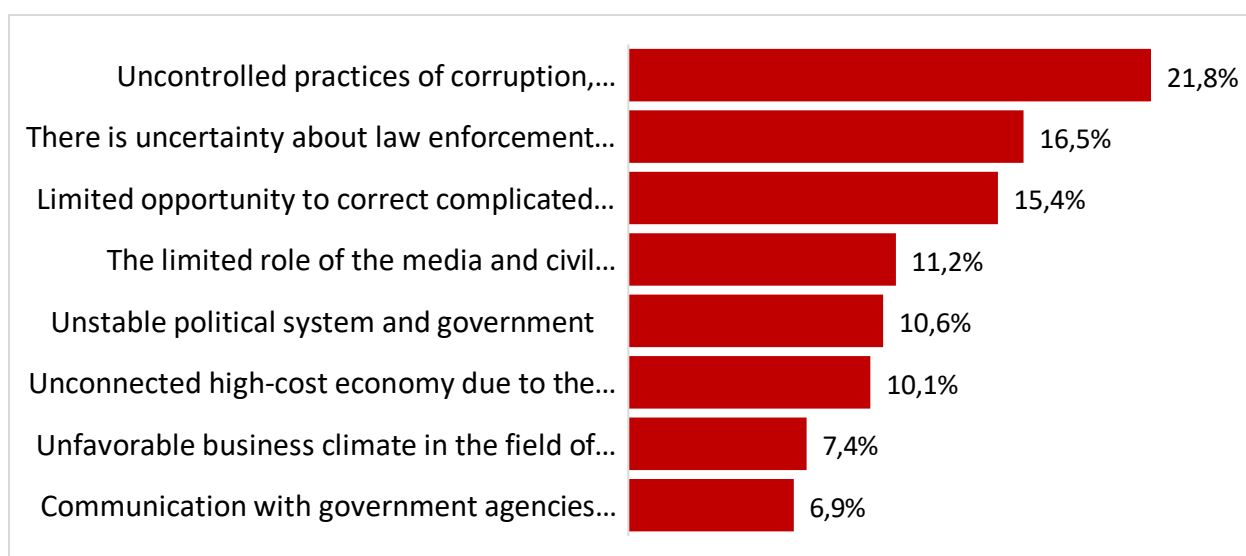
When the respondents were asked, “A number of international institutions (Economist Intelligence Unit, Transparency International, Australian National University, and others) assess that there is a decline in the quality of democracy in Indonesia. In your opinion, how big is the impact of the decline in the quality of democracy in Indonesia on the smooth running of the business of the company where you work?”, around 38.8% said it gives significant impacts, 26,2% said quite significant, while 35% said that the impacts are insignificant. See below:



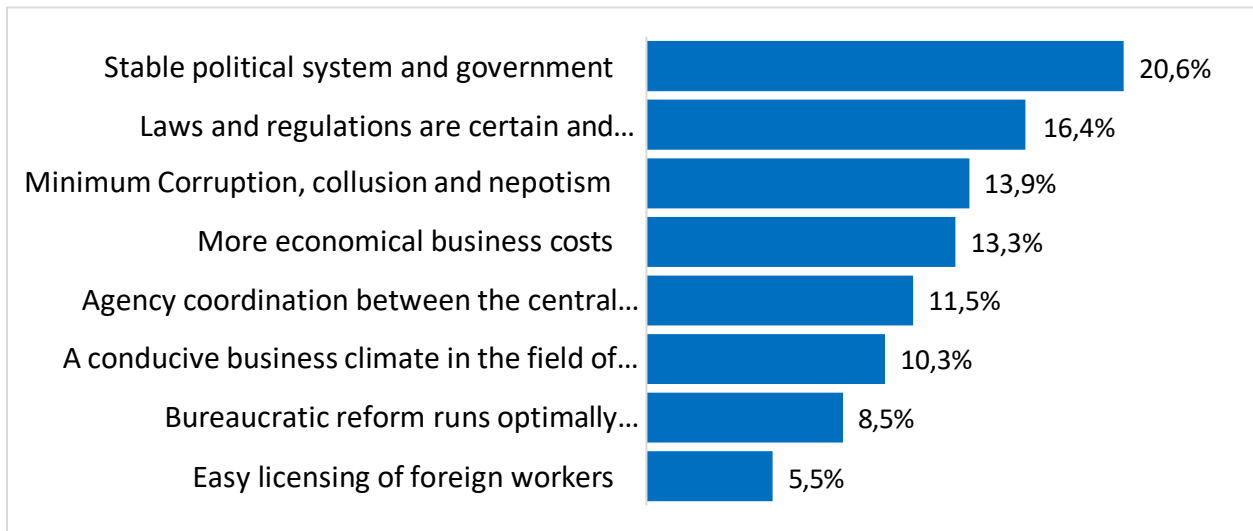
Furthermore, when the respondent were asked, “In your opinion, or the business community in which you work, evaluate the current state of democracy in Indonesia?”, the private sector respondents have divided perspectives. Around 44.7% said it is good, while 48.5% said it is bad. See below:



The general question above was subsequently probed to get more detail reason behind their assessment by asking the respondents, “If the condition of democracy is bad or very bad, what is the main reason for your opinion?”, the answer is quite vary, such as uncontrolled practices of corruption (21,8%), uncertain law enforcement (16,5%), and limited opportunity to evaluate government service (15,4%). See the detail below:

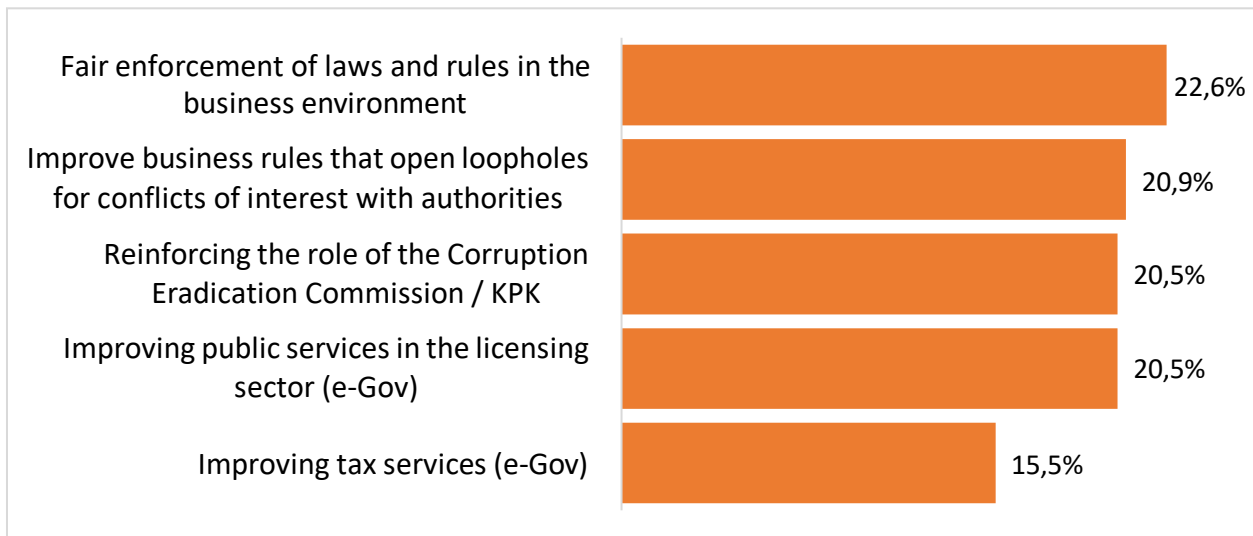


Meanwhile when the respondents were asked, “If the condition of democracy is good or very good, what is the main reason for your opinion?”, the answers were also varied, such as Indonesia has more stable politics (20,6%), more certain laws and regulations (16,4%). See the detail below:

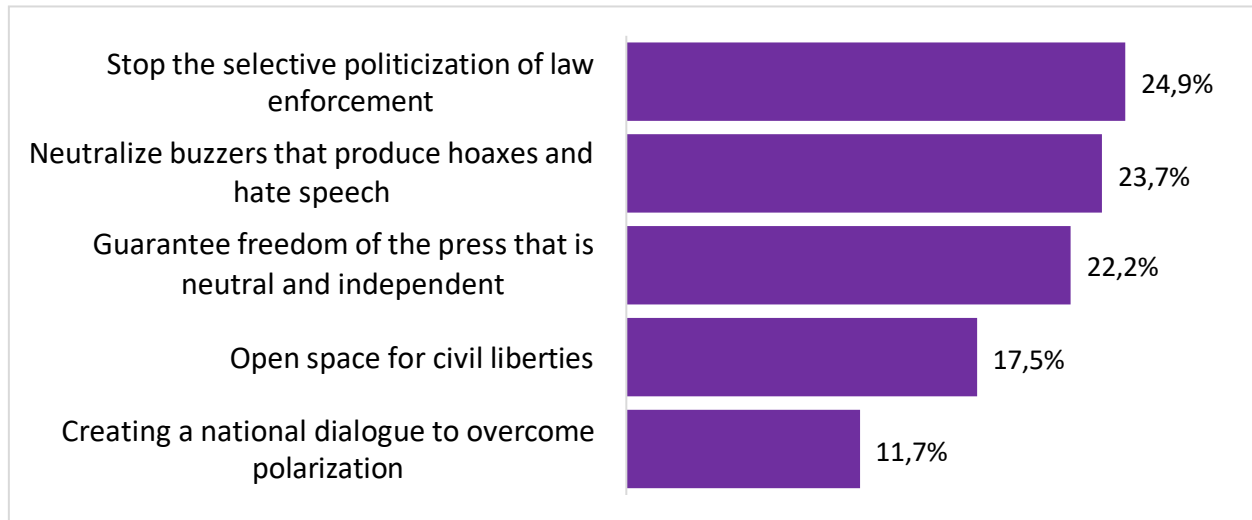


3. Advice and input from business actors to improve the quality of the business and investment environment in Indonesia

When the private sector respondents were asked, “In your opinion, what needs to be done to improve the quality of anti-corruption in Indonesia?”, the respondents advised that the fair enforcement of law and rules in the business environment was the top priority for the business sector (22,6%), followed by improving business rules that open loopholes for conflict of interests (20,9%), and the enforcing the KPK (20,5%). See the detail below:



Furthermore, when the respondents were asked, “In your opinion, what needs to be done to improve the quality of democracy in Indonesia?”, the respondents suggested to stop the selective politization of law enforcement (24,9%), neutralized buzzers that produced hoaxes and hate speech (23,7%), guarantee freedom of the press (22,2%), open space for civil liberties (17,5%), and creating a national dialogue to overcome polarization (11,7%).



Discussion and Conclusion

This research found that the majority of business players in Indonesia consider corruption is still rampant in the country's business environment. This perception not only affects foreign investors but also domestic investors who are looking to invest in Indonesia. The business world's perception of the quality of governance in Indonesia also affects the country's ability to attract foreign investment, as investors are likely to avoid countries with a high perceived risk of corruption.

In general, the largest proportion (44.6%) of business actors thought that the decline in the quality of anti-corruption in Indonesia is impactful to their companies, while 25,2% said quite impactful and 30.1% considered not impactful. Subsequently, around 54.3% of the respondents said that is uncommon, while there are still 45.6% in total who recognized that gift-giving is normal or common for them when dealing with the government offices.

Around 40,8% respondents recognized that there have seen my themselves. Meanwhile, the main consequence that they may get are mostly about to face more obstacles to obtain permits more easily (44,7%), losing opportunity for the next potential business (22,3%), loss assistance from parties who can speed up affairs in government agencies (10,7%), while only 5,8% who mentioned that there is no risks at all.

Most of the respondents acknowledged that they did it to influence government officers to speed up or simplify their permits or licenses (18,4%), to win tender or procurement (13,5%), influencing the gov officers to influence the budget allocation for the project they run (12,1%) and others.

Furthermore, the decline of democratic quality in Indonesia has also been considered impactful to their business. Around 38.8% said it

gives significant impacts, 26,2% said quite significant, while 35% said that the impacts are insignificant. When they evaluated the current state of democracy in Indonesia, the private sector respondents have divided perspectives. Around 44.7% said it is good, while 48.5% said it is bad. For those who said bad, their reasons are ranged of because of uncontrolled practices of corruption (21,8%), uncertain law enforcement (16,5%), and limited opportunity to evaluate government service (15,4%). While those who recognized that Indonesia democracy is good enough, they considered that it is caused by more stable politics (20,6%), more certain laws and regulations (16,4%).

Meanwhile, in terms of the advice and suggestions, in terms of the anti-corruption recommendation, the private sector suggested to enforce fair enforcement of law and rules in the business environment as the top priority for the business sector (22,6%), followed by improving business rules that open loopholes for conflict of interests (20,9%), and the enforcing the KPK (20,5%). On the other hand, in terms of the effort to increase the quality of Indonesian democracy, the private sector respondents suggested to stop the selective politization of law enforcement (24,9%), neutralized buzzers that produced hoaxes and hate speech (23,7%), guarantee freedom of the press (22,2%), open space for civil liberties (17,5%), and creating a national dialogue to overcome polarization (11,7%).

In conclusion, we acknowledged that Indonesia is a vast and diverse country, with a population of over 270 million people. Its economy is the largest in Southeast Asia and one of the fastest-growing in the world. However, despite its economic potential, Indonesia still faces challenges in terms of democratic governance and corruption. These challenges have a significant impact on the perception of the business community, which is crucial for the country's economic growth.

In recent years, Indonesia has experienced a decline in its ranking in the Corruption Perceptions Index, dropping from 88th in 2017 to 102nd in 2020. This decline is a cause for concern, as corruption is known to impede economic growth and foreign investment. The business community's perception of Indonesia is also affected by its democratic governance, as the country has faced challenges in terms of protecting freedom of speech and press freedom. This data has been justified by the findings of this PPPI's research.

To address these challenges, based on our FGD and in-depth interviews conducted during this study, there are several recommendations that can be made to improve the quality of democratic governance, anti-corruption efforts, and government governance in Indonesia. Firstly, Indonesia must ensure that its anti-corruption measures are effective and transparent. One way to do this is to ensure that anti-corruption bodies such as the Corruption Eradication Commission (KPK) are independent



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and have sufficient resources to carry out their duties. The KPK has been one of the key players in the fight against corruption in Indonesia, and it is essential to ensure that its powers are not undermined.

Secondly, the Indonesian government should take steps to protect freedom of speech and press freedom. A free and independent press is essential for ensuring transparency and accountability in government, as well as for promoting a healthy and informed public discourse. One way to achieve this is to strengthen legal protections for journalists and media outlets.

Thirdly, the government must take steps to improve the quality of its governance. This can be done by strengthening public service delivery, improving the transparency of government decision-making, and promoting good corporate governance. Effective governance is essential for attracting foreign investment, as it provides a stable and predictable environment for businesses to operate in.

Finally, the Indonesian government should take steps to promote civic education and public awareness of democratic values. This can be done by improving the quality of civic education in schools, promoting public dialogue and debate on issues of public importance, and encouraging civil society organizations to play an active role in promoting democratic values.

In short, improving the quality of democratic governance, anti-corruption efforts, and government governance in Indonesia is essential for promoting foreign investment and economic growth. To achieve this, the government must take steps to ensure that its anti-corruption measures are effective and transparent, protect freedom of speech and press freedom, improve the quality of its governance, and promote civic education and public awareness of democratic values. By doing so, Indonesia can ensure that its economy continues to grow and prosper, and that it remains an attractive destination for foreign investment.



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