

Corruption in the Indonesian arms business: tentative steps towards an end to impunity

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Introduction

The arms trade is one of the most corrupt legal businesses in the world. A combination of factors, including secrecy, the enormous value and complexity of major arms deals, the eagerness of exporters to grasp infrequent high value opportunities, the close relationship of the arms business with top-level power politics, and the national security exceptionalism that often shields military matters from scrutiny, all make the arms business particularly susceptible to corruption. Beyond procurement, the military sector in general can often be a haven for corrupt practice, especially in countries where the military wields, or has recently wielded, political power or influence.

In Indonesia, the military has long been regarded as highly corrupt, in spite of the country's relatively successful transition to democracy since the fall from power of long-time dictator President Suharto in 1998, and the military's subsequent withdrawal from the political sphere. Military reform has achieved considerable success overall, but has been severely limited in the economic sphere, where the military retains considerable autonomy. Very little detail is provided of the annual defense budget, and systems of monitoring, control, and accountability are weak. Transparency International's Government Defence Anti-Corruption Index for 2015 gave Indonesia a 'D' rating, indicating a high corruption risk.

Brokers and middlemen, frequently the conduit for corrupt payments from suppliers to decision-makers in international arms deals, are active in most procurement processes from a very early stage, creating ample opportunities for decisions to be distorted by corruption, from the setting of initial requirements to the final contract award. Despite this, before 2015 there were virtually no cases of military officers or defense officials being investigated in relation to corruption, and none in relation to arms procurement.

Military personnel remain exempt from the civilian justice system, which means that the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*, KPK), which has been very active in other spheres since its foundation in 2002, is unable to directly investigate military corruption.

The Indonesian military also retains a large network of business activities, formal, informal, and illegal, providing an off-budget source of income outside civilian control that is particularly susceptible to corruption. These businesses exist despite a 2004 law requiring all of the military's economic activities be ended or transferred to the state. The law was never properly implemented; a 2009 decree for that purpose in fact left much of the military business empire intact.¹

This paper examines the problem of corruption in the military sector in Indonesia in the post-Suharto era, in particular in relation to arms procurement, and discusses the significance of recent tentative signs of greater efforts by the Indonesian civil and military authorities to address the problem. It illustrates three crucial points about democratization and corruption in the arms trade.

First, the slow progress made in this area illustrates the difficulty of tackling deeply entrenched systems of corruption that appear to be a fundamental aspect of 'how things are done', of the systems of reward and patronage for senior military officers, politicians, and/or government officials. The Indonesian case is instructive in enabling us to delve more deeply into the question of how military corruption functions within Indonesia's particular 'syndrome of corruption'. The political scientist Michael Johnston² classified Indonesia in the era of military rule as a system in which government officials and their protégés plundered the country's

resources with impunity, where institutions and political competition were limited, while control over resources was contested. Within the framework of the 'political marketplace'³ it was a political market characterized by collusive management of power among oligopolists. In such a system of managed rivalry, the price of loyalty was low so that relatively small political spending on patronage was needed to maintain client networks, and no political spending on financing electoral campaigns was necessary. Corruption was therefore a matter of personal enrichment not political financing (unlike in countries like South Africa, where it is both).

Second, while democratization opened the public political sphere to intense competition, and thereby energized corrupt dealings in the commercial and political party spheres for campaign finance, the military remained separate from this deregulated political arena. Thus, despite the military's relinquishing of political power and direct influence, army officers have continued to enjoy most of their financial privileges, including kickbacks on arms deals that continued to be corrupt, but this corruption appears to be largely separate from the corruption associated with competitive politics.

Third, and more optimistically, the Indonesian case also provides some possible pointers for how inroads can be made into such entrenched privileges and corruption, by starting on some of the most egregious cases, thus breaking the seal of blanket military immunity, and through close cooperation between the civilian anti-corruption authorities and the military justice system.

¹ Marcus Meitzner and Lisa Misol, "Military Businesses in Post-Suharto Indonesia: Decline, Reform and Persistence," in Rüländ, Manea, and Born (eds.), *The Politics of Military Reform: Experiences from Indonesia and Nigeria* (Heidelberg: Springer, 2013), pp. 113-114.

² Michael Johnston, *Syndromes of Corruption: Wealth, power and democracy* (Cambridge: Cambridge University Press, 2006).

³ Alex de Waal, *The Real Politics of the Horn of Africa: Money, war and the business of power* (Cambridge, Polity, 2015).

Section 1 briefly reviews the background of the military's role in Indonesian politics, and the post-1998 reform process. **Section 2** discusses the key issues relating to the transparency and accountability of the military in the financial and economic sphere in the post-Suharto era, including the ongoing practice of military self-financing activities, and the endemic problems of corruption in military procurement. **Section 3** examines patterns of Indonesian arms procurement in recent years, and specific red flags for corruption raised by some major deals. **Section 4** discusses the limited number of alleged military corruption cases on which there is information in the public domain, and in particular the cracks that have appeared in military impunity since 2014. Finally, **Section 5** analyzes the significance of these cases, in the context of both Indonesia's domestic politics and the global context of the arms business, and discusses some of the key questions arising from them: do these cases represent a sea-change in the tolerance for military corruption in Indonesia, or are they just the tip of the iceberg? And what factors have led to the apparent change in the treatment of military corruption.

1. Indonesia's Powerful Military and the Reform Process⁴

The armed forces (The *Tentara Nasional Indonesia*, TNI) became the leading political player in Indonesia following a 1965 military coup that sidelined former President Sukarno and elevated General Suharto. The military crushed all opposition, perpetrating a brutal extermination campaign against Communists and suspected communist sympathizers, and subsequently brought Suharto in power. It adopted a *Dwi Fungsi*, 'dual function' doctrine, which gave military officers a leading role in internal politics, as

guardians of the nation. The military's 'territorial command structure' ensured a presence down to the village level, creating a parallel governance hierarchy to the civilian administration, giving it strong influence at all levels of politics. Military officers were represented not just in the national parliament, but also in regional and local legislatures and administrations at all levels.

The overthrow of Suharto by mass popular protests in 1998 was followed by a democratic transition and a widespread popular reaction against the power and abuses of the military, leading to strong pressure for reform. In 1999, the military formally abandoned the dual function doctrine, while the police were separated from the military command structure and became an independent agency, taking responsibility for domestic security. The military's political power eroded, with military representation in parliament (as well as sub-national legislatures) ending in 2004. Officers were required to retire before running for elected office. The military also severed its previously strong links with the former ruling political party. Parliament passed two laws on national defense in 2002 and 2004, defining the military's role as upholding national sovereignty and territorial integrity, defending against internal and external military threats. The MoD was given authority over the military, with a civilian minister. The 2004 law also required the transfer of all military business assets to the state, although this has never been fully implemented (Section 2).

Other significant gaps in the reform process remain. The military has retained its territorial command structure, in part to create new mid-career positions for officers, resulting in continuing informal influence at the local level.⁵ While the MoD is led by a civilian, it is to a substantial extent staffed by active and retired military officers, with limited civilian capacity.

⁴ Most of the information in this section can be found in Leonard C. Sebastian and Isgindarsah, "Taking stock of military reform in Indonesia", in Rüländ, Manea, and Born (eds.), *The Politics of Military Reform: Experiences from Indonesia and Nigeria* (Heidelberg: Springer, 2013), pp. 29-56.

⁵ Evan A. Laksmana, "Indonesia's Modernizing Military," *Foreign Affairs*, Sep. 3, 2015, <https://www.foreignaffairs.com/articles/indonesia/2015-09-03/indonesias-modernizing-military>. (footnote continued)

Parliamentary oversight of defense issues, led by the Parliament's Commission I on defense, security and foreign affairs, is restricted by a lack of civilian expertise. A positive step in terms of policy formation was the publication of a Defence White Paper in 2008, and the establishment of clear procurement priorities through the 'Minimum Essential Force' policy, aimed at equipping the military to patrol and defend the sprawling Indonesian archipelago. The 2015 follow-up incorporated President Joko 'Jokowi' Widodo's vision of Indonesia as a Global Maritime Fulcrum, although just what this concept means has not been elucidated.⁶

There are some signs that the military has been regaining influence in recent years, largely due to the weak political position of President Joko Widodo (known as Jokowi), leading to him seeking the favor of the military to support his position. Nonetheless, most analysts see no prospect of a return to a direct involvement of the military in politics.

2. The Indonesian military economy: low transparency, off-budget funding, and systemic corruption

The progress Indonesia has made in ending the military's political role has not been matched when it comes to the TNI's privileges and autonomy in the economic sphere. Likewise, transparency in military spending remains poor—though recently improving—and corruption rife. Transparency International's Government Defence Anti-Corruption Index for 2015 rated Indonesia in band D, indicating a high risk of corruption.⁷ There are several dimensions

to this lack of transparency and accountability in Indonesian military spending and procurement.

2.1. Budgetary transparency

Publicly available information on Indonesia's military spending is, or has been until very recently, limited. The greatest degree of detail available in state budgets and other public documents is a breakdown of the budget by category (personnel, operations and maintenance, procurement) and by service (army, navy, air force, central MoD spending). Until recently, detailed budgetary information was seldom provided. However, the 2017 budget presented spending with additional granularity, broken down into 27 programs and giving spending on categories such as infrastructure, equipment, operations, and more for each service, as well as various other activities such as strategy, planning, development of the defense industry, and education. While still falling short of a fully transparent budget, this is a significant improvement.

The defense budget is subject to auditing by the Supreme Audit Authority (BPK), although these reports are not made public. The 2009 audit found significant 'irregularities' in the operational spending it examined, but there is no indication that this was followed up, and the BPK does not have any enforcement powers in relation to the military.⁸

2.2. Military business

Not all of the funding for the Indonesian military comes from the defense budget. An unknown additional amount is derived from the TNI's self-financing activities, including its ownership, through a network of foundations and cooperatives, of over a thousand commercial businesses; private leasing of military-owned or controlled land; payments by local

⁶ Defence Ministry of the Republic of Indonesia, "Defence White Paper 2015," November 2015, <https://www.kemhan.go.id/wp-content/uploads/2016/05/2015-INDONESIA-DEFENCE-WHITE-PAPER-ENGLISH-VERSION.pdf>.

⁷ Transparency International, "Government Defence Anti-corruption Index 2015, Indonesia," n.d.,

<http://government.defenceindex.org/countries/indonesia/>.

⁸ Sebastian and Iisgindarsah, "Taking stock of military reform in Indonesia", p. 48. *(footnote continued)*

and multi-national companies for security services; and profits from illegal activities such as logging. These off-budget funding activities fall completely outside government scrutiny and control, and carry particularly high risks of corruption, even when the activities are not already illegal themselves. TNI self-financing activities have also been associated with human rights abuses.⁹

While the Indonesian armed forces engaged in economic activities from its beginnings as a guerilla movement fighting for independence, the military's business empire expanded massively following the coup that brought the dictator General Suharto to power in 1965. Military officers were given stakes in and control of state-owned companies, as well as businesses at regional and local level. They also acted as 'gatekeepers', controlling access to licensing and markets at the local level, so that private businesses frequently had to go into partnership with military officers to operate.

The military business empire declined from the late 1990s, thanks more to the Asian financial crisis and mismanagement than to democratization. Many of the major business activities disappeared or were greatly reduced in value.¹⁰ The transition to democracy restricted the military's ability to exercise a gatekeeper role.¹¹ The resolution or successful suppression of separatist conflicts also extinguished some opportunities for rent-seeking.

Nonetheless, significant self-financing activities remain. Formal business activities are organized through a collection of 23 foundations and over 1000 cooperatives, which hold stakes in businesses, according to a 2008 inventory. The foundations are

tax-free entities owned by the various service branches, TNI headquarters, and the MoD. The 'charitable' cooperatives are locally organized, supposedly controlled by the soldiers that are their members, but in practice run by senior officers. Theoretically, the profits of these foundations and cooperatives should enhance soldiers' welfare but the great majority goes to senior officers. According to an audit in 2008, these foundations and cooperatives had collective gross assets of about USD 350 million and made annual profits of about USD 28.5 million.¹²

A 2004 law requires the TNI to withdraw from all business activities, and for the state to take over all military businesses by 2009. However, the law was vague in its scope, and carried no enforcement or implementation mechanisms. In 2009, just before the expiration of a deadline, President Susilo Bambang Yudhoyono enacted a decree supposedly implementing the law, but which actually allowed the military to retain indirect ownership of businesses, including through the foundations and cooperatives; by this time, this category included all of the military's formal, legal business activities. Indonesian Finance Minister Muhamad Chatib Basri stated at the World Economic Forum in 2014 that the military role in the economy would be "phased out" but provided no details or timeline.¹³

2.3. Other self-financing activities

Leasing of military-owned land is another form of self-financing. One provision of the 2009 decree required that the TNI obtain licenses for all land leases to third parties, and that all proceeds from such leasing be returned to the state. But a 2012 report found that this was not happening, that the TNI had only obtained

⁹ This section draws on Lisa Misol, "Too high a price: the human rights costs of the Indonesian military's economic activities", Human Rights Watch, June 2006, <http://www.hrw.org/en/reports/2006/06/20/too-high-price>; and Meitzner and Misol, "Military Businesses in Post-Suharto Indonesia," pp. 101-122.

¹⁰ Misol, "Too high a price," pp. 14-15.

¹¹ Jacqui Baker, "The Parman Economy: Post-Authoritarian Shifts in the Off-Budget Economy of Indonesia's Security Institutions," *Indonesia*, No. 96, (Oct. 2013), pp. 123-150.

¹² Meitzner and Misol, "Military Businesses in Post-Suharto Indonesia," p. 107.

¹³ Li Xueying, "Indonesian military's role in economy 'set to be phased out'", *Jakarta Post* (online), May 23, 2014, <http://www.thejakartapost.com/news/2014/05/23/indonesian-militarys-role-economy-set-be-phased-out.html>.
(footnote continued)

permits for a small proportion of the land it was leasing, and that it was in some cases retaining the proceeds.¹⁴ In 2010, the BPK could identify at least USD 4 million in this category. Moreover, in some cases the military did not even have title to the lands it was leasing. The report mentions several cases of disputes over land ownership between the military and civilian proprietors, in some cases leading to civilians being killed by the armed forces.

Perhaps more seriously, the TNI also earns significant revenues through the provision of security services to local and multinational companies across the country. Probably the best known, and one of the largest, examples of this, is to mining company Freeport

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McMoran, which has major operations in the restive province of Papua. Resistance to Indonesian rule by native Papuans has been met with extreme brutality from the Indonesian military, as have protests against the environmental damage caused by Freeport's operations. In 2003, Freeport began to disclose its payments to the Indonesian military for security services in its annual financial report to the U.S. Securities and Exchange Commission. These payments totaled over USD 66 million by 2005. While some payments were in kind, including supplies, equipment and vehicles, company documents revealed that they had paid at least USD 20 million to individual military and police officers between 1998 and 2004. Freeport's payments to the military have

continued, with Freeport paying USD 14 million to the TNI in 2010.

The practice of local businesses, including illegal loggers, making private security payments to the TNI prevails across the country, frequently involving human rights abuses against locals engaged in land disputes or protesting over environmental destruction. At times, according to a 2006 report by Human Rights Watch, the military has essentially run local protection rackets, levying a fee on all local businesses, and sometimes entering into lethal armed confrontations with the police when the latter have moved in on the army's turf. In a 2002 case in Binjai, North Sumatra, 15 people were killed in a military attack on the local police station, leaving 11 police officers and four civilians dead.¹⁵ In addition to the immediate human rights impact, this practice is also concerning because it allows private actors to supplant national military priorities, diluting both civilian control and military effectiveness. Periodic armed clashes between the two institutions have continued, with President Widodo calling for an end to such conflicts as recently as July 2017.¹⁶

Finally, the military frequently engages directly in illegal activities, such as illegal logging and mining. In the early 2000s, the TNI was also accused of trafficking drugs.¹⁷ Illegal economic exploitation can arise as a natural extension of the provision of 'security' services to private actors engaged in the same activities. One case from 2004 involved a coal mining company that called in the military to 'regularize' illegal mining on the company's concession by private individuals.¹⁸ Instead of assisting the company, the military took over and

¹⁴ Samantha Michaels and Ulma Haryanto, "The hazy state of the Indonesian military's land," *Jakarta Globe* (online), May 14, 2012, <http://jakartaglobe.id/archive/the-hazy-state-of-the-indonesian-militarys-land>.

¹⁵ Misol, "Too high a price," p. 67.

¹⁶ "President Calls for End to Conflict Between Military, Police," *Tempo* (online), Jul 27, 2016, <https://en.tempo.co/read/news/2016/07/27/055790805/President-Calls-for-End-to-Conflict-Between-Military-Police>

¹⁷ Etel Solingen, "Global Incentives and Local Responses to Self-determination: An application to Aceh," in Richard N. Rosecrance and Arthur A. Stein (eds.), *No More States? Globalization, National Self-determination, and Terrorism* (Lanham: Rowman and Littlefield, 2006), p. 171; Lex Rieffel and Jaleswari Pramodawardani, *Out of Business and On Budget: The Challenge of Military Financing in Indonesia* (Washington: Brookings/U.S.-Indonesian Society, 2007), p. 48.

¹⁸ Misol, "Too high a price," pp. 55-63.

expanded these activities, becoming effectively the new employer of the private miners, extracting the majority of their earnings and frequently abusing them.

2.4. Corruption in procurement

Transparency International, in its 2015 Government Defence Anti-Corruption Index, reported that in Indonesia brokers are involved in arms procurement processes from a very early stage, when the parameters and specifications for the procurement are still being set. This allows them to influence those parameters in favor of the companies they work for—presumably in return for bribes being paid to the relevant decision-makers. This report merely reconfirms a long-standing consensus conclusion among observers and even senior politicians: that brokers are involved in processes as a matter of course, leading to substantial ‘mark-ups’ in the price of equipment, representing brokers’ fees. Those fees can in turn be used to fund bribes to procurement decision-makers.

Juwono Sudarsono, Indonesia’s first civilian minister of defence (1999-2000, 2004-2009), confirmed this in an interview with *Tempo* magazine in 2006.¹⁹ Asked about the practice of “special references” from generals and other senior officers in procurement processes—where certain systems are acquired on the basis of recommendations from officers—he expressed an intention to reduce and eventually eliminate the practice, but cautioned, “this needs time, because this practice has been going on for decades. In the military, those senior officers, despite their retired status, are still generals.” When the interviewer responded that “this can really trim down some resources,” he replied “It is not aimed at trimming down, but at reducing the benefits. This practice of using ‘special references’ will go on. We will reduce their excessiveness. Markups used to be 150 percent,

but they will now be reduced every six months, so they are more acceptable. We must be realistic; the road to improvement must come in stages.”

In recent years, subsequent defense ministers have claimed some success in reducing the size of mark-ups, although figures cited vary. Transparency International suggested that mark-ups were frequently of the order of 30-40%. In an interview with *The Jakarta Post* in 2011, Sudarsono said in the past, commissions had accounted for as much as 40% of the procurement budget (implying mark-ups of as much as 67%, or two thirds), but that during his tenure he had told chiefs of staff that he would tolerate “market price” fees for arms procurement of 8-10%, but not the 30-40% seen in the past. He also said, “We can only reduce procurement markups at the Defence Ministry, the TNI and the chiefs of staff headquarters, but we cannot eliminate them entirely.”²⁰

While most of the sources discussing this issue are from several years ago, there is no indication that this practice has ceased, in spite of various policies enacted to try to reduce it, such as greater reliance on government-to-government procurement deals.

3. Trends in Indonesian arms procurement

Indonesia’s arms imports have increased substantially in recent years, in conjunction with its military spending. (Figures 1, 2). Both spending and procurement increased in the mid-1990s, as Indonesia sought to enforce its occupation of East Timor, fight separatist movements in West Papua and Aceh, and repress internal dissent, before falling after 1997 as a result of the Asian financial crisis. Since 2001, the trend has been generally upwards, in spite of the transition to democracy, withdrawal from East

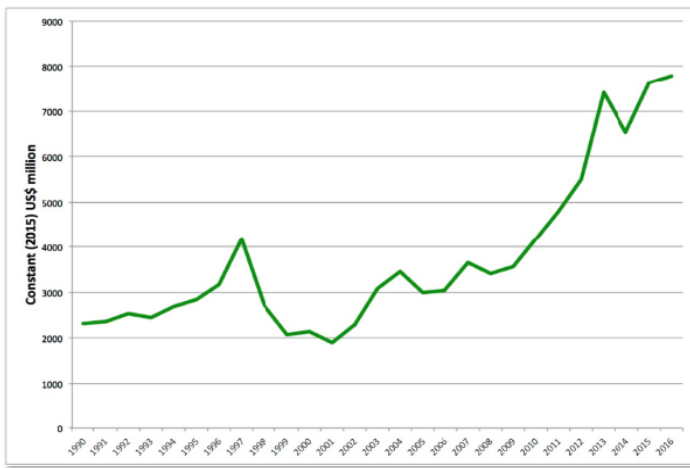
¹⁹ “The Practice of ‘Special References’ Still Goes On”, Interview with Juwono Sudarsono, *Tempo Magazine*, Feb. 7, 2006.

²⁰ Nani Afrida and Hasyim Widhiarto, “Lengthy, costly arms deals put TNI firepower at risk,” *Jakarta Post*, Oct. 6,

2011, http://www.asia-pacific-solidarity.net/asiapacific/focus/jp_lengthycostlyarmsdealsput_061011.htm.

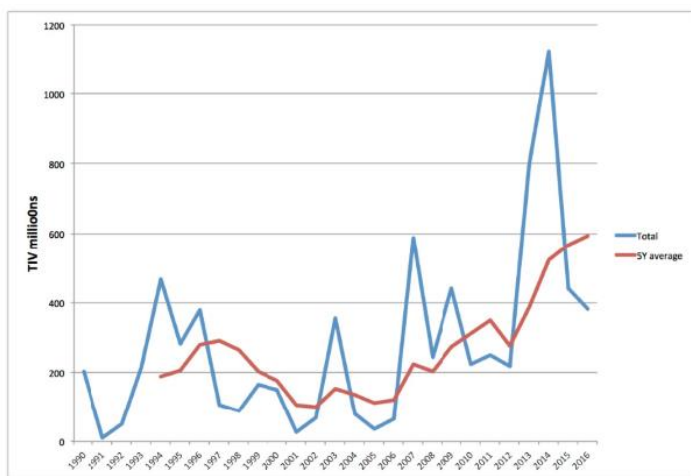
Timor in 1999, and the end of the main internal conflict in Aceh in 2007. The data for arms imports are punctuated by spikes in particular years where there were deliveries of major platforms, but the 5-year moving average shows a clear increasing trend. The increase in the defense budget and in arms procurement represents in part an effort to create a more professional force focused on traditional military missions, rather than involvement in internal

Figure 1: Indonesia military expenditure, 1990-2016



Source: SIPRI Military Expenditure Database

Figure 2: Indonesia major conventional weapons imports, 1990-2016



Source: SIPRI Arms Transfers Database. Figures are for deliveries, and are measured using SIPRI's Trend Indicator Value (TIV), which measures the volume of arms transfers, based on the assignment of the same TIV values to systems considered to be of equivalent value. It does not measure the financial value of arms transfers.

politics, but the high volume of procurement also creates new risks (or opportunities) for corruption.

Indonesia's recent arms acquisitions have been driven in part by the policy set forth in 2008 of achieving a "Minimum Effective Force" (MEF) to ensure control of the country's vast archipelagic land and marine territory. Naval and air modernization in particular have been priorities, representing something of a move away from the traditional dominance of the army in Indonesian military policies. While Indonesia remains dependent on imports for most major systems, development of the indigenous arms industry has also been a major priority, with some degree of success.

Over the period 2012-2016, Indonesia was the 14th largest arms importer worldwide, just ahead of Taiwan and Singapore, traditionally significantly larger regional importers (and still higher military spenders overall). Indonesia buys from a diverse range of suppliers, reflecting its non-aligned status and generally positive relations with most global and regional powers. Their top suppliers over the period were the UK (20% of deliveries of major conventional weapons), USA (15%), Russia (14.4%), South Korea (11%), China (9.1%), and Germany (7.6%), but they also received major conventional arms from thirteen other suppliers.

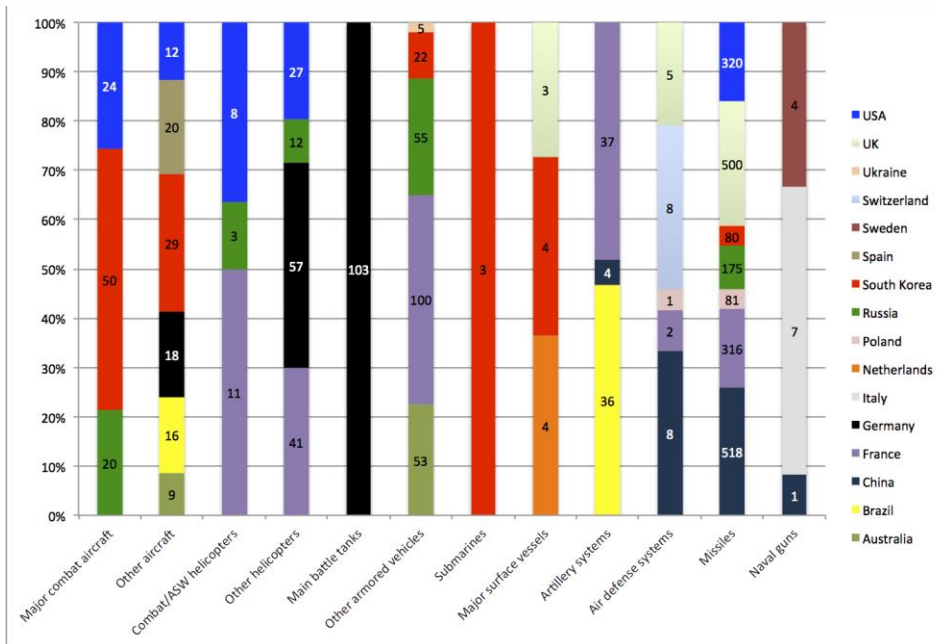
The diversity of suppliers and the prevalence of multiple small deals for similar types of equipment may also, however, be seen as a reflection of the corrupt nature of Indonesian arms procurement, with "special references" from generals, mark-ups and kickbacks. The multiplicity of deals spreads the bounty around all the military stakeholders involved in the process.

Figure 3 illustrates some of Indonesia's major orders since 2008, when the MEF policy was established. In fact, the chart understates the degree to which Indonesia's purchases have been fragmented; for example, the 20 major combat aircraft from Russia involve 3 separate deals: 3 Su-27B and 3 Su-30MK fighter aircraft ordered in 2008; 6 more Su-30MKs ordered in 2012; and 8 Su-35 fighters selected in 2016 (final contract as yet unsigned).

Many of these purchases can be explained in terms of Indonesia's MEF policy. However, some raise red flags. The 2012 purchase of 103 Leopard Main Battle Tanks from Germany for EUR216 million is hard to understand in terms of Indonesia's security situation. Indonesia faces no prospect of conventional land warfare against another state, in which main battle

heavy armor will be too heavy for Indonesian roads and infrastructure, and questionably suited to its terrain. Indonesia's fragmented geography is a challenging place to use tanks in any event, and the TNI-AD is forced to scatter its armored battalions across multiple islands."²¹ The deal was initiated by former army chief-of-staff General Pramono Edhie Wibowo, shortly before his retirement.²²

Figure 3: Orders of major conventional weapons systems by type and supplier, 2008-2016



Source: SIPRI Arms Transfers Database. Figures are for the number of each type of system ordered from each supplier.

tanks might be a factor; the internal threats the country faces do not require such large (and hard to transport) vehicles. For low-intensity conflicts involving terrorist groups, lightly-armed insurgents, or inter-ethnic conflict, a larger number of smaller and more mobile armored vehicles would seem more appropriate. Defense Industry Daily reports: "There are some concerns within Indonesia that the new

One deal currently under final negotiation, for eleven Sukhoi Su-35 combat aircraft, one of the most advanced Russian aircraft, also raises questions, and echoes a previous suspect Sukhoi deal in 2003 (see below). While a final contract remains pending, a Memorandum of Understanding was signed in August between Russian state arms holding firm Rostec and Indonesia's state-owned trading company PT Perusahaan Perdagangan for a counter-trade arrangement whereby Indonesia will trade rubber, coffee, palm oil, tea, and other commodities to cover half of the \$1.14 billion value of the prospective deal.²³ The contract is also expected to involve offset arrangements equal to 30% of the

deal's value. Countertrade provides fruitful opportunities for corruption, as the purchase of the commodities to be traded can be steered toward businesses connected with political and military decision-makers. According to Helena Varkkey, the Indonesian palm oil plantation industry is controlled by an extensive political patronage network. Companies retain the services of former senior

²¹ "Rolling Sales: Indonesia Becomes the Latest Buyer of German Tanks," Defense Industry Daily (website), Nov. 17, 2013, <https://www.defenseindustrydaily.com/rolling-sales-indonesia-becomes-the-latest-buyer-of-german-tanks-013042/>.

²² "TNI to Get First Delivery of Leopard Tanks," JakartaGlobe (online), June 23, 2014, <http://jakartaglobe.id/news/tni-get-first-delivery-leopard-tanks/>

²³ Bradley Wood, "Opinion: Indonesia's SU-35 countertrade deal: Worth its weight in jet fighters?" *The Jakarta Post* (online), Sep. 27, 2017, <http://www.thejakartapost.com/academia/2017/09/27/indonesias-su-35-countertrade-deal-worth-its-weight-in-jet-fighters.html>.
(footnote continued)

government and military officials to secure the right connections for contracts and favorable treatment. One major palm oil company is 30% owned by the military, and has several retired officers on its board.²⁴

In discussing Indonesia's arms purchases, the role of Indonesia's domestic arms industry should not be ignored. The country has made significant advances in shipbuilding in particular, with the state-owned shipbuilder PT PAL producing numerous vessels from both indigenous designs and under license from foreign sellers, including some of the frigates ordered from the Netherlands and submarines from South Korea. Nonetheless, Indonesia remains very much dependent on imports for most of its major military equipment.

4. Corruption investigations in the post-Suharto era

Despite, or perhaps because of, the apparent prevalence of brokers and commissions in procurement, there are very few specific cases in the public domain of corruption in arms procurement, certainly until the past three to four years. Given the high volume of Indonesian procurement in recent years, from a wide range of sellers, some of them raising clear red flags, it is hard to believe that this reflects a lack of a problem. Rather, it suggests a set of practices so normalized and embedded within the system that it is simply accepted, albeit reluctantly, as an inescapable reality—as the above-mentioned interview with former defense minister Sudarsono implies. Another major limitation in tackling corruption in the military is the fact that serving military officers come under the jurisdiction of the

military justice system, rather than the civilian system.²⁵ In particular, the KPK, which has been very active and successful in investigating and prosecuting corruption in other areas of government, including even the police and parliament, does not have the authority to investigate cases involving the military.²⁶

The first decade and a half since the fall of Suharto saw very few military corruption investigations, and none in procurement that led to any prosecutions. More recently, a series of cases suggests a greater willingness of the military authorities to investigate and prosecute at least some corruption cases, and to work with civilian authorities, in particular the KPK. In comparing the most recent anti-corruption investigations in Indonesia against the handful of earlier cases, the most striking change has been the shift toward formal investigatory and judicial processes. A discussion of the Sukhoigate scandal of 2003, which helped ensure the political demise of President Megawati Sukarnoputri, shows the extent to which anti-corruption was used as a political tool in the early post-Suharto days.²⁷

4.1. Sukhoigate: a Political Anti-Corruption Investigation

The Sukhoigate scandal centered around one question: why did the president decide to avoid normal procurement procedures to buy four Sukhoi jets and two helicopters in April 2003? To her defenders, the answer was that Megawati and her sharp-minded minister of trade and industry, Rini Soewandi, sought to avoid the commissions involved in normal arms procurement deals while saving Indonesia valuable foreign currency through a countertrade arrangement. For the opposition, Soewandi crafted the deal to provide mark-up

²⁴ Helena Varkkey, "Patronage politics as a driver of economic regionalisation: The Indonesian oil palm sector and transboundary haze," *Asia Pacific Viewpoint*, Vol. 53, No. 3 (Dec. 2012), pp. 314-329.

²⁵ The housing fund embezzlement case discussed above appears to have been tried by a civilian court with military judges on the panel, as the case involved both military officers and civilians.

²⁶ Marcus Meitzner, "Indonesia's Democratic Stagnation: Anti-Reformist Elites and Resilient Civil Society," *Democratization*, Vol. 19, No. 2, (Apr. 2012), p. 214; on the success of the KPK, see Jamie S. Davidson, "Indonesia's New Governance Institutions: Accounting for their Varied Performance," *Asian Survey*, Vol. 56, No. 4, (July-Aug. 2016), pp. 662-663.

²⁷ Rüländ and Manea, "The Legislature and Military Reform in Indonesia," p. 136.

opportunities for businessmen close to the president, and kick-backs to fund the president's re-election campaign. A parliamentary investigation into the controversy concluded in a matter of months that there was little solid evidence of corruption, but a separate legal inquiry into the matter was never pursued.

During the Suharto period, Indonesia was primarily reliant on the United States and its allies for major weapons systems, but a US embargo resulting from Indonesia's actions in East Timor led them to seek alternative suppliers, in particular Russia, to which Megawati travelled in April 2003 to discuss military purchases. Funding, however, was a major issue. The director-general of the Ministry of Finance, Anshari Ritonga, told reporters that he was not aware where the money for any major arms procurements would come from.²⁸ Nonetheless, Megawati was able to announce at the end of her trip that Indonesia would be acquiring two Su-27 jet fighters, two Su-30 variants, and two Mi-35 military helicopters at a total cost of USD 197 million. General Endriartono Sutarto, the head of the military, told the press that the order might expand to 48 Sukhoi jets in total.²⁹

The first two planes arrived in August that year, but Defense officials later revealed that the planes were not ready for duty, as they lacked both avionics and missiles.³⁰ As late as 2006, the Indonesian government was still seeking a supplier for these critical subsystems.³¹

Long before it became public knowledge that the planes were unfit for service, controversy erupted

over how the planes were paid for. The proper procedure for arms acquisitions should involve the ministries of defense and finance, followed by parliamentary approval. Instead, the Sukhoi deal was handled by the trade and industry minister, Soewandi, a Megawati protégé, and the State Logistics Agency, known as Bulog. Gen. Sutarto, the TNI chief, approved the arrangement, but the defense minister was left out of the discussions.³²

This unorthodox arrangement may have been linked to the countertrade deal by which the planes were paid for, whereby, following a USD 26 mn cash down-payment, Indonesia would supply Russia with 30 categories of goods, including coffee, rubber, chocolate, and electrical appliances.³³ Critics alleged that such an arrangement created numerous opportunities for millions of dollars in side-deals.³⁴ A more sinister accusation suggested that the resulting kickback opportunities might be used to replenish Megawati's 2004 re-election campaign fund.³⁵ In August, opposition parliamentarians alleged that the government had been informed by both the Finance Ministry and the National Planning Agency that the exclusion of the defense ministry and parliament in the deal's negotiation would break several laws.³⁶

President Megawati took the position that laws had to be sidestepped in order to accelerate the purchase, which was necessary given the obsolescence of the air force's fleet.³⁷ Aides added that the entire controversy was a political gambit designed to damage the president's image before the following year's

²⁸ Devi Asmarani, "Can Mega pay for arms purchases?" *The Straits Times*, Apr. 21, 2003.

²⁹ Pronina, "Jakarta Says it Will Buy 48 Fighter Jets."

³⁰ Robert Go, "US arms embargo? Jakarta to turn to others," *The Straits Times*, Aug. 28, 2003; and John McBeth, "Maintaining Airworthiness is Key," *The Straits Times*, Dec. 21, 2006.

³¹ John McBeth, "All the President's (four-star) men," *The Straits Times*, Jan. 21, 2006.

³² Derwin Pereira, "Jakarta unmoved by storm over jet deal," *The Straits Times*, July 5, 2003; Pereira, "Jakarta lawmakers want minister sacked," *The Straits Times*, July 10, 2003; "Sukhoi Deal Could Sink Megawati," *The Moscow Times*, June 26, 2003.

³³ Pereira, "Jakarta unmoved by storm over jet deal"; Robert Go, "Minister to face grilling over Sukhoigate next week," *The Straits Times*, July 22, 2003.

³⁴ Go, "Minister to face grilling over Sukhoigate next week"; Pereira, "Indonesian minister trades facts for politics," July 8, 2003; Pereira, "Jakarta lawmakers want minister sacked."

³⁵ Pereira, "Sukhoi-gate puts Megawati in the line of fire," June 24, 2003.

³⁶ Devi Asmarani, "Mega slammed for Sukhoi purchase," *The Straits Times*, Aug. 3, 2003.

³⁷ Devi Asmarani, "Mega slammed for Sukhoi purchase." (footnote continued)

election.³⁸ Furthermore, critics alleged, the generals were upset because they had been denied their customary side-payments.³⁹

A parliamentary investigation followed to look into the deal, interviewing both officials involved, and businessmen suspected of being beneficiaries of the arrangement. Bulog chief Widjanarko Puspoyo told a parliamentary special committee that no agents were used in the deal.⁴⁰ A businessman who participated in the deal, Anton Suleiman, admitted to previously being involved in arms transfers and close to key decision-makers, but denied all specific allegations.⁴¹

DURING THE MEGAWATI PRESIDENCY, SCHOLARS CHARACTERIZED THE PARTY SYSTEM AS A BROAD, ALL-ENCOMPASSING CARTEL THAT ENABLED PATRONAGE THROUGH ACCESS TO MINISTERIAL LEVERS OF POWER.

Critics also pointed to the possible involvement of Taufik Kiemas, the president's husband, and her son-in-law, Happy Hapsoro, as beneficiaries.⁴² None of these allegations could be confirmed, and no judicial investigation appears to have been opened.

Eventually, the special parliamentary investigation voted not to hold President Megawati and Rini Soewandi responsible for the suspected wrongdoing.⁴³ By this point, Megawati had been damaged politically by multiple scandals, so the value to the president's opponents in pursuing the Sukhoi case may have diminished. Alternatively, some observers

have argued that the decision to drop the investigation was motivated by parliamentarians' desire to stay in the executive's good graces in order to reap the benefits of the consensus-based system of patronage that characterizes Indonesian governing coalitions.⁴⁴ During the Megawati presidency, scholars characterized the party system as a broad, all-encompassing cartel that enabled patronage through access to ministerial levers of power.⁴⁵ Megawati's successors also operated similar rainbow coalitions, which were equally effective in stymying corruption investigations.⁴⁶

4.2. Other early corruption cases

There is very little evidence in the public domain of military corruption cases being investigated before around 2014. One rare exception was the diversion in 2003 of IDR 20 billion (USD 2.3 million) in army funds intended to buy a Bell helicopter, which instead went to procuring a second-hand Fokker F-50 light transport aircraft. The army, however, never actually took ownership of the aircraft, which instead was leased from a private aircraft rental company, PT Transiwasta Private Aviation. According to media reports, the airplane was primarily used by then-Army chief of staff General Ryamizard Ryacuzu, and on occasions his wife, for personal transportation, and was not used again by the Army after he left office. The army funds were indeed paid out, but their ultimate destination could not be tracked down. The case was made public in 2006 by Ryamizard's successor, General Djoko Santoso, and led to investigations.⁴⁷

³⁸ Go, "Minister to face grilling over Sukhoigate next week."

³⁹ Pereira, "Sukhoi-gate puts Megawati in the line of fire."

⁴⁰ "Widjanarko Puspoyo: Not one cent did I accept from them," *TEMPO English*, June 24, 2003.

⁴¹ "Anton Suleiman, "Saya Tak Diajak Bicara Soal Sukhoi," *Tempo Magazine*, June 29, 2003.

⁴² "Current Data on the Indonesian Military Elite," *Indonesia*, No. 80, (Oct. 2005), p. 135, fn. 37; "Sukhoi Berselimut Kabut," *Tempo Magazine*, July 21, 2003.

⁴³ "Megawati evades Sukhoi probe as House kills resolution," *The Jakarta Post* (online), Sep. 9, 2003.

⁴⁴ Rüländ and Manea, "The Legislature and Military Reform in Indonesia," pp. 135-136.

⁴⁵ Dan Slater, "Indonesia's Accountability Trap: Party Cartels and Presidential Power after Democratic Transition," *Indonesia*, No. 78 (Oct. 2004), pp. 61-92.

⁴⁶ Stephen Sherlock, "SBY's consensus cabinet – lanjutan?" *Bulletin of Indonesian Economic Studies*, Vol. 45, No. 3 (2009), pp. 341-343. For a more nuanced and detailed examination of the party system, see Sherlock, "Made by committee and consensus: parties and policy in the Indonesian parliament," *South East Asia Research*, Vol. 20, No. 4 (Dec. 2012), pp. 551-568.

⁴⁷ "Flight of the Fokker funds," *Tempo Magazine*, No. 33/VI, April 18-24, 2006; and "General Djoko's clean up," *Tempo Magazine*, July 11, 2006.

(footnote continued)

However, the only person convicted in relation to the affair was an officer from the army's Inspectorate General, Brig. Gen. (rtd.) Heru Sukrisno, who uncovered the discrepancies in the purchase. Sukrisno was convicted by a military court in 2013 and given a six-month suspended prison sentence for forgetting to return audit documents relating to the deal, which he had legitimately borrowed, to the Inspectorate General's office.⁴⁸ No action was taken against anyone, civilian or military, involved in the deal itself.

Non-procurement corruption, some of which might be considered more serious, is on occasion punished, however. In 2007, Colonel Ngadimin Darmo Sujono, former head of the army's Compulsory Housing Contribution Fund for soldiers, was convicted of embezzling IDR 100 billion (USD 11 million) from the fund in 2005, as part of a fraudulent investment scheme promising a high rate of return. He was sentenced to nine years in prison. Also convicted were two civilian businessmen, Samuel Kristianto and Dedy Budiman Garna, sentenced to 10 and 13 years imprisonment respectively.⁴⁹ A case of an officer stealing large sums of money from a fund intended for ordinary soldiers' welfare was, of course, likely to generate more heated emotions than regular mark-ups in arms procurement deals.

4.3. Corruption investigations under the Jokowi administration

Fourteen years and two presidents since 'Sukhoigate', anti-corruption efforts in Indonesia appear to be gaining traction—even in the defense sector. The best evidence to that effect has been a string of prominent cases pursued by the KPK in cooperation with military investigators. The four cases reviewed here cover a

variety of forms of corruption, namely embezzlement, bribery of foreign customers, and domestic procurement manipulation. While they do not appear to call into question the regular practice of procurement mark-ups, they do indicate a breach in what previously was a virtually complete impunity enjoyed by the military, and a willingness to prosecute at least some more extreme cases.

Apache Helicopters/F-16s

In 2015, the inspectorate general of the Indonesian Ministry of Defence began investigating Brigadier General Teddy Hernayadi on suspicion of corruption.⁵⁰ While in charge of foreign exchange financing of military procurement between 2010 and 2014, the then-colonel had allegedly diverted funds allocated for the purchase of major defense items, including Apache attack helicopters and second-hand F-16 fighter aircraft from the United States. There was no indication, however, of corruption in the acquisition process itself.

According to a guilty verdict handed down by a military court in December 2016, Hernayadi ordered his staff to open 32 unauthorized commercial bank accounts, into which they deposited foreign currency.⁵¹ Without the permission of his superiors, Hernayadi used these accounts to provide personal loans to other high-ranking military officers, business loans to various companies holding supply or service contracts with the military, and to purchase land, cars, jet skis, motorbikes, and construction equipment for himself. The pattern described in court documents suggests that Hernayadi was a provider of finance—and therefore patronage—to both military peers and military-adjacent businesses. Rather than bribing these beneficiaries once, he established an ongoing

⁴⁸ "Fact-finder general convicted of absurd charges", *Tempo Magazine*, July 16, 2013.

⁴⁹ "Saving private contributions", *Tempo Magazine*, No. 33/VI, April 18-24, 2006; and "Tiga Terdakwa Kasus Tabungan Prajurit Divonis" [Three defendants convicted in soldiers' savings case], *Koran Tempo*, May 2, 2007, <http://www.antikorupsi.org/id/content/tiga-terdakwa-kasus-tabungan-prajurit-divonis>.

⁵⁰ Indra Wijaya, "Kementerian Pertahanan Usut Dugaan Korupsi Perwira TNI," *Tempo Magazine*, Mar. 5, 2016,

<https://m.tempoco/read/news/2016/03/05/063751044/kementerian-pertahanan-usut-dugaan-korupsi-perwira-tni>.

⁵¹ "Putusan DILMILTI II JAKARTA Nomor 23-K/PMT-II/AD/VII/2016 Tahun 2016," Supreme Court of the Republic of Indonesia website, Nov. 30, 2016, <https://putusan.mahkamahagung.go.id/putusan/33640a0852b2494b48dc3a7f5d6463e1>.

(footnote continued)

debt relationship that preserved their ties to him. In total, the court found the unauthorized financial payments had resulted in a loss of USD 12.6 million to the state. Hernayadi was sentenced to life in prison; a member of his staff, a Colonel Irwan, was also later arrested in connection with the embezzlement scheme.⁵²

PT PAL Warship sale to the Philippines

PT PAL Indonesia is a state-owned defense firm specialized in naval shipbuilding. In 2014, it won Indonesia's first ever contract to export a warship, agreeing to build two strategic sealift vessels for the Philippine navy at a price of USD 92 million. The Indonesian firm secured the tender in the face of competition from eight other shipbuilders, including major companies such as Korea's Daewoo International.⁵³ PT PAL Indonesia had previously built two ships of the same class for the Indonesian Navy, using a design developed by Korean firm Daesun Shipbuilding & Engineering Company.⁵⁴

Construction of the Philippine's new ships began in January 2015; the first was delivered in May 2016 and the second a year later.⁵⁵ In late March 2017, however, the KPK detained the president director of PT PAL

Indonesia, M. Firmansyah Arifin, in connection with suspected bribery related to the contract. The KPK detained two other PT PAL officials, and police held an employee of broker Ashanti Sales Inc.⁵⁶ The Ashanti employee, Agus Nugroho, was arrested handing USD 25,000 to a PT PAL official in a public meeting.⁵⁷ The parties are suspected of arranging kickbacks equivalent to 4.75% of the contract's value. As of May 2017, the KPK has interviewed 64 witnesses and is investigating how the proceeds of the kickback arrangement were distributed among beneficiaries.⁵⁸

Bakamla/PT Melati Technofo Case

On December 14, 2016, the KPK caught a senior official of the Maritime Security Board—Indonesia's new coastguard force founded in 2014 and known as the Bakamla—accepting IDR 2 billion (USD 150,000) in bribes from a contractor.⁵⁹ The official, Eko Susilo Hadi, was head of the Bakamla's information and legal division; the contractor was Fahmi Darmawansyah, director of PT Melati Technofo Indonesia. In October, the company had signed a contract with the Bakamla to provide five maritime monitoring satellites for IDR 222 billion (USD 16.7 million).⁶⁰

⁵² Edward Febriyatri Kusuma, "Dihukum Seumur Hidup, Ini Modus Brigjen Teddy Korupsi Dana Alusista," *detiknews* (online), Jan. 5, 2017, <https://news.detik.com/berita/3388384/dihukum-seumur-hidup-ini-modus-brigjen-teddy-korupsi-dana-alusista>; and Syaiful Hakim, "Kasau minta pamen TNI AU ditahan," *Antara Lampung* (online), Jan. 24, 2017, <http://lampung.antaranews.com/berita/294306/kasau-minta-pamen-tni-au-ditahan>.

⁵³ Ed Umbao, "Indonesian Ship Builder to Build the P4-Billion Strategic Sealift Vessel (SSV) for Philippine Navy," *Philippine News* (online), July 18, 2014, <https://philnews.ph/2014/07/18/indonesian-ship-builder-build-p4-billion-strategic-sealift-vessel-ssv-philippine-navy>.

⁵⁴ "PT PAL kicks off production of warships for the Philippines," *The Jakarta Post* (online), Jan. 22, 2015, <http://www.thejakartapost.com/news/2015/01/22/pt-pal-kicks-production-warships-philippines.html>

⁵⁵ "PT PAL kicks off production of warships for the Philippines,"; "State ship builder PT PAL sends second warship ordered by Philippines," *The Jakarta Post* (online), May 2, 2017, <http://www.thejakartapost.com/news/2017/05/02/state>

-ship-builder-pt-pal-sends-second-warship-ordered-by-philippines.html.

⁵⁶ "KPK detains PAL Indonesia president director, treasurer," *The Jakarta Post* (online), Apr. 1, 2017, <http://www.thejakartapost.com/news/2017/04/01/kpk-detains-pal-indonesia-president-director-treasurer.html>.

⁵⁷ Ahmad Faiz, "Suap PT PAL, PT Pirusa Sejati Bantah Terlibat," *MSN Indonesia* (online), Apr. 7, 2017, <http://www.msn.com/id-id/berita/other/suap-pt-pal-pt-pirusa-sejati-bantah-terlibat/ar-BBzx5QS>.

⁵⁸ Muhammad Agung Riyadi, "PT PAL Bribery Forgotten," *GRES News* (online), May 12, 2017, <http://gres.news/news/law/113853-pt-pal-bribery-forgotten/0/>.

⁵⁹ Haeril Halim, "KPK looks into large-scale maritime graft," *The Jakarta Post* (online), Dec. 16, 2016, <http://www.thejakartapost.com/news/2016/12/16/kpk-looks-into-large-scale-maritime-graft.html>.

⁶⁰ "Bakamla RI Tandatangani Tiga Perjanjian Pengadaan di Bidang Surveillance System," Bakamla website, Oct. 18, 2016,

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Besides Eko Susilo Hadi, investigators have identified three other Bakamla officials as bribe-recipients in the case.⁶¹ Two, Nofel Hasan and Tri Nanda Wicaksono, are civilians and targets of the KPK's investigation, while one, Bambang Udoyo, is a Navy flag officer and is being probed by the military.⁶² Bambang Udoyo and Nofel Hasan are suspected of receiving around SGD 100,000 (USD 73,000), while Tri Nanda Wicaksono took IDR 120 million (USD 9,000).⁶³ Eko Susilo Hadi's trial is under way; he is suspected of pocketing a mix of U.S. dollars, Singaporean currency, and Euros, worth a total of approximately USD 160,000.⁶⁴

Fahmi Darmawansyah, the primary bribe-giver, was tried in May 2017; on June 1, a court sentenced him to two years and eight months in prison—a lighter punishment than the four years imprisonment requested by prosecutors.⁶⁵ Two of Fahmi Darmawansyah's employees who helped him negotiate and deliver the bribes, Muhammad Adami

Okta and Hardy Stefanus, were each sentenced to eighteen months imprisonment.⁶⁶

While the initial KPK investigation had focused on Eko Susilo Hadi and Fahmi Darmawansyah, both have attempted to point prosecutors toward more prominent targets. Under questioning by the KPK, Fahmi Darmawansyah claimed that a proportion of the bribes were destined for members of the Indonesian parliament via an intermediary, Ali Fahmi (also known as Fahmi Al Habsyi).⁶⁷ At least one of the named parliamentarians, Fayakun Andriadi, is a member of Committee I, which oversees the Bakamla, and has been questioned over his involvement by the KPK.⁶⁸ Eva Kusuma Sundari and other named members sit on Committee XI, which performs financial oversight functions.⁶⁹

Eko Susilo Hadi continues to argue that Ali Fahmi was the mastermind behind the bribery scandal.⁷⁰

http://bakamla.go.id/home/artikel_lengkap/2966/b174399dae9f07f69a50f86fafd3ca6e.

⁶¹ "Didesak Hakim Soal Uang Satmon, Kabakamla Membantah," *Tengokberita* (online), Apr. 28, 2017, <http://tengokberita.com/didesak-hakim-soal-uang-satmon-kabakamla-membantah.html>.

⁶² Robertus Belarminus, "Kasus Bakamla, KPK Perpanjang Pencegahan Politisi PDI-P Ali Fahmi ke Luar Negeri," *Kompas.com* (online), June 14, 2017, <http://nasional.kompas.com/read/2017/06/14/20245321/kasus.bakamla.kpk.perpanjang.pencegahan.politisi.pdi-p.ali.fahmi.ke.luar.negeri>.

⁶³ Abba Gabrillin, "Terdakwa Akui Minta dan Terima Uang atas Perintah Kepala Bakamla," *Kompas.com* (online), June 5, 2017, <http://regional.kompas.com/read/2017/06/05/12440931/terdakwa.akui.minta.dan.terima.uang.atas.perintah.kepala.bakamla>.

⁶⁴ Arie, Dwi Satrio, "Korupsi Bakamla, Suami Inneke Koesharawati Bersyukur Divonis Lebih Ringan dari Tuntutan," *Okezone News* (online), May 24, 2017, <http://news.okezone.com/read/2017/05/24/337/1698961/korupsi-bakamla-suami-inneke-koesharawati-bersyukur-divonis-lebih-ringan-dari-tuntutan>.

⁶⁵ Faieq Hidayat and Reny Anggraini, "Kasus Bakamla, Suami Inneke Koesharawati Dituntut 4 Tahun Penjara," *detiknews* (online), May 10, 2017, <https://news.detik.com/berita/d-3497443/kasus-bakamla-suami-inneke-koesharawati-dituntut-4-tahun-penjara>; and "Korupsi Bakamla, Suami Inneke Koesharawati Bersyukur Divonis Lebih Ringan dari Tuntutan."

⁶⁶ Maya Ayu Puspitasari, "Suap Bakamla, Fahmi Darmawansyah Divonis 2 Tahun 8 Bulan Penjara," *Tempo Magazine*, May 24, 2017, <https://nasional.tempo.co/read/news/2017/05/24/063878309/suap-bakamla-fahmi-darmawansyah-divonis-2-tahun-8-bulan-penjara>.

⁶⁷ Ambaranie Nadia Kemala Movanita, "Namanya Diseret Dalam Kasus Suap Bakamla, Ini Kata Eva Sundari," *Kompas.com* (online), Apr. 8, 2017, <http://nasional.kompas.com/read/2017/04/08/18020631/namanya.diseret.dalam.kasus.suap.bakamla.ini.kata.eva.sundari>.

⁶⁸ Haris Fadhil, "KPK Telusuri Keterlibatan Anggota DPR di Kasus Bakamla," *detiknews* (online), Apr. 7, 2017, <https://news.detik.com/berita/d-3468677/kpk-telusuri-keterlibatan-anggota-dpr-di-kasus-bakamla>; and "KPK Periksa Fayakhun Andriadi sebagai Saksi Korupsi Bakamla," *Beritasatu.tv* (online), Apr. 26, 2017, <http://www.beritasatu.tv/news/kpk-periksa-fayakhun-andriadi-sebagai-saksi-korupsi-bakamla>.

⁶⁹ Kemala Movanita, "Namanya Diseret Dalam Kasus Suap Bakamla"; Fadhil, "KPK Telusuri Keterlibatan Anggota DPR di Kasus Bakamla."

⁷⁰ Eri Komar Sinaga, "Kasus Suap Pejabat Bakamla, Eko Susilo: Ali Fahmi Aktor Utamanya," *Tribunenews.com* (online), June 20, 2017, <http://www.tribunnews.com/nasional/2017/06/20/kasu-s-suap-pejabat-bakamla-eko-susilo-ali-fahmi-aktor-utamanya>.

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Investigators believe that Ali Fahmi, an advisor to Bakamla chief Arie Soedewo, approached Fahmi Darmawasyah, the contractor, with information about the satellite tender in March 2016 and offered to rig the competition in PT Melati Techno's favor in exchange for bribes totaling 15% of the tender's value.⁷¹ He was well-placed to perform the task, having previously worked for Eva Sundari as a political aide. Ali Fahmi was questioned in January shortly after the case became public, but was not detained at the time and subsequently disappeared. His involvement may also connect his boss, Arie Soedewo, to the bribes as well; the Navy rear admiral's involvement has been hinted at by both Fahmi Darmawansyah, Bambang Udoyo, and Eko Susilo Hadi.⁷²

AgustaWestland VVIP Helicopters

In December 2015, Jokowi rejected an Air Force plan to purchase three AgustaWestland AW101 helicopters as VVIP ("very important persons") transports at a price of approximately USD 55 million each.⁷³ According to Cabinet Secretary Pramono Anung, the decisive considerations for the president were the high cost of the VVIP helicopters and the viability of continuing to use the existing Super Puma VVIP

helicopters. The cabinet secretary added that the president also believed if a replacement were to be funded it should be procured from a domestic manufacturer, as suggested by critics of the AW101 plan.⁷⁴ PT Dirgantara Indonesia, the primary Indonesian aerospace manufacturing firm, was reportedly interested in offering an option from its family of helicopters produced in collaboration with Eurocopter.

In August 2016, however, the Indonesian Air Force confirmed that it would purchase one AW101 as a military transport.⁷⁵ The Air Force's modified plan was opposed by the president, the defense minister, Ryamizard Ryacudu, and the head of the Indonesian military, General Gatot Nurmantyo.⁷⁶ Nonetheless, both Ryacudu and Nurmantyo were reportedly unaware that the deal was still set to proceed despite their protestations.⁷⁷ In December, an AW101 was photographed in England with Indonesian Air Force markings, re-opening the public debate on the procurement in Indonesia.⁷⁸ Air Force chief Agus Supriatna was summoned for questioning by military leadership, which also opened an investigation into the procurement process.⁷⁹ In February 2017, *Defense News* reported both that the head of planning at the Defence Industry Policy Committee, Muhammad Said

⁷¹ Gadi Makitan, Syailendra Persada, and Rina W., "Ali Fahmi Disebut Kunci Kasus Suap Satelit Bakamla, Siapa Dia?" *Tempo Magazine*, May 24, 2017, <https://nasional.tempo.co/read/news/2017/05/24/063878183/ali-fahmi-disebut-kunci-kasus-suap-satelit-bakamla-siapa-dia>.

⁷² Aribowo Suprayogi, "Korupsi Bakamla, Laksma Bambang Udoyo Akui Terima Rp 1 Miliar," *Liputan 6* (online), May 22, 2017, <http://news.liputan6.com/read/2960778/korupsi-bakamla-laksma-bambang-udoyo-akui-terima-rp-1-miliar>; and Sinaga, "Kasus Suap Pejabat Bakamla."

⁷³ Ina Parlina, "Jokowi rejects European helicopter procurement," *The Jakarta Post* (online), Dec. 4, 2015, <http://www.thejakartapost.com/news/2015/12/04/jokowi-rejects-european-helicopter-procurement.html>.

⁷⁴ "Jokowi gets new helicopter, draws criticism," *The Jakarta Post* (online), Nov. 23, 2015, <http://www.thejakartapost.com/news/2015/11/23/jokowi-gets-new-helicopter-draws-criticism.html>.

⁷⁵ "Sempat Ditolak Jokowi, TNI AU Kembali Berencana Beli Heli AW101," *Kompas.com* (online), Sep. 8, 2016, <http://nasional.kompas.com/read/2016/09/08/1723169>

[1/sempat.ditolak.jokowi.tni.au.kembali.berencana.beli.heli.aw101](http://sempat.ditolak.jokowi.tni.au.kembali.berencana.beli.heli.aw101).

⁷⁶ Mike Yeo, "Another twist in Indonesia's puzzling AW101 helicopter buy," *DefenseNews* (online), Feb. 16, 2017, <https://www.defensenews.com/air/2017/02/16/another-twist-in-indonesia-s-puzzling-aw101-helicopter-buy>.

⁷⁷ "Indonesian Air Force investigates purchase of AW-101 helicopter," *AntaraNews.com* (online), Feb. 9, 2017, <http://www.antaranews.com/en/news/109323/indonesian-air-force-investigates-purchase-of-aw-101-helicopter>.

⁷⁸ Dylan Malyasov, "Maiden flight for Indonesian AgustaWestland AW101 helicopter," *Defence Blog* (online), Dec. 20, 2016, <http://defence-blog.com/news/maiden-flight-for-indonesian-agustawestland-aw101-helicopter.html>.

⁷⁹ Haeril Halim, "Air Force chief to be questioned over British chopper purchase," *The Jakarta Post* (online), Jan. 3, 2017, <http://www.thejakartapost.com/news/2017/01/03/air-force-chief-to-be-questioned-over-british-chopper-purchase.html>.

(footnote continued)

Didu, claimed that the purchase was done through intermediaries despite laws prohibiting their involvement and that its sources believed “around 10” AW101 helicopters had been ordered in total.⁸⁰ The units headed to Indonesia were re-allocated from a batch originally destined for India, before the onset of a separate scandal in that country.⁸¹

On May 26, Nurmantyo announced that the military and the KPK had worked together to identify three suspects in their investigation of the AW101 purchase.⁸² One civilian suspect, a director of PT Diratama Jaya Mandiri named Irfan Kurnia Saleh, has been named in the press, while military suspects have not.⁸³ Nurmantyo said the individuals might be charged with insubordination, misuse of authority, embezzlement and forgery, and that further suspects might be identified in the course of the investigation. The misconduct of the individuals led to excess expenditure of around USD 16.5 million, the general claimed.⁸⁴

5. Reflections and Conclusions

The corruption cases described here illustrate some of the typical features of arms trade corruption observed worldwide, in particular in countries, like Indonesia, with a legacy of a powerful military institution where civilian control and oversight is yet to be fully established. Symptomatic features include the lack of transparency surrounding procurement processes, the politicization of procurement decisions, the involvement of brokers and intermediaries as a conduit for bribes, the ability of senior military

officers to act autonomously of political control, and weak financial monitoring and control.

There are also, however, some positive signs emerging from these cases, which are worth highlighting. First, all were investigated and prosecuted through normal legal channels, without resort to special committees or task forces. This suggests an improvement in the efficacy and procedural legitimacy of Indonesia’s law enforcement institutions, including, crucially, effective cooperation between the civilian and military justice institutions. Second, in two of the cases prosecutors were able to secure convictions and prison terms for the suspects, while in the other two active investigations are continuing, which strongly suggests both an effective judiciary and the absence of a culture or expectation of impunity in the defense sector. Third, the ability of anti-corruption officials to pursue these cases despite their high political salience—one touching on imports from the United States, another on a marquee export success—indicate that the political overtones of arms procurements deals have not prevented effective law enforcement.

What is not so clear is how far-reaching these anti-corruption measures are, and how far they are likely to go: is the military assenting to prosecution of only a few high-profile cases while leaving the basic infrastructure of corruption untouched, or do the cases mark a determination to crack down on corruption, and in military procurement in particular? Unfortunately, where corruption has become simply a ‘normal’ part of arms procurement, sustaining progress in tackling it can be challenging: despite consistent democratic governance, for example, periodic attempts by Indian governments to root out

⁸⁰ Yeo, “Another twist in Indonesia's puzzling AW101 helicopter buy.”

⁸¹ Chris Pocock, “Indonesian Air Force Review Clears AW101 Helicopter Purchase,” AINOnline (online), Feb. 24, 2017, <https://www.ainonline.com/aviation-news/defense/2017-02-24/indonesian-air-force-review-clears-aw101-helicopter-purchase>.

⁸² “Indonesia military identifies three graft suspects over helicopter deal,” Reuters, May 26, 2017, <http://www.reuters.com/article/us-indonesia-corruption/indonesia-military-identifies-three-graft-suspects-over-helicopter-deal-idUSKBN18M1B9>.

⁸³ Patricia Saraswati, “KPK Periksa Fisik Helikopter AW-101,” CNN Indonesia (online), Aug. 24, 2017, <https://www.cnnindonesia.com/nasional/20170824115327-12-236942/kpk-periksa-fisik-helikopter-aw-101>.

⁸⁴ “Investigation of helicopter procurement graft might target higher officials,” *The Jakarta Post* (online), May 28, 2017, <http://www.thejakartapost.com/news/2017/05/28/investigation-of-helicopter-procurement-graft-might-target-higher-officials.html>.

(footnote continued)

corruption in arms procurement have tended to follow a pattern of bursts of progress, with new regulations and procedures and some high-profile cases, followed by a reversion to business as usual. In contrast to (for example) Nigeria and Uganda, where substantial proportions of the proceeds of corrupt arms deals are channeled into patronage budgets, and South Africa, where the infamous 1998 arms deal was chiefly motivated by the ruling party's need for political funds, Indonesian military corruption appears to be mostly separate from the political arena and its appetite for shadowy political finance.

Outside the military sphere, the KPK has also suffered setbacks. A public internal split between leading officials has threatened to derail a high-profile investigation into parliamentary members, and in April an unidentified assailant attacked a leading investigator with acid.⁸⁵

The breaking of what was almost blanket military impunity for corruption stands out against a broader background of stalling military reforms, and indeed some suggestions of gains in military influence in recent years. As discussed in **Section 2**, efforts to force the military to divest from economic activities seem to have run into the sand by about 2009, and there is no indication that any further retreat from self-financing activities has taken place since then, in spite of the continued increase in the official defense budget.

Moreover, according to a 2015 report by the Institute for Policy Analysis of Conflict (IPAC), the TNI has been expanding its role in recent years: first, through an increased role in internal security, in particular in counter-terrorism operations, but more broadly in an ongoing turf war with the police.⁸⁶ Second, the

military has expanded its involvement in civilian activities more generally, through the signing of a series of MoUs with civilian government departments, such as transportation and agriculture, for the provision of security services, an increased involvement in government-sponsored development programs such as vaccinations and food security, and an expansion of the Territorial Command system. The influence of the military has also been enhanced by the political weakness of President Jokowi, who lacks support in Parliament and has turned to retired military officers as allies to compensate.

However, most analysts, including the IPAC scholars, see no prospect of a return to a formal political role for the military. A new generation of officers has become more inclined toward a professionalized model of the military, enhanced by the acquisition of billions of dollars of advanced military equipment as the defense budget rises, and has no interest in such a return. Rather, what we may be seeing is an expansion of military autonomy in areas where the civilian authorities have never really exerted clear control, and an expansion of influence at a local, societal level.⁸⁷

Nonetheless, there have been some areas of progress in civil-military relations; a Military Discipline Act in 2014 increased the penalties that military officers could face for crimes committed in the civilian sphere, although it did not allow them to be tried by civilian courts.⁸⁸ Terence Lee, an expert in the civil-military relations of Asian states at the National University of Singapore, argues that parliamentary oversight of the military in Indonesia, including the military budget, has also improved, as their capacity and expertise has increased, for example through the increased

⁸⁵ Jonathan Emont, "I don't want to be sad': Indonesia's Top Graft Buster Talks to TIME From His Hospital Bed," TIME Magazine (online), June 12, 2017, <http://time.com/4815928/indonesia-corruption-novel-baswedan-graft-kpk/>; Kharishar Kahfi, "KPK Investigator Novel Baswedan to Return Home in November," *The Jakarta Post* (online), Oct. 9, 2017, <http://www.thejakartapost.com/news/2017/10/09/kpk-investigator-novel-baswedan-to-return-home-in-november.html>.

⁸⁶ Institute for Policy Analysis of Conflict, "The Expanding Role of the Indonesian Military," IPAC Report No. 19, May 25, 2015, pp. 5-8.

⁸⁷ Rizal Sukma, "The Military and Democratic Control in Indonesia," in Dennis Blair (ed.), *Military Engagement: Influencing Armed Forces Worldwide to Support Democratic Transitions* (Washington: Brookings, 2013), pp. 128-131.

⁸⁸ Institute for Policy Analysis of Conflict, "The Expanding Role of the Indonesian Military," p. 19. (footnote continued)

availability of parliamentary research staff.⁸⁹ The level of transparency in the military budget has also increased somewhat in recent years, as noted in **Section 2**.

On the specific issue of corruption, however, there are reasons to support the idea that the recent cases are not challenging the deep-rooted problems in military procurement. As discussed earlier, Transparency International's 2016 report for Indonesia assessed that mark-ups were still routine in military procurement, aided by the early involvement of agents in the process. There is no indication in available sources of any efforts to restrict the use of agents or gradually eliminate mark-ups as anticipated by Sudarsono. Looking at the four recent cases detailed in **Section 4**, one involves only civilians, namely the PT PAL warship export to the Philippines, where it is agents of the company who have been charged and convicted; one, the marine surveillance systems case, which comes closest to a typical procurement kickback case, started in the civil sector, with the arrest of a senior official of the Maritime Security Board, although it later ensnared military officers; and the other two involve military officers who overstepped the bounds of 'normal' procurement mark-ups, by direct embezzlement of procurement funds in one case, and going directly against decisions of superiors in the other.

Like the earlier Sukhoigate and housing fund cases, the fact that these cases led to prosecutions sheds a light on what counts as a 'scandal' in the context of Indonesian military corruption. That generals routinely take mark-ups on contracts with favored partners is regrettable, a long-standing irritant and source of waste, but largely seen as inevitable, and not a source of public scandal or legal repercussions. It is only when the regular norms and procedures are violated, or where senior officers descend to blatant stealing, that scandal results.

This is not to downplay the significance of these cases. The jailing for life of a general for civil financial offenses is a clear deterrent warning, and it is hard to imagine such prosecutions happening in the earlier years of reform. The enhanced cooperation between the military authorities and the KPK in several of these cases is also noteworthy. One factor that may have made such prosecutions possible is the passage in September 2014 of the aforementioned Military Discipline Law, which expanded the range of penalties available in the military justice system for offences committed in the civil sphere, although it did not allow for prosecution of military personnel by civilian authorities. This law was proposed and passed following two particularly serious incidents of military-police clashes in March 2013.⁹⁰ It may also be noted that the increase in the rate of investigations coincides with the new administration of President Jokowi.

It remains to be seen whether the cases discussed above herald a new era of broad intolerance of corruption, or merely signal red lines that military officers cannot cross and for which they will no longer enjoy impunity, while the traditional perks afforded by the procurement system and other areas of military activity are left undisturbed. Given the current political weakness of the president and his inclination to look to the military for support, however, the current prospects for a more deep-seated crackdown on the military's economic privileges may not be that bright. But a more optimistic reading would be that this is at least a start.

⁸⁹ Authors' correspondence with Terence Lee, Sep. 26, 2017.

⁹⁰ Institute for Policy Analysis of Conflict, "The Expanding Role of the Indonesian Military," pp. 19-20.