

The Budget Misallocation Mechanism in Indonesia's Bureaucracy

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Abstract—This article aims at analyzing the mechanism by which budget misallocation in the Indonesian government bureaucratic system occurs. This study is conducted on the Yogyakarta Special Region government. The fraud triangle analysis is used as the tool of analysis in assessing multiple government projects in 2013. The results of this study indicate the potential systematic misuse of government fund which involves bureaucrats and private sector as good and service suppliers. The misconducts occur throughout the stages of planning, auction, execution, and reporting of the government projects. This suggests the existence of the so-called “opportunistic bureaucracy” that could potentially lead to corruption in the Indonesian government especially in the regional government

Keywords— Bureaucracy, executive, budget, corruption, government

I. Introduction

The misuse of government budget in Indonesia has now become a culture. Corruption itself has been rooted deeply into the society's mind and can be found in the processes such as Citizen Identity Card (KTP) administration and Building Permit (IMB) administration, the procurement projects at government institutions and even at the judicative bodies. Without realizing, corrupt mind grows from the simple habits that are considered commonplace by the society such as giving something of value to public officials for their services. Such behavior is often seen as part of the Eastern culture and will eventually turn into the seeds of corruption. Corruption has been so entrenched that it is considered as a part of the national culture [1]. Corruption in the state bureaucracy has brought Indonesia to a critical time where institutions that are expected to maintain various functions in the society are no longer capable of carrying out their duties properly. Public offices contaminated with corruption lose the society's trust and respect as they are now no longer function to control economic, social and political processes but instead are used as nothing more than a means for obtaining personal and group benefits. This will lead to the situation where many citizens will take matters into their own hands without or with less regard to the existing regulations.

With this situation, what we really need is a different approach in solving the corruption problem which remains in the boundary of the country's legal framework. Such an approach will need to emphasize on progressive attitude as thinking differently requires not only reading the text of the

existing laws but also to uncover the meaning of such laws which needs courage to act and to innovate to curb the corruption problem.

This research is aimed at identifying the practices of budget misuse in the state bureaucracy with a special focus on the Yogyakarta Special Region.

II. Literature Review

According to Suharko (2005), in terms of laws and regulations as well as anti-corruption institution, Indonesian has had sufficient means to combat corruption. The MPR Decree Bo. XI/MPR/1998 on the Clean State Implementation that is Free of Corruption, Collusion, and Nepotism and the Law No. 28 Year 1999 on the State Implementation that is Free of Corruption, Collusion and Nepotism. Additionally, Indonesia also has the Law No. 31 Year 1999 Jo. Law No. 20 Year 2001 on the Eradication of the Corruption Criminal Offences and the Law No. 30 Year 2002 on the Corruption Eradication Commission (KPK). Anti-corruption institutions in other countries such as Hong Kong and Singapore had been successful in combating corruption and stand at the forefront of the war against corruption. There are also government regulations that aim at eradicating corruption [2]. Simply put there really is almost no reason that corruption eradication movement in Indonesia will not be successful. However evidences show that corruption remains entrenched in Indonesian. In fact, there appears to be a rising trend in the number of corruption cases in Indonesia as well as the total losses to the country. Also, corruption now seems to cover more area than before with new and more complicated schemes.

A number of studies have been conducted to shed light on the problems of corruption in Indonesia. Rustamadji (2002) attempted to map out the modus operandi of corruption in state bureaucracy. According to Rustamadji (2002), common schemes of corruption include project price mark-up, fictitious grant, third party collusion, fictitious training, fictitious goods and services procurement, income tax and retribution revenue manipulation, unauthorized collection for licensing [3].

Based on the corruption indicator, the Transparency International's Corruption Perception Index (CPI), Indonesia has always been among the most corrupt countries in the world. In fact, in 1998, the country was ranked the sixth most

corrupt countries in the world right below, Camerun, Paraguay, Honduras, Tanzania, and Nigeria. In 2001, Indonesia was ranked the fourth most corrupt countries in the world by the CPI below Bangladesh, Nigeria, and Uganda. In 2012, Indonesia was ranked the 57th most corrupt countries in the world, by the CPI. Many believe that the establishment of the Corruption Eradication Commission had helped improving Indonesia's score in the CPI. Nevertheless, with the score of 32 out 100, many still need to be done to clean up the country from corruption [4].

Other indicator of the severity of the corruption problems in Indonesia is the *Growth Competitiveness Index* and the *World Economic Forum* where Indonesia is ranked number 50 with the score of 4.26. In 2007, based on the *World Competitiveness Index* by the Institute of Management Development (IMD) in Geneva, Indonesia was ranked number 54 (37.41), Malaysia ranked number 23 (74.091), Thailand ranked number 33 (57.758), Philippines ranked 45 (47.163), and Singapore ranked number 2 (99.121). Additionally, the *World Bank* that used the easiness of doing business as an indicator of its assessment argued that the waiting time for getting all the permits for doing business in Indonesia is much longer compared to other Asian countries [5]. A study by Mauro (1995) in 58 countries including Indonesia signifies the fact that corruption will hider and slow down the economic growth. Minimum corruption is a key to efficient bureaucracy that can promote investment and economic growth.

The World Bank (2003) believes that corruption possess three great threats to a country: (1) deterring its development, making the poor suffering, creating huge macroeconomic risk, risking financial stability, causing public security and legal problems, decreasing the state implementation's legitimation in the eyes of the people; (2) poses serious risk to the effectiveness of the government funded projects; (3) decreasing public trust in the development assistance.

The International Transparency Society argued that the causes of corruption in Indonesia are: (1) the absence of Indonesian government's political will; (2) failures in the public administration and government financial system; (3) the military's dominant role in the political system; (4) politicization of bureaucracy; (5) lack of supervisory institutions' independence; (6) parliament's lack of function; (7) weak civilian power; (8) Lack of freedom for mass media; and (9) private sector's opportunistic attitude [6].

The above discussion on the effects of corruption is only the tip on an iceberg. This is so since there are still so many corrupt acts that are hidden and thus unrecorded. In reality, the severity of the corruption problems in Indonesia is beyond what is depicted by the statistics or any other measures. Assuming that corruption is out of the equation, the existing government resources can be utilized so as to yield high economic multiplier in the country as well as diminishing inequality. Nevertheless, when corruption remains in the system, the economic multiplier will be smaller in addition to economic inequality in the society. Furthermore, when corruption is accompanied by money laundering then it will have greater impact such as giving pressure to domestic

currency as it increases the flow of fresh money and economic multiplier in other countries. Government then has to struggle really hard to pull the money back into the country.

III. Research Method

This study is of *policy research* design that combines qualitative descriptive and quantitative analysis. This study is carried out in the Yogyakarta Special Province (DIY). The data used in the analysis are a combination between primary and secondary data. Primary data is gathered through in-depth interviews with the Local Government Task Force (SKPD) for budget management in the Yogyakarta Special Province (DIY). Such data are used in thematic analysis as well as corruption pattern identification in this study.

1. The Classification of Corruption

From the data collection process through interview and observation, thematic analysis will be carried out to classify and determine the pattern of corruption which occur in each public institution based on which further analysis will be carried out.

2. The Fraud Triangle Analysis

As a type of fraud, the occurrence of corruption can be explained with the *fraud triangle* theory which was the work of criminologist Donald R. Cressey. Cressey (1950) proposes that in order for fraud to occur three elements need to be present: pressure/motivation, opportunity, and rationalization [7].

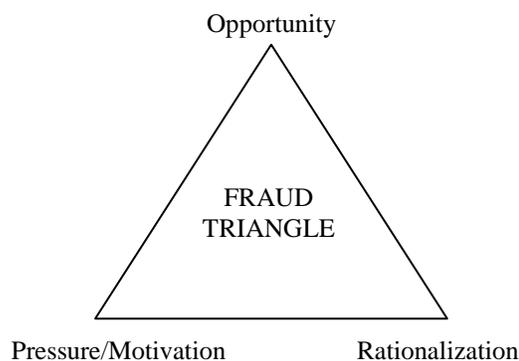


Figure 1. Fraud Triangle
Source: Adapted from Cressey (1950)

Pressure/motivation may come in the form of financial difficulties or in more than a few cases, greed. As a symbol of greed, extravagant lifestyle which can be recognized from the comparison between one's personal assets with his or her potential income often indicate greed instead of need as the driving factor behind his or her fraud. *Opportunity* is commonly associated with power and authorities in organizations where potential offenders work. One's unusually close association with vendor or customer, for example, may indicate misuse of power and authorities associated with one's position in an organization. When a person is misusing his or her position for personal gain, he or she will tend to exhibit defensiveness along with suspiciousness and irritability due to

fears that others might eventually find out about the fraud. *Rationalization* is essentially what makes fraud different from street crimes. It is the way fraud offenders justify their acts so as to avoid feeling guilty. Fraud offenders have been known to be smart people who are not only capable of fooling others but also themselves into thinking that their acts are legitimate.

By using *fraud triangle* framework, this study assesses common factors that drive public officials to engage in corrupt acts. In principle, once identified, eliminating these corruption causal factors will become a priority in eradicating corruption in Indonesia. The understanding of the factors that cause corruption will serve as a basis for government and other decision makers in designing the most appropriate strategy for eradicating corruption.

3. Process Evaluation

The analysis in this study is focused on the strategy implementation and not its outcome. Such analysis will emphasize on the mechanism that drives the implementation of a strategy and evaluates the whether or not such a strategy is being properly implemented. The process evaluation covers many factors that are related to the roles of different institutions in a strategy as well as in the decision making process concerning policy formulation and the obstacles in the execution of the strategy.

iv. Results and Discussions

Generally, corruption that occurs in the state bureaucracy are caused by a number of factors that exist in particular within the public sector environment. Corruption in Indonesia occurs in almost all part of the government system (i.e. executive, legislative, and judicative). Even in some cases of uncovered corruption, their legal processes are believed to have also been contaminated by corruption. From the existing data collected and analyzed for this study, it is evident that corruption exists in executive, legislative, and judicative institutions.

Table 1. Gratification Data based on Institutions (January – August 2013)

No	Institutions	Number of reports
1	Legislative	15
2	Executive	251
4	Judicative	4
4	State owned Companies	648
5	Independent Institutions	10
	Tot	928

Source: Statistics from the Corruption Eradication Commission, 2013

From the above table, it appears that the majority of corruption occur in the executive bodies such as ministries/departments, city/regency governments, and provincial governments. The majority of the cases occur in the

ministries/bodies with 91cases or 39% of the investigated cases, 21% in the city/regency level, and 11% in the provincial level. In total, corruption cases in the executive bodies are accounted for 71% of the investigated cases which is much higher than the legislative bodies' percentage (20%).

There are many types of corruption in Indonesia. The Corruption Eradication Commission (KPK) categorizes the offence into five categories, goods and services procurement, bribery, budget misappropriation, unauthorized collection, and licensing. The summary of the number of the cases under these categories are as follows:

Table 2. Corruption Cases Investigated by the Corruption Eradication Commission (2004 – 2011)

	Procurement of Goods and Services	Bribery	Budget Misappropriation	Unauthorized Collection	Licensing
2004	2	-	-	-	-
2005	12	7	-	-	-
2006	8	2	5	7	5
2007	14	4	3	2	1
2008	18	13	10	3	3
2009	16	12	8	-	1
2010	16	19	5	-	-
2011	10	25	4	-	-
Total	96	82	35	12	10

Source: Adapted from news coverage from Kompas the statistics from the Corruption Eradication Commission

The most common modus operandi according to KPK's database is the procurement of goods and services scheme with 96 cases in 2004 and 82 cases in 2011 which accounted for 41% and 35% of the total number of cases in the respective years.

Table 3. Corruption Investigation based on Institutions in 2004 – 2013 (per 31 August 2013)

Institutions	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	Tot
DPR RI	0	0	0	0	7	10	7	2	6	2	34
Ministries/Departments	1	5	10	12	13	13	16	23	18	31	142
State Owned Companies	0	4	0	0	2	5	7	3	1	0	22
Commission Institution	0	9	4	2	2	0	2	1	0	0	20
Provincial Governments	1	1	9	2	5	4	0	3	13	3	41
City/Regency Governments	0	0	4	8	18	5	8	7	10	15	75
Tot	2	19	27	24	47	37	40	39	48	51	334

Source: The statistics of the Corruption Eradication Commission, 2013

Table 4. Corruption Cases Investigated by the Corruption Eradication Commission in 2004 – 2013 (per 31 August 2013)

Actions	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	Total
Pre-investigation	23	29	36	70	70	67	54	78	77	55	559
Investigation	2	19	27	24	47	37	40	39	48	51	334
Prosecution	2	17	23	19	35	32	32	40	36	21	257
<i>Inkracht</i>	0	5	17	23	23	39	34	34	28	24	227
Execution	0	4	13	23	24	37	36	35	32	32	236

Source: The statistics of the Corruption Eradication Commission, 2013

The various indications of corruption can be found in particular in the procurement of goods and services in the government. The collusion between government officials and suppliers (companies or individuals) in the arrangement of goods and services procurement is behind many cases of corruption.

The schemes of corruption in the procurement of goods and services can be grouped into four categories based on the stages in which they occur: planning; auction; execution; and reporting. The details of each category are as follows.

1. Planning

This first stage of the goods and services procurement concerns the identification of the need and the decision regarding the budget for such process. Additionally, in this stage, the mechanism by which auction will be carried out is carefully planned.

2. Auction

This stage is basically where the vendors are selected for the intended procurement project. The participants of this auction are all potential vendors who qualify for the project.

3. Execution

In this stage, the agreed upon projects as stated in the contract is carried out by the selected vendors. In the case where the performed works are not in accordance with the requirements as specified in the contract, the user (i.e. government) may then bring the matter to legal arbitration. Conversely when the user is the one who does not comply with the contract, similar action can be taken. As the user, government has the right to know about the level of progress of the projects and thus vendors are commonly requested to submit progress reports of the works performed.

4. Reporting

Upon the completion of the procurement works, the vendor has the obligation to submit a report on the works. The report itself is a form of information as well as a part of accountability process as a vendor's obligation to his user.

In the analysis on the procurement of goods and services in public offices through in-depth interviews with a number of public officials in charge of the matter, this study found a number of misconducts that may have been part of corruption schemes. A number of in-depth interviews with public officials sources in 3 public offices in the Yogyakarta Special Province (DIY) whose identities remain confidential revealed

that there are a number of misconducts in each of the four stages of the procurement process.

Description of Findings of Budget Misallocation in the Bureaucracy

Mr. X is a public official in charge of auction document inspection at Public Institution A. Public Institution A is an institution whose responsibilities include formulating, planning, maintaining, coordinating, and controlling local production and natural resources. According to Mr. X, a number of misconducts that exist in the procurement process are as follows.

1. Planning Stage

The procurement committee offers the project to be carried out by a vendor with whom the committee already had a relationship with an agreement that the profits from the project will be shared. The committee then unlawfully informs the vendor about the supposedly confidential budget implementation list (DIPA) which had been previously decided so as to ensure that the vendor's offer will be the most appropriate for the project and thus guarantees its success in winning the auction.

2. Auction Stage

The scheme in this stage involves participants using false names. The committee sometimes does not check whether or not the names of auction participants are only borrowed names. Additionally, the price survey on other participants as a means of comparison in the auction is performed by a partner with whom procurement committee collude with by using the identity of other institution. For this, the partner will be awarded with an incentive (commonly calculated from 1% times the value of contract after tax).

3. Execution of the Project

Due to the misconducts in the auction process, in the end the delivered goods and services are below the required standard. This is so since, due to the staging of the auction winner, the committee's monitoring on the quality of the quality of the performed works can be inadequate. Any breach of contract such as the late delivery cannot be sanctioned simply because, due to the existing collusion, sanction such as fine is nonexistent. In some cases, the project is reported to have been completed even though in reality it is still unfinished.

4. Reporting Stage

The most common problem with the report of fraudulent procurement work is that it will likely be not in compliance with the existing standard. Based on the findings of this study, due to the collusion with the vendor, any substandard report cannot be sanctioned. Reporting fictitious activities such as seminars or meetings that never happen are among the most common schemes in a fraudulent procurement report. To support the fictitious activities, false documents such as forged receipts are used. There are even external parties who offer their services in forging the transaction documents such as flight tickets along with providing the rest of the report as requested.

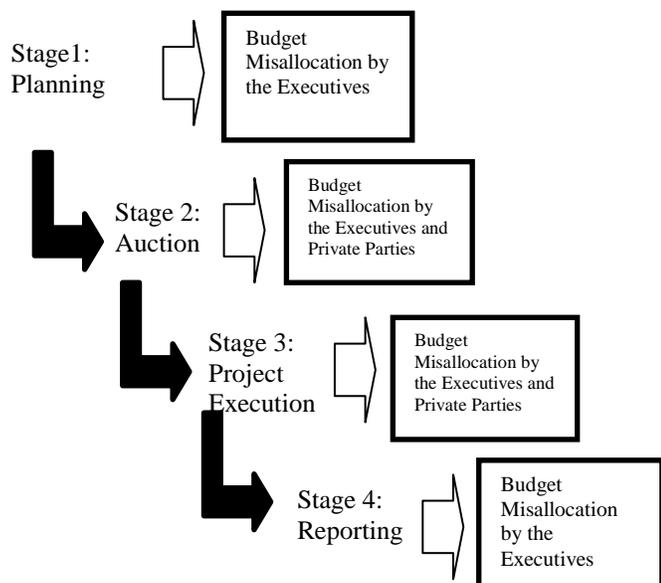


Figure 2. Budget Misallocation Flowchart

The above unlawful activities are commonly found in the government procurement projects as depicted by this study's interviewees. The hidden agreement, to share illicit gains between public officials and vendors had caused misdirection of the procurement projects.

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v. CONCLUSION

Generally, corruption that entrenches in state bureaucracy is caused by many factors. Many high ranking public officials misuse their positions to perpetrate corruption using a wide range of methods. Public officials and private parties may involve in some sort of "win – win" solution deal involving government projects. A vendor may offer bribery to public officials to receive special privileges such as winning a certain government project under certain conditions. Like a cancer, corruption has been spreading throughout an government entire system of Indonesia and without serious efforts to curb it, it will continue to spread and eventually bring the whole country down. Findings from this study suggest that methods of corruption may vary across the stages such as planning, auction, execution, and reporting in which it occurs

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