

HOW TO TACKLE INSTITUTIONALIZED CORRUPTION IN THE WATER SECTOR

LESSONS LEARNED FROM THE IRRIGATION SECTOR IN INDONESIA

By Michael Dunford, Diana Suhardiman, and Peter Mollinga



Photo: Diana Suhardiman

BACKGROUND

This joint WIN-IWMI brief discusses the characteristics of corruption in the Indonesian irrigation sector. It is based on a journal article by Diana Suhardiman and Peter Mollinga entitled: 'Institutionalised corruption in Indonesian irrigation: An analysis of the *upeti* system', published in *Development Policy Review* in 2017 (see DOI: 10.1111/dpr.12276).

This brief seeks to identify the characteristics of Indonesia's *upeti* system and to demonstrate the need for a critical, politically and culturally oriented approach to understanding corruption. This is necessary to meaningfully tackle the problem of institutionalized corruption and move beyond mainstream technocratic reform in the development sector.

1. INTRODUCTION

Institutionalized corruption is prevalent throughout the water sector globally, including the irrigation sector (Water Integrity Network, 2016; Transparency International, 2008; Wade, 1982). Thus far, the dominant approach to tackling corruption has been driven by neoliberal economic approaches. This approach assumes that corruption will disappear of its own accord if public servants' salaries and benefits are sufficient. The Indonesian case study contests the assumed causality and highlights the role of politics and culture in shaping institutionalized corruption. It shows that corruption practices have been cast in the centuries-old cultural idiom of the *upeti* system, a complex web of power relations clad in a gift-giving discourse, in which subordinates are expected to funnel resources upwards to their superiors. For this, loyal subordinates are rewarded with so-called 'wet' positions within the bureaucracy. 'Wet' positions are positions with access to the government development budget and project funds, the latter being the financial source for institutionalized corruption. Addressing corruption in this context requires a better understanding of the political and cultural dimensions of corruption, beyond individual actor's economic incentives to be engaged in corrupt practices.

2. CORRUPTION AND IRRIGATION DEVELOPMENT: A LONGSTANDING BUT UNDER-RESEARCHED PHENOMENON

Prior to Suhardiman and Mollinga (2017), the only extensive academic analyses of corruption in the irrigation sector were those conducted by Robert Wade in the 1980s (Wade 1982; 1985). That said, the issue of corruption has recently been given more systematic attention by groups such as Transparency International in their Global Corruption Report (2008) and more recently, by the Water Integrity Network through the Water Integrity Global Outlook 2016. Still, these works do not address the political and organizational foundations of corruption in general, and for the water sector more specifically.

Wade's work contains some profound insights for researchers and policymakers who intend to address the issue of corruption in the irrigation sector in particular, and the water sector more generally. Based on his field work in Andhra Pradesh, India, Wade discovered that irrigation agency officials used money generated through corruption to influence the bureaucratic transfer process, a system that is generally considered opaque (Wade, 1985: 475). In the absence of a competitive job market, and with an administratively rigid promotion and transfer system,

an internal 'market for public office' emerged, in which good and lucrative positions would be awarded to the highest bidder. As irrigation projects generally require a large financial input for the construction, maintenance and rehabilitation of infrastructure, irrigation officials had ready access to funds that could be used for career advancement.

The reproduction of the logic of this type of administrative corruption not only depends on factors internal to the bureaucracy: bureaucratic discretion over contracts and the bureaucratic career system, but also on the link with and embeddedness in the political system. Wade elaborated that in the Indian bureaucracy, the members of the political arm of the state are the 'top managers' of the transfer system and accumulate considerable amounts of money generated by auctioning transfers. This money is used for financing election campaigns (sometimes including direct financial payments to develop followings/buy votes), to develop support in between elections, and to satisfy financial demands of higher levels in the political system (like federal state level parties having to contribute to the funding of national campaigns of their party).

Unlike the 'neo-institutionalist' approaches to corruption, which tend to focus on economic means of mitigating opportunities for rent-seeking presented by irrigation projects, Wade chose to focus on the political structure and organizational culture of the Indian bureaucracy. Building on Wade's earlier work and analysis, Suhardiman and Mollinga (2017) apply a social and political approach to rent-seeking in the Indonesian irrigation bureaucracy. It brings to light the unique features—the political rationales and cultural dimensions—that create and sustain corrupt practices within the irrigation bureaucracy.

3. THE UPETI SYSTEM WITHIN THE INDONESIAN GOVERNMENT'S BUREAUCRATIC SYSTEM

3.1. The *upeti* system: a modern traditional form

In Indonesia, corruption is practiced by strategically blurring 'bribe' with 'token of appreciation'. This has its roots in the *upeti* system (Wertheim, 1970). Taken literally, *upeti* refers to 'tribute to the king from his followers'. In the feudal period, *upeti* would have been paid to a king in return for protection and the maintenance of stability; a king's power would in turn be measured by the amount of *upeti* he received from followers. In modern Indonesia, *upeti* refers to the delivery of *upeti* (in cash and kind) to high-ranking officials in return for desirable bureaucratic positions. Although the practice was established in the late 1960s

during Soeharto's New Order government, it remains an integral feature of Indonesian bureaucracy today.

As regards order of magnitude of *upeti* practice across ministries and sectors, the former Executive Director (Rizal Ramli) of the Indonesian Economics, Industry and Trade Advisory group estimates that thirty percent of the total amount of foreign loans received by the Indonesian government until 1997 (that is almost US\$ 13 billion) has been lost through corrupt avenues at the national level (Bisnis Indonesia newspaper, 3 September 1998).

3.2. *Upeti*: compulsory and enforced

In modern-day Indonesia, the *upeti* system is embedded in 'the unification of official and private life within the Indonesian bureaucracy' (Ibid.). High-ranking officials receive project funds and loyalty from subordinates; in turn, they grant official favors such as promotions or lucrative transfers, while also ensuring subordinates' personal needs (e.g., healthcare, education, and vacation expenses). In order to access these benefits, subordinate officials are expected to behave in line with the expectations of their superiors—including following the expectations of *upeti* contribution from project funds.

The interpersonal power relations between officials engaged in corrupt practices with their supervisors are best explained by 'social cocoons', a term borrowed from Ashforth and Anand (2003). In the Indonesian irrigation bureaucracy, 'social cocoons' consist of two layers: at the national level, the cocoon contains the Minister and his/her most trusted officials; at the sub-national/regional level, the 'social cocoon' consists of the irrigation agency head and his/her provincial- and district-level allies. These cocoons are political in that they serve as conduits of power, but also social in that they are formed through personal allegiance. They work together to set the guidelines of *upeti* delivery and insulate the *upeti* system from outside scrutiny.

3.3. The mechanisms of *upeti* delivery

Upeti collection and distribution is a multi-stage process. In the case of Indonesia's irrigation agencies, *upeti* delivery originates with the project head, who is usually selected based on his or her amenability to the *upeti* system—indeed, they are often referred to informally as an 'ATM' (Ibid.). After taking a certain percentage from the total allocated project funds and distributing this equally among his/her supervisors and other high officials, the project head would channel the remaining funds to the provincial irrigation agency, which then will also take a cut of the funds, before channeling it to district level government. There, it is customary for project heads to keep two

sets of accounting records: an 'official' book, which is the source of the project's financial reports, and an 'unofficial' book, which accounts for *upeti* extraction.

4. A PARADIGM SHIFT IN ANTI-CORRUPTION PRACTICE

Current discussions on corruption in the water sector must evolve from those strongly dominated by economic approaches, to include more nuanced political, cultural, and anthropological aspects of corruption. By demonstrating the socio-cultural embeddedness of corruption in Indonesia, Suhardiman and Mollinga (2017) show that participation in corruption may not be caused by rational self-interest as much as it is caused by the expectations and informal rules within the government bureaucracy. In the *upeti* system, participation in corruption is required not only for the maintenance of one's political and bureaucratic career but also for the continuation of one's social relationships.

As the *upeti* system forms an integral part of organizational operations in Indonesian irrigation agencies, both external and homegrown anti-corruption efforts are bound to fail if they rely on mainstream ideas about corruption. To put it another way, as long as a culture of gift-giving and interpersonal loyalty linked to institutionalized corruption prevails in the Indonesian bureaucracy, conventional ideas and interventions to eradicate corruption will do little to address the issue. Future anti-corruption efforts in Indonesia must take a more critical approach to corruption. Instead of modifying the procedural aspect of the bureaucratic irrigation institutions—e.g., imposing stricter auditing requirements or raising officials' pay—anti-corruption measures should be targeted on the need to change the irrigation agency's organizational culture.

While emphasizing the 'systemic' character of corruption may lead to a perspective that argues only large-scale whole system change can reduce or eradicate corruption, Suhardiman and Mollinga (2017) argue that as all social systems, systemic corruption is also produced and reproduced in myriad everyday practices. Therefore, change, in principle at least, can also start from reconfiguring some of these everyday practices. As expressed by a mid-level official from the irrigation agency:

'A shift from infrastructure-oriented development to field-level interventions to improve service provision towards more equal water delivery could serve as the first building block to contest corruption rules by including farmers into the overall equation' (interview with mid-level official from the irrigation agency, 2004).

Looking externally, international donors would be wise to develop a 'theory of change' based on the critical cultural and political approach employed by Suhardiman and Mollinga. Specifically, it is important for international donors to remember that the cultural and political structure of the Indonesian irrigation bureaucracy is not impervious to outside forces. International donors and policymakers could help strengthen 'change agents' by working together with accountable agencies and institutions that would act both as partner and third-party observer. Ideally, in addition to providing funding for irrigation projects, donor organizations could play an active role in strengthening irrigation agencies' service provision role and its accountability towards farmers. This will only come if donors are willing to look beyond mainstream economic approaches to fighting corruption, and challenge the *upeti* system on the social field.

There is always a risk that anti-corruption measures—whether homegrown or externally driven by a donor—will be twisted to serve powerful interests. The *upeti* system in Indonesia is an integral part of Indonesian bureaucracy, and removing it from bureaucratic practice will require social and political change on a massive scale. Indeed, combining people's power and donors' commitment with accountable political leadership remains the key structural challenge in fighting institutionalized corruption across the globe (Khan, 2005; Gunn, 2014). It will certainly be possible to increase the accountability of political leaders in line with the expansion of people's power, but creating an environment where this can happen will require a massive shift in the ways that corruption is discussed and in the types of measures that are taken to eradicate it.

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ABOUT THE AUTHORS

Michael Dunford is lecturer in Anthropology at the Parami Institute of Liberal Arts in Yangon, Myanmar. He researches the ideological effects of international development in Southeast Asia, with particular attention to Laos and Myanmar. His MA research analyzed the long-term political consequences of Soviet educational aid in Lao. In Myanmar, he is examining how new capital flows effect Yangon dwellers' ideological relationship to food.

Diana Suhardiman is a Senior Researcher at the International Water Management Institute based in Vientiane, Laos. Putting power and politics as central elements in water governance debates, her research highlights the complex and contested nature of water governance across scale, from transboundary to local. Focusing on multilevel policy and institutional analysis, and working at the intersection of land, water, environment and energy in various basins in Asia (Mekong, Salween, Mahakali, Indus), her research contests the predominantly apolitical approach to economic development as a means to benefit the greater common good, and the way transfer of knowledge and technology are framed merely as technical, managerial issues.

Peter Mollinga was trained as an irrigation engineer at Wageningen University, the Netherlands. His PhD is on the political economy of irrigation water management in South India. He is Professor of Development Studies at SOAS University of London, London, UK. His research fields are water governance and water politics, agrarian change and technology, and inter- and transdisciplinary approaches to natural resources management. His geographical focus is Asia, particularly South Asia and Central Asia. He is one of the three founding editors of Water Alternatives. An interdisciplinary journal on water, politics and development.

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<http://www.waterintegritynetwork.net>
<http://www.iwmi.cgiar.org/>

Contact:

info@win-s.org
@WaterIntegrityN

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Water Integrity Network e.V.

Alt Moabit 91b, 10559 Berlin, Germany