

# Combating Corruption in Community Development in Indonesia



## Policy Issue

Corruption plagues many developing countries where the world's poorest live, and combating it continues to be an arduous task. Corruption acts like a tax, adding to the cost of providing public services and conducting business; it also creates potentially severe efficiency consequences as well. Many suggest the right combination of monitoring and punishments can control corruption, but often the very individuals tasked with monitoring and enforcing punishments may themselves be corruptible. Another approach to reducing corruption is community-level monitoring. Local community members have the most to gain from a successful anti-corruption program, and are thus believed to have better incentives to monitor than bureaucrats. However, there is little empirical evidence on the success of such strategies.

## Evaluation Context

An Indonesian government program supported by a loan from the World Bank, the Kecamatan Development Project (KDP), funds projects in approximately 15,000 villages each year. Each village receives an average of Rp. 80 million, (US\$8,800), which they often use to surface existing dirt roads. KDP-funded projects are large relative to ordinary local government activities; in 2001, the average annual village budget was only Rp. 71 million (US\$7,800), so receiving a KDP project more than doubles average local government expenditures. This large amount of money creates incentives for price inflation, collusion with suppliers, kickback for village leaders, and manipulation of wage payments.

Two checks on corruption are built into KDP. First, funds are paid to village implementation teams in three installments. To receive the second and third payments, the teams must make accountability reports at an open meeting where they account for how they spent the money; only after that meeting has approved the accountability report is the next installment released. Second, each project has approximately a 4 percent chance of being audited by the government.

## Details of the Intervention

To examine the role of community monitoring and government audits on corruption, researchers



### RESEARCHER

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### COUNTRY

Indonesia

### PARTNERS

Department for International Development (DFID), World Bank

### PROGRAM AREA

Governance

### TOPICS

Community Participation,  
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### TIMELINE

2003-2004

conducted a randomized evaluation in 608 Indonesian villages in East Java and Central Java, Indonesia’s most populous provinces. Each village in the study was about to start building a village road with KDP funding. Some villages were randomly selected to be told, after funds had been awarded but before construction began, that their project would subsequently be audited by the central government, increasing the likelihood of an audit from 4 percent to 100 percent. These audits carry the possibility of criminal action if corruption is detected, and the results of the audits are read publicly to an open village meeting, potentially resulting in social sanctions.

To investigate the impact of increasing community participation in the monitoring process, two interventions were established to enhance participation at accountability meetings. Some villages were selected to have invitations to these meetings distributed throughout the community, encouraging direct participation in the monitoring process and reducing elite dominance of the process. In the second experiment, an anonymous comment form was distributed along with the invitations, providing villagers an opportunity to relay information about the project to be shared at the meetings, without fear of retaliation. (See chart below)

*Experimental Treatments by Group:*

<b>Group</b>	<b>Audit Probability</b>	<b>Accountability Meetings</b>	<b>Invitations</b>	<b>Comment Cards</b>	<b>Villages</b>
Audit	100%	x			93
Participation I	4%	x	x		105
Participation II	4%	x	x	x	106
Audit & Participation I	100%	x	x		94
Audit & Participation II	100%	x	x	x	96
Comparison	4%	x			114

Corruption was measured by comparing the researcher’s estimate of what the project actually costs, determined by the quantity of materials used and estimate of material prices and wages paid on the project, to what the village reported it spent on the project on an item by item basis.

### **Results and Policy Lessons**

The evidence suggests that increasing the probability of external audits substantially reduced missing funds in the project. Increasing the probability that a village was audited by the central government from 4 percent to 100 percent reduced missing expenditures by about eight percentage points, from 27.7 percentage points to 19.2 percentage points. One reason that the decrease was not larger is that a 100 percent audit probability does not imply that village officials face a 100 percent probability of detecting corruption and imposing a punishment. In fact, although auditors found violations of some

type or another in 90 percent of the villages they visited, the vast majority of these violations were procedural in nature, and there were very few, if any, cases in which the auditors had enough concrete evidence to actually prosecute offenses.

The invitations increased the number of people participating in the accountability meetings by an average of 14.8 people, or about 40 percent; slightly more than by including a comment form, since many villagers used the form as a substitute for attendance. Villages that received the invitations intervention were more likely to openly discuss corruption problems at the accountability meetings, and villages receiving both invitations and comment forms were more likely to take serious action at the meeting to resolve corruption-related problems. However, the magnitude of these changes in behavior at the meetings was small, and these treatments did not measurably reduce overall missing expenditures, yet they did have an effect on certain types of expenditures in some cases. For instance, the invitations substantially reduced missing labor expenditures, and the comment forms did reduce missing expenditures in some cases, but only when they were distributed via schools, bypassing local officials. This study provides evidence that community participation, widely viewed as a panacea for development projects, impacts levels of corruption only under a limited set of circumstances, and pains must be taken to prevent elite capture for it to be an effective means of reducing corruption.

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