

Indonesia and Corruption: A Parasitical Dynasty

Keeya Avarielle Tejasukmana¹, Matthew Toby², Patrick James Tjahjadi³

^{1, 2, 3} Program Studi Ilmu Hukum, Fakultas Hukum Universitas Pelita Harapan

¹ 01052220030@student.uph.edu

² 01052220020@student.uph.edu

³ 01052220024@student.uph.edu

Abstract

This paper critically analyzes the deep-rooted and systematic corruption plaguing Indonesia, likening its spread to an unstoppable disease originating from the top. Through an empirical and historical lens, the research demonstrates how this pervasive issue has continuously grown in scale, frequency, and intricacy, severely damaging the nation's reputation and deterring investment. Specific cases are examined, including the Century Bank bailout, Jiwasraya fraud, BLBI misuse, PT Timah's illegal mining, the ongoing Pertamina scandal, and the eFishery startup forgery. These incidents underscore how corruption, embedded within state-owned enterprises and beyond, leads to colossal state losses and erodes public confidence. Furthermore, the paper highlights significant impediments to investment, particularly the rampant "premanisme ormas" (thuggery by community organizations). Driven by unemployment and political ties, these groups engage in intimidation and extortion, causing investment cancellations and escalating operational costs. The scarcity of law enforcement exacerbates this issue, fostering impunity. Coupled with Indonesia's protracted and ambiguous legal processes, these factors paint a picture of a business environment where corruption is not merely isolated but a systematic challenge. This environment, characterized by a lack of predictability and reliability, profoundly undermines Indonesia's appeal as a secure investment hub, effectively stifling its immense economic potential.

Keywords: *systematic; corruption; plague*

Abstrak

Karya ini secara kritis menganalisa korupsi yang sistematis dan mengakar di Indonesia, mengibaratkan penyebarannya seperti penyakit tak terbandung yang berasal dari pucuk pimpinan. Melalui lensa empiris dan historis, penelitian ini menunjukkan bagaimana masalah yang meresap ini terus meningkat dalam skala, frekuensi, dan kerumitan, sangat merusak reputasi bangsa dan menghalangi investasi. Kasus-kasus spesifik dibahas, termasuk *bailout* Bank Century, penipuan Jiwasraya, penyalahgunaan BLBI, penambangan ilegal PT Timah, skandal Pertamina yang sedang berlangsung, dan pemalsuan startup eFishery. Insiden-insiden ini menggarisbawahi bagaimana korupsi, yang tertanam dalam badan usaha milik negara dan di luar itu, menyebabkan kerugian besar bagi negara dan mengikis kepercayaan publik. Selain itu, makalah ini menyoroti hambatan signifikan terhadap

investasi, terutama fenomena "premanisme ormas" yang merajalela. Didorong oleh pengangguran dan ikatan politik, kelompok-kelompok ini terlibat dalam intimidasi dan pemerasan terhadap bisnis, menyebabkan pembatalan investasi dan peningkatan biaya operasional. Kurangnya penegak hukum memperburuk masalah ini, menumbuhkan budaya impunitas. Ditambah dengan prosedur hukum Indonesia yang berbelarut-larut dan tidak jelas, faktor-faktor ini melukiskan gambaran lingkungan bisnis di mana korupsi bukan hanya terisolasi tetapi merupakan tantangan sistematis. Lingkungan yang dicirikan oleh kurangnya prediktabilitas dan keandalan ini secara mendalam merusak daya tarik Indonesia sebagai pusat investasi yang aman, secara efektif menghambat potensi ekonominya yang sangat besar.

Kata Kunci: sistematis; korupsi; penyakit

A. Introduction

Indonesia, a nation brimming with potential, finds itself persistently entangled in a web of corruption that casts a long shadow over its progress and prosperity. This pervasive issue, far from being a recent phenomenon, has deep historical roots, evolving and adapting over time to become a seemingly intractable challenge. The persistent nature of corruption has not only eroded public trust in state institutions but has also significantly tarnished Indonesia's international image, creating substantial barriers to foreign investment and hindering economic development. The sheer scale and complexity of corruption in Indonesia are staggering, manifesting in a multitude of forms and permeating various sectors of society. From the highest levels of government to state-owned enterprises and even extending into the burgeoning startup ecosystem, the tendrils of corruption reach far and wide, leaving few areas untouched.

The impact of this systemic corruption is multifaceted and far-reaching. It not only diverts crucial resources away from essential public services but also distorts market mechanisms, stifles innovation, and exacerbates inequality. The repeated exposure of large-scale corruption scandals has led to a growing sense of disillusionment among the Indonesian populace, who increasingly perceive their country as a place where personal enrichment often takes precedence over the common good. This erosion of trust has profound implications for social cohesion and political stability, as citizens become increasingly cynical about the ability of their leaders to address the nation's challenges effectively.

Moreover, the specter of corruption looms large in the eyes of potential investors, both domestic and foreign. The perception of Indonesia as a high-risk environment, where opaque practices and a lack of accountability prevail, deters many from committing their capital to the country's development. This reluctance to invest not only deprives Indonesia of much-needed financial resources but also limits

the transfer of valuable knowledge and technology that could help to drive economic growth and create employment opportunities. The consequences of this are significant, as Indonesia risks falling behind its regional peers in the race for economic advancement.

Several high-profile corruption cases have served to illustrate the depth and breadth of this problem. The Century Bank bailout, for instance, raised serious questions about the allocation of public funds and the potential for abuse of power within the financial sector. The collapse of PT Asuransi Jiwasraya exposed the vulnerabilities of state-owned enterprises to mismanagement and fraud, leaving countless individuals facing financial ruin. The Bank Indonesia Liquidity Assistance (BLBI) scandal, dating back to the 1998 financial crisis, continues to haunt the nation, serving as a stark reminder of the long-lasting consequences of corruption on the economy. More recently, cases such as the illegal mining activities involving PT Timah and the alleged corruption within PT Pertamina, Indonesia's oil and gas giant, have further shaken public confidence and highlighted the ongoing challenges in combating corruption within state-owned enterprises. Even the startup sector, once seen as a beacon of innovation and progress, has not been immune, as evidenced by the eFishery scandal, which revealed the potential for financial manipulation and fraud in even the most promising of companies. These cases, among others, paint a troubling picture of a nation struggling to break free from the shackles of corruption, a challenge that demands urgent and comprehensive action.

B. Research Method

This paper will utilize an empirical approach and will primarily use secondary data. The research method used in this paper will be one based on a descriptive and historical approach. This paper will attempt to describe the issues in full as well as utilizing the history of past incidents in order to draw a pattern and come to a conclusion regarding what the problem represents.

C. Results and Discussion

C.1 Massive Cases of Corruption Spanning Multiple Periods

Indonesia's public image and reputation as it stands today reflects a country that does not learn from its past mistakes, as corruption continues to be one cornerstone of what is associated with Indonesia, and that problem has not only persisted but has also grown to extreme proportions today. Corruption cases in Indonesia have gone so far as to warrant its own form of leaderboard as a way to keep track of the largest corruption scandals of all time in Indonesia's history. This leaderboard, dubbed the Indonesian Corruption Standings League (from hereon simply referred to as the

League) has recently been updated in light of the recent corruption scandals reaching such insane numbers that it tops the placement of everything before it as they are heinous acts which have been structured and acted out for years before being caught. This paper will only focus on a number of these scandals as they will be used to highlight the historical fact that Indonesia's issue with corruption had only increased in numbers, frequency, complexity, and impact to the people. Aside from causing harm to the state and the people, these cases have also hobbled the trust of current investors and is actively causing future potential investors to look away from Indonesia as corruption continues to grow rampant without a clear sign of change. By discussing these cases, this paper will establish that each case has impacted the public perception of Indonesia as it is undeniable that the country brims with potential, but it is constantly burdened by these scandals to the point that any potential is offset by the various problems littering the country as it stands today.

The first case discussed in this paper involves an infamous case of a Bailout Fund system that was employed by the Central Bank of Indonesia (BI) when the bank had issues in managing liquidity. Century Bank is a merger product between: [1] CIC Bank, [2] Pikko Bank, and [3] Danpac Bank that is discovered to be owned by 3 people serving as majority shareholders in the company.¹ The shareholders that share liability in the bank are named Robert Tantular, Rachmat Rachman (RAR), and Hadi Wahyudi (HAW), collectively holding 70% of the shares in Century Bank. Despite signing a statement of liability, the bank itself had experienced liquidity issues during its final months back in 2008, prompting the Government of Indonesia (GoI) and then vice president Jusuf Kalla to step in and essentially bail out the bank. This action is seen as controversial and problematic even to this day, as the losses that were essentially paid for by the government had reached upwards of over 7 trillion Rupiah. The official reasoning from the government at the time is that they couldn't risk the banking industry collapsing and the customers of Century Bank not able to access their funds, especially during the 2008 financial crisis which could trigger a domino effect and cripple a still recovering economy for Indonesia. However, more recent estimations of the market size and position of Century Bank at the time are not large enough to warrant such extreme measures from the government, making room for speculation on what was going on behind the scenes.²

The second case concerns a renowned state owned enterprise (BUMN) named PT Asuransi Jiwasraya (from hereon referred to as Jiwasraya), whose victims were

¹ BBC News Indonesia. (2014, July 16). Kilas balik kasus Bank Century. https://www.bbc.com/indonesia/berita_indonesia/2014/07/140716_bankcentury_101

² <https://www.facebook.com/detikcom>. (2009, November 24). Kasus Bank Century dan Risiko Keuangan Negara. Detiknews. <https://news.detik.com/opini/d-1247526/kasus-bank-century-dan-risiko-keuangan-negara>

not as fortunate as those of Century Bank, as the losses experienced through this scandal is still felt by both the government and the people today. Issues began forming in Jiwasraya when their newly established business model, JS Savings Plan, became operational starting from 2015. The problem with JS Savings Plan stems from how it deviates from traditional insurance products and deviates towards the promise of a no-lose investment. Aside from this, the method of investment for the funds accumulated by Jiwasraya through JS Savings Plan is poorly done, investing into high risk investments in order to meet their high interest rate guarantee to their customers for 7-13% each year.³ This is very much illegal to do for many insurance products, but the public perception at the time is that Jiwasraya as a state owned enterprise is somehow entitled to an exception in order to stay competitive.⁴ This had also forced other insurance companies to follow in the footsteps of Jiwasraya as their actions had not warranted the authorities to step in, which resulted in Jiwasraya maintaining this business model until 2019, where it all came crashing down and their efforts to hide this fact in the form of forging financial statements and fund allocation had compromised their solvability rate to an estimated -1000.3%. When the dust had settled, Jiwasraya had caused state losses of up to 17 trillion Rupiah and unfortunately the people who had bought into their JS Savings Plan are still paying for their losses today.

For the third case we rewind back to 1998, where this scandal was initially formed as a countermeasure against the monetary crisis, as the banking sector must not be allowed to collapse as it would plunge the people further into chaos as Rupiah had massively inflated from 2000 to 16.800 compared to the USD.⁵ In theory, BLBI should be able to aid in banks that are struggling during that era, but unfortunately in practice the 48 banks receiving the financial aid from BLBI had misused their funds which were not allocated towards maintaining the stability of the banking sector. This resulted in state losses of 138 trillion Rupiah and it could be more as the impact of this single scandal is still felt today. The state is only able to recover around a third of what was lost during the BLBI incident during President Jokowi's era, and the remaining losses are still pushing down on the government as they continue to drown in debt as a result of this scandal. The recovery process in itself is not transparent and accountable, which leaves plenty of room for further misuse of authority to cause

³ Sidik, S. (1970, January 1). Kacau! Produk Saving Plan Jiwasraya melanggar Undang-Undang. CNBC Indonesia. <https://www.cnbcindonesia.com/market/20200907153748-17-184951/kacau-produk-saving-plan-jiwasraya-melanggar-undang-undang>

⁴ A Marpaung, K. (2020, February 13). Menyoal legalitas Saving Plan Jiwasraya. Investor.id. Retrieved April 26, 2025, from https://investor.id/opini/204757/menyoal-legalitas-saving-plan-jiwasraya#goog_rewarded

⁵ Tv, M. (2024, September 9). Mengenal Sejarah BLBI sebagai Bagian dari Skandal Terbesar Indonesia. <https://www.metrotvnews.com>. <https://www.metrotvnews.com/read/NQACq1n6-mengenal-sejarah-blbi-sebagai-bagian-dari-skandal-terbesar-indonesia>

further damage.

The fourth case is still contained in recent memory another state owned enterprise named PT Timah Tbk was caught in a scandal as recent as 2024. This case is the first of 2 cases discussed which concerns the involvement of many parties in its operations, causing it to be very complex and hard to trace every action to determine who is liable for what part of the damage. This case is the first major case the public knows about which involves a deliberate and complex web of companies that all aim to corrupt and launder money out of the system. The issue at the core of this case first appeared in 2015 as illegal miners have been trespassing on PT Timah's permit area while holding mining service licenses by the local government institution in Bangka Belitung.⁶ This situation had prompted PT Tumah to establish a middle ground that works for both the company and the illegal miners, mining in their area and the company would then purchase the tin ores produced. This deal would begin to show cracks in 2022, as the illegal miners were beginning to not sell good tin ores to the company and would sell them to third parties for a higher price instead. Aside from PT Timah, there are also other parties such as PT Stanindo Inti Perkasa (SIP) as a mining company operating in Pangkalpinang Bangka Belitung, CV Venus Inti Perkasa (VIP), PT Sariwiguna Bina Sentosa (SBS), PT Tinindo Internusa (TIN), and PT Refined Bangka Tin (RBT), and even high profile individuals such as Harvey Moeis and Helena Lim.⁷ These companies and the individuals that operate them are jointly responsible for the scandal that cost the state up to 300 trillion Rupiah in losses as this operation had been ongoing for nearly a decade before being caught.

The fifth case is still at the time of writing this paper an ongoing investigation into the internal corruption faced by PT Pertamina, one of the biggest state owned enterprises in Indonesia that operates in the fuel, oil, and gas sectors. This incident began when the people had started to complain about the quality of Pertamina's product named RON 92 or more commonly known as Pertamax.⁸ From this initial report, the Attorney General (Kejagung) had discovered that there is an illegal mixing practice going on which caused the Pertamax produced by Pertamina to be below standard. Mixing or Blending is not part of the standard procedure in handling, and

⁶ Yandwiputra, A. R., & Trianita, L. (2024, August 14). Begini Awal Mula Korupsi Pengelolaan Timah di Bangka Belitung yang Seret Harvey Moeis Dkk. *Tempo*. <https://www.tempo.co/hukum/begini-awal-mula-korupsi-pengelolaan-timah-di-bangka-belitung-yang-seret-harvey-moeis-dkk-25258>

⁷ Binekasi, R. (1970, January 1). Korupsi PT Timah Terbongkar! Kerugian Rp 300 T & vonis Harvey Moeis. *CNBC Indonesia*. <https://www.cnbcindonesia.com/market/20241225133805-17-598672/korupsi-pt-timah-terbongkar-kerugian-rp-300-t-vonis-harvey-moeis>

⁸ Muhid, H. K., & Arjanto, D. (2025, March 8). Perjalanan kasus dugaan korupsi Pertamina, Kejaksaan periksa 8 saksi. *Tempo*. <https://www.tempo.co/hukum/perjalanan-kasus-dugaan-korupsi-pertamina-kejakangan-periksa-8-saksi--1216714>

further investigation from the Attorney General had revealed the potential corruption scandal going on in Pertamina that caused state losses of up to a whopping 968.5 trillion Rupiah over the course of 5 years. This allegation is based on the rising prices for Pertamax despite the subsidies received, the sabotage of raw oil domestically, and the increased import of refinery oil which culminates into that staggering number of losses. The Attorney General's Office has identified nine individuals as suspects in connection with corruption allegations. Among them are officials from Pertamina subsidiaries: Riva Siahaan, President Director of PT Pertamina Patra Niaga; Sani Dinar Saifuddin, Director of Feedstock and Product Optimization at PT Kilang Pertamina Internasional; Yoki Firnandi, President Director of PT Pertamina International Shipping; Agus Purwono, former Vice President of Feedstock Management at PT Kilang Pertamina Internasional; Maya Kusmaya, Director of Central Marketing and Commerce at PT Pertamina Patra Niaga; and Edward Corne, Vice President of Trading Operation at PT Pertamina Patra Niaga. Additionally, three suspects come from private companies: Muhammad Keery Andrianto Riza, Beneficial Owner of PT Navigator Khatulistiwa; Dimas Werhaspati, Commissioner of PT Navigator Khatulistiwa and PT Jenggala Maritim; and Gading Ramadan Joede, Commissioner of PT Jenggala Maritim and President Director of PT Orbit Terminal Merak. Only time will tell how this case will progress forward, as well as the amount of damages that the state losses will total, but during the investigation process itself the public perception of the once reliable Pertamina has been shattered as people will choose to go towards private oil companies such as Shell and BP as they had lost faith in the state owned enterprises that have failed them over the years through their web of lies and deceit, conducting acts of corruption so deeply rooted that it becomes invisible to the layman and is systematically designed to be destructive in all ways imaginable.

Lastly, the sixth and final case to be discussed in this paper does not involve a state owned enterprise like those previously discussed, but arguably provides one of the biggest arguments against investing into Indonesia through unicorn startup companies. Having their scandal revealed in 2024, PT eFishery was viewed as one of the most successful unicorn startups originating from Indonesia, led by a man with a humble beginning that inspires other startups to rise to the challenge alongside the company.⁹ However, that dream had been killed off when it was discovered that in their efforts to please investors, eFishery had committed forgery and manipulation of financial statements, being able to report profits in circumstances where other

⁹ Irma.Mulyani. (2025, February 10). Dugaan manipulasi eFishery gerus kepercayaan investor, saatnya startup berbenah - SBM ITB. SBM ITB. <https://www.sbm.itb.ac.id/id/2025/01/27/dugaan-manipulasi-efishery-gerus-kepercayaan-investor-saatnya-startup-berbenah/>

companies were experiencing losses. This discovery had truly shaken the startup sector and its hope of attracting funds through investors and venture capitalists, as the actions of eFishery had indirectly associated the startup industry in Indonesia with forgery and fraud, extinguishing most startups from their opportunity to earn funding in the future. As eFishery has created a completely fictitious company with false assets, funding, transactions, and business model, the damage it has caused innocent startups in Indonesia is unparalleled and will continue to do so for the foreseeable future.¹⁰

C.2 The Weak Enforcement for said corruption acts to deter future acts

It is no shock that Indonesia has been well known for the amount of corruption cases as well. And the massive cases of corruption, whilst having further negatively impacting the trust between the country and foreign investors. Indonesia's weak enforcement on these cases and the laws further effects the impact attracting investors and maintaining investor trust.¹¹

C.2.1 Understanding of the Legal frameworks regarding the enforcement of Investor Protection and Corruption

The legal framework that governs the capital market in Indonesia is primarily established under Law Number 8 of 1995 concerning the Capital Market. This law plays a vital role in regulating and supervising all activities related to the issuance, trading, and management of securities in the Indonesian financial system. It was enacted to provide legal certainty and protect the interests of both investors and the general public by ensuring transparency, fairness, and accountability in capital market operations.

Law Number 8 of 1995 outlines the roles and responsibilities of various capital market participants, including issuers, investors, brokers, underwriters, and other supporting institutions. It also grants authority to the capital market regulatory body, previously BAPEPAM (the Capital Market Supervisory Agency), now integrated into the Financial Services Authority (OJK), to oversee and enforce compliance with capital market regulations.¹² Additionally, the law includes provisions for licensing requirements, disclosure obligations, sanctions for violations, and mechanisms for

¹⁰ Fajar Sugianto, "The Nature of Hedging Risk in Derivative Contract : Modeling an Enforceable Risk-Shifting Contract in Indonesia," *Journal of Law, Policy and Globalization* 72 (2018): 97–106.

¹¹ Laurenzia Luna Fajar Sugianto, Yuber Lago, "STATE LAW, INTEGRAL ECONOMIC JUSTICE, AND BETTER REGULATORY PRACTICES: PROMOTING ECONOMIC EFFICIENCY IN INDONESIA," *Global Legal Review* 3, no. 2 (2023): 91–108.

¹² Fabian Jonathan, Fajar Sugianto, and Tomy Michael, "Comparative Legal Analysis on the Competence of the Indonesia's Financial Services Authority and Monetary Authority of Singapore on the Enforcement of Insider Trading Laws," *Journal of Central Banking Law and Institutions* 2, no. 2 (2023): 283–300.

dispute resolution.¹³ Overall, this law is essential in fostering a trustworthy investment climate, promoting economic development, and integrating Indonesia's capital market with global financial standards.¹⁴

Whilst Law Number 8 of 1995 main purpose is to govern Capital market, It regulates regarding possible corruption acts that may take place in Capital Market such as fraud, market manipulation and insider trading. Article 90-99 of Law Number 8 of 1995 explains the prohibitions of a Person who tries to use their power to fabricate false reports, insider trading, and market manipulation. An example would be Article 93 of the Law, which states that All Persons are prohibited from making, by any means, a statement and giving Material Information that is false or misleading and that affects the price of Securities on a Securities Exchange, if at the time of making such statement or giving such information: a) the Person knows or should have known that such Material Information was false or misleading; or b) the Person has failed to exercise due care in determining the truth of such statement or information.¹⁵

Further regulations concerning the governance and prohibition of corruption are comprehensively outlined in the Law on Anti-Corruption. These regulations are designed to create a strong legal framework for identifying, preventing, and penalizing corrupt practices within both public and private sectors. The law aims to promote integrity, transparency, and accountability among individuals and institutions involved in governance and public service. In addition, it supports the development of a culture that does not tolerate corruption by establishing clear definitions and boundaries for what constitutes corrupt behavior.¹⁶

One of the most important regulations addressing this issue is Law Number 31 of 1999 concerning the Eradication of Criminal Acts of Corruption. This law serves as a cornerstone in Indonesia's legal fight against corruption. It provides detailed classifications of various types of corruption, including bribery, embezzlement, abuse of power, and illicit enrichment. The law also outlines the legal procedures for investigation and prosecution, while prescribing severe penalties for those found guilty. By doing so, it reinforces the government's commitment to upholding justice and ensuring that individuals who engage in corrupt acts are held accountable.

¹³ Dea Prasetyawati Wibowo Fajar Sugianto, Felicia Christina Simeon, "IDEALISASI SIFAT ALTERNATIF DALAM PENYELESAIAN SENGKETA MELALUI MEDIASI," *Jurnal Hukum Bisnis Bonum Commune* 3, no. 2 (2020): 253–265.

¹⁴ Fajar Sugianto and Tomy Saragih, "Intercalating Law As a Tool To Promote Economic Efficiency in Indonesia," *Arena Hukum* 6, no. 2 (2013): 152–167.

¹⁵ Shintaro Tokuyama Fajar Sugianto, "Efficient Punishment for Insider Trader In Merger : Interjected Values of Economic Analysis of Law" 3, no. December 2023 (2024): 327–355.

¹⁶ Fajar Sugianto, "Efisiensi Ekonomi Sebagai Remedy Hukum," *Refleksi Hukum: Jurnal Ilmu Hukum* 8, no. 1 (2014): 61–72.

Some provisions in Law Number 31 of 1999 which addresses the issues and states the prohibited acts done in the cases mentioned, includes

- Article 2, which states that Anyone who illegally commits an act to enrich themselves or another person or company, causing financial losses to the state, will face a sentence of at least 4 years and up to 20 years in prison, or even life imprisonment. They will also be fined a minimum of Rp200,000,000,- (two hundred million Rupiahs) and a maximum of Rp1,000,000,000,- (one billion Rupiahs).
- Article 3, which states that Anyone with the aim of enriching oneself or another person or a corporation, abuses the authority, opportunity or facilities given to him related to his post or position, which creates losses to the state finance or state economy, is sentenced to life imprisonment or minimum sentence of 1 (one) year and maximum sentence of 20 (twenty) years or the minimum fine of Rp 50,000,000.(fifty million Rupiahs) and maximum fine of Rp, 1,000,000,000 one billion Rupiahs).
- Article 5-12 in accordance with the Indonesian Criminal Code, Which explains the criminalization of bribery and gratification especially by public officials and its punishments.
- Article 16, which states the act of providing Information to people outside of Indonesia with the intent of their benefit and corruption acts, will be punished accordingly.

C.2.2 The Main driving factors of Corruption and Possible Improvements

Whilst Indonesia has established numerous regulations aimed at ensuring the safety and security of investors, the intended objectives of these laws have not been fully realized in practice. These regulations are, in theory, designed to serve two primary purposes: first, to instill a sense of confidence and security among existing investors by demonstrating that their investments are safeguarded by a solid legal framework; and second, to attract new investors by promoting an image of a transparent, well-regulated, and corruption-free investment environment. Ideally, such assurances would contribute to the development of a vibrant and trustworthy capital market that supports sustainable economic growth.¹⁷

However, the actual impact of these regulations has been quite the opposite. Despite the existence of legal provisions meant to deter corruption and promote market integrity, enforcement remains weak and inconsistent. Many of the regulations

¹⁷ Fajar Sugianto, Stevinell Mildova, and Felicia Christina Simeon, "Increasing Economic Performance Through the Rule of Law in Indonesia: Law and Economics Perspective," *Advances in Economics, Business and Management Research* 140, no. International Conference on Law, Economics and Health (ICLEH 2020) (2020): 92–99.

are not applied effectively, and in some cases, they appear to serve more as formalities than as actual deterrents. Corruption continues to be a persistent issue within various levels of government and regulatory bodies, undermining the credibility of the system. In fact, not only do cases of corruption remain widespread, but some have escalated in both scale and complexity over time. This ongoing problem significantly erodes investor confidence, as it suggests a lack of genuine commitment to reform and accountability. As a result, potential investors may be discouraged from entering the Indonesian market, while existing ones might reconsider the long-term viability of their investments.

The deep root causes of Corruption according to Dr Zainal Arifin Mochtar¹⁸, there are 3 main factors which acts as the root causes of corruption in Indonesia, which makes it difficult to eradicate Corruption. These 3 factors are pragmatism, greed and the lack of effort on creating an effective system to combat corruption.

Pragmatism in this case often drives people to engage in corrupt acts, as it is quite the normal behaviour for Indonesians to prefer quick solutions, which in this case is corruption. Such examples are like paying bribes in traffic violations, rather than adhering to the legal system and its consequences. Greed in this case knows no bounds, as many individuals according to Dr Mochtar, become ensnared in corruption due to their inability to control personal desires, which leads to actions that would lead to their goal, no matter the costs, even if it requires breaking the law to do so.

The last factor which in my opinion is also arguably one of the most important, as well as a issue with not only corruption, but in many legislations of Indonesia. Is the failure to build a good system to combat corruption. This is a significant factor behind rampant corruption cases and a poorly designed system allows the abuse of power with either barely any consequences, or loopholes. An example of this would be in Imports, an issue of importing essential goods is often caused by inaccurate data, which first of all, affects those who adhere to the law, and secondly, benefits those who engage in corruption acts with understanding of the situations.

Based on our understanding. If we want to improve the situation regarding investors and the fear of corruption. The steps required to take includes.

- Strengthening of KPK: The KPK or Corruption Eradication Commision should be improved and strengthened, ensuring that firstly, The officials involved and that are part of KPK are genuine and willing to do what it takes to ensure the eradication of Corruption. And secondly, the KPK in my opinion requires more power allowing the to do full investigations and lead actions based on the

¹⁸ <https://ugm.ac.id/en/news/pragmatism-greed-and-systemic-failures-deep-rooted-causes-of-corruption-in-indonesia/>

KPK's responsibility without the interference of other officials, so that Corrupted officials may not interfere with the actions of KPK

- Strengthening Judicial Integrity, as currently, courts tend to not be independent, and are not free from corruption themselves.
- Enhance the cooperation between organisations that are related to corruption, Such as OJK and KPK
- Improve transparency and digitalization
- Improve overlapping and underdeveloped jurisdictions.
- Integrate Anti Corruption education

Furthermore, According to Dr Mochtar. An main factor of importance to eradicate corruption, is the willingness and cooperation of all parties, as the biggest issue honestly is not just the fact that the law is not enforced well, but the fact that the citizens of Indonesia do not have the will to uphold it and maintain integrity as it is already like second nature for Indonesians to be indulge, expect, or experience corruption. To further improve anti corruption in Indonesia. An suggestion other then legal enforcements, would to implement anti corruption education to the public, especially the new generation. As well as the requirement of a Anti Corrupted role model to be present in the government. A reason why many citizens may indulge in corrupted acts is simply because of the lack of trust between the government and the citizen. This is something that has to be improved if we would ever want to see any hope of a decrease in corruption and enforcement in anti corruption regulations, as what matters in the end is the fact that the citizens and the government would be willing to work together, have trust in each other, and adhere to the laws.

C.3 The High Walls of Indonesia's Investment Barriers are not Worth the Climb

The bitter truth is that Indonesia is not an ideal place for investors to conduct business efficiently. From uncontrollable public outrage rooted in dissenting opinions of "valuable investment" to lengthy, tedious legal procedures become two of the long lists of barriers to attracting investment and upholding a reliable image.

C.3.1 Thuggery by Community Organisations are Getting Out of Hand

Indonesia as an investment hub has been facing thuggery by community organizations, (*premanisme* ormas). While community organizations in Indonesia exist within society to promote cultural, social, or political causes, many have gone barbaric and have taken the extent of exploiting development

projects for personal or group gain through intimidation, coercion, and extortion.¹⁹ As the voice of communal aspirations, these organizations sail under the banner of “protecting local rights or interests” while hiding away their opportunistic or criminal intent.²⁰ The game plan of these community organizations is they refuse to go through the bidding process for taking over or heading investment projects and wish to be appointed directly to develop a project. Once the business actors refuse, deviated organizations start to operate their violent tactics by physically disrupting, trespassing, and destroying the project development.²¹ Acts of coercion may include demanding companies employ their members regardless of qualifications, requiring the use of affiliated suppliers or contractors, imposing compulsory “security fees,” or threatening to block or disrupt operations unless their demands are met.²²

The question in the back of our minds is why these organizations are radically opposing investment opportunities that can potentially elevate the economy? Former Vice President Jusuf Kalla offered his insights in a 2024 statement, noting that many members of disruptive *ormas* are unemployed individuals seeking alternative forms of economic survival.²³ These individuals often seek job opportunities from organizations in hopes to gain power, influence, and financial incentives.²⁴ One might wonder how these community organizations have the courage to attack investment projects, including large-scale ones, without fear nor hesitation. The reason lies within the fact that some of these organizations are affiliated with political parties, powerful elites, or military personnel to support their agenda. Access to these influential figures are possibly from the members of deviated organizations who are a part of legislative bodies without any track record of political careers and a reliance upon hefty sums of money to sponsor their campaigns.²⁵ The protection

¹⁹ Muhid, H. K., & Andryanto, S. D. (2025, May 12). Mengapa premanisme bisa menghambat investasi. *Tempo*. <https://www.tempo.co/ekonomi/mengapa-premanisme-bisa-menghambat-investasi-1414205>

²⁰ Fajri, R. (2025, May 18). Ormas Pelaku Premanisme dianggap Menyimpang. <https://www.metrotvnews.com.https://www.metrotvnews.com/read/bVDCj6j2-ormas-pelaku-premanisme-dianggap-menyimpang>

²¹ Mewangi, M. (2025, March 25). Mempertanyakan Maraknya Ormas di Indonesia (14). *Kompas.id*. <https://www.kompas.id/artikel/mempertanyakan-hadirnya-ormas-di-indonesia>

²² Fakhriansyah, M., & Sandi, F. (2025, March 15). Pungli & Minta Jatah Proyek di RI Ternyata Subur sejak Zaman Kerajaan. *CNBC Indonesia*. <https://www.cnbcindonesia.com/news/20250315130505-4-618882/pungli-minta-jatah-proyek-di-ri-ternyata-subur-sejak-zaman-kerajaan/amp>

²³ Rajendra, R., & Meilanova, D. R. (2025, April 23). Kala investasi asing terancam premanisme ormas. *Bisnis.com*. <https://ekonomi.bisnis.com/read/20250423/257/1871261/kala-investasi-asing-terancam-premanisme-ormas>

²⁴ Rizky, M. (2026, March 11). Marak Aksi Preman Ormas Palak Pengusaha, Respons Menaker Tak Terduga. *CNBC Indonesia*. <https://www.cnbcindonesia.com/news/20250311183522-4-617729/marak-aksi-preman-ormas-palak-pengusaha-respons-menaker-tak-terduga/amp>

²⁵ Mewangi, M. (2025, March 25). Mempertanyakan Maraknya Ormas di Indonesia (14). *Kompas.id*.

towards thug-like organizations creates a culture of impunity, allowing *ormas* to act with little fear of prosecution. Corrupt individuals as leaders will definitely poison the system deeper than when they indirectly rely on public figures to sponsor their agendas. For investors and companies, this creates a risky operating environment where legitimate commercial operations could be pawns for the whims of non-state actors. The issue with letting community organisations with hidden intentions wreck investment opportunities is like letting a dog run loose without a leash: they will not stop. Like a snowball effect, once a group is seen benefiting from coercive tactics, others are readily imitated and adopt similar strategies. This is especially true in regions with active development, particularly in infrastructure, mining, energy, and plantations. The pattern becomes self-reinforcing, making it increasingly difficult for companies to operate without surrendering to unlawful demands.

At the same time, the law enforcers like the police are outnumbered by the ever-growing community organizations. In Indonesia, community organizations' presence spikes up to more than 600.000 in comparison to the 450.000 law officers or a ratio of 1 police officer per 600 citizens.²⁶ The lack of law enforcers tips to the advantage of rogue community organizations who make use of the opportunity to offer businesses a protection service. Large companies are less susceptible to this because they have enough resources to hire their own security, however, the smaller companies are sadly driven to the edge of the cliff. With their lack of influence, small companies are held at gunpoint by money-hungry *ormas* that leaves them no choice but to pay for the "security" to ease their business projects and avoid clashing with these organizations. This is what Ian Douglas Wilson and Max Horkheimer call a "protection racket": extortion under the guise of protection.²⁷ In the case of foreign investors, these individuals or companies often solely rely on official government channels and overlook the importance of building trust and communication with local communities. Community organizations that take pride in protecting the "interests" of society view this notion as an offence and a display of disrespect. As a result, members of these organizations will take matters to their own hands and disrupt investment projects that do not meet

<https://www.kompas.id/artikel/mempertanyakan-hadirnya-ormas-di-indonesia>

²⁶ Brown, D., & Wilson, I. D. (2007). Ethnicized Violence in Indonesia: Where Criminals and Fanatics Meet. *Nationalism and Ethnic Politics*, 13(3), 367–403. <https://doi.org/10.1080/13537110701451579>

²⁷ Wilson, I. D. (2015). *The Politics of Protection Rackets in Post-New Order Indonesia: Coercive capital, authority and street Politics*. Routledge & CRC Press. <https://www.routledge.com/The-Politics-of-Protection-Rackets-in-Post-New-Order-Indonesia-Coercive-Capital-Authority-and-Street-Politics/Wilson/p/book/9781138302525?srsId=AfmBOoqvCZmTpFw570qphNEhO1WkHDgypQK2DXJw4XBALqS6gJKVxU36>

their terms and conditions.

As a result of the thuggery performed by community organizations, the Indonesia Investment Coordinating Board (BKPM) reported that planned investments worth hundreds of trillions of rupiah were canceled due to fears surrounding *ormas*-related thuggery.²⁸ This figure underscores the scale of lost opportunities and the broader impact on investor confidence. For many companies, the threat these groups pose represents a risk that is too high, particularly when compared to alternative investment destinations in the region. Companies' operational costs also significantly increase. Many businesses are forced to set aside funds to fulfill *ormas*' demands. These costs are difficult to predict and account for, undermining financial planning and overall profitability. For smaller businesses and startups, such additional burdens can be detrimental.

Apart from the direct disruptions and costs, community organization thuggery also casts a long shadow over Indonesia's international reputation. Investors require legal certainty, operational stability, and an environment where institutional mechanisms can resolve disputes. When the activities of *ormas* compromise these conditions, Indonesia's image as a safe and reliable investment destination perishes into dust. Potential investors associate the country with unpredictability and lack of law enforcement, reducing its attractiveness in an increasingly competitive global market.

C.3.2 Lengthy Legal Procedures

The main logical reasoning for any foreign investors to be attracted to investing in a country is for them to offer a unique selling point that no other country would offer. One of the core reasons is a clear and concise legal procedure, which is something Indonesia lacks. For a country that calls itself a "state law", Indonesia has been notorious for legal uncertainty. Despite the improvement of gaining more investments in recent years, nobody should overlook the equally rising problems that create loopholes or legal gaps.

First, there are too many overlapping changes in every law that is promulgated. Changes to existing laws are made to accommodate changes in the times and developments in society. Of course, this is seen as a positive thing so that a law can always feel relevant from time to time, but problems arise when changes are made too routinely so that they are difficult to follow. Especially if the changes include too much interference from other agencies or

²⁸ Yolandha, F. (2025, February 10). Ormas Diduga Jadi Dalang Batalnya Investasi Ratusan Triliun, Begini respons BKPM. *Republika Online*. <https://ekonomi.republika.co.id/berita/srgh2c370/ormas-diduga-jadi-dalang-batalnya-investasi-ratusan-triliun-begini-respons-bkpm-part2>

legal entities in an article that requires a permit application, for example. This is reflected in the train-like coordination between the Capital Investment Coordinating Board that involves and is further delegated to Bank Indonesia, local government, and between local governments under Article 27 of Law Number 25 of 2007. Another notable change is found in the rules governing securities companies in Indonesia includes the status of national companies whose shares are fully owned by individual citizens, and joint securities companies that can be owned by foreign legal entities. The securities company operates in the financial sector outside the securities sector or in the securities sector that has obtained a Database BPK Regulation.²⁹ Based on these two examples, foreign investors are expected to keep up with the changes through the National Single Window for Investment.

Second, as a form of decentralization, the central government has long delegated business licensing to respective region's local governments. However, this regional autonomy creates legal inconsistencies between central and regional policies. The *lex generalis* and *lex specialis* are clashing with each other and serves as a challenge for foreign investors to navigate through the variety of legal landscapes based on the specific region they wish to operate in. Such a gap in uniformity is particularly staggering for investors who wish to operate in more than one region. A reflection of this hierarchical legal conflict is shown through Article 83A (1) of Government Regulation Number 25 of 2024 (GR 25/2024) that enables the issuance of the SMBLA on a Priority Basis to RCOs, creating a legal gap from both the inclusion of religious community organizations (RCOs) and granting them priority. As mentioned through the Minerba Law and its amendment Law 3/2020, the method in which State-Owned Enterprises and privately-owned enterprises are very different, as the State-Owned Enterprises such as BUMN and BUMD are on a priority basis which allows them to bypass private enterprises and obtain the SMBLA more quickly and often as a result. The priority basis mechanism as initially stipulated in Article 75 of Law 3/2020 is only meant for State-Owned Enterprises (BUMN) and Regional-Owned Enterprises (BUMD), meaning that it is designed to prioritize the government's interest above the interests of private parties. Adding RCOs into this priority basis causes conflict because it places the interests of RCOs in a similar stage to the interests of the government,

²⁹ *Ketentuan Kepemilikan Modal Asing pada Perusahaan Efek | KSP LEGAL ALERT | KSP Law*. (2024, June 4). <https://www.ksplaw.co.id/m/Publication/KSP-LEGAL-ALERT/ketentuan-kepemilikan-modal-asing-pada-perusahaan-efek.html>

with no clarification as to which one prevails should there be conflict in this system. In addition to the overlapping laws in the mining sector, an investor must apply for an exploration permit and operation permit to the Ministry of Energy and Mineral Resources (ESDM), and also obtain an environmental permit from the Ministry of Environment and Forestry (KLHK). The degree of complexity and bureaucracy from obtaining a business license causes the process of investing to be overly prolonged and taking away the attractiveness of investing in Indonesia, an increase in administrative and legal costs from document resubmission and fulfillment of prerequisites, and the ambiguity of surrounding whether or not after such lengthy process the investors can secure a permit. Moreover, the national and regional agendas can differ significantly. On one hand, a region may depend on certain natural resources as the main source of livelihood and income. On the other hand, the central government might have a national agenda to optimize the exploitation of natural resources for economic growth.

D. Conclusion

In conclusion, Indonesia's persistent struggle with corruption presents a formidable obstacle to its progress and prosperity. This deeply entrenched issue erodes public trust, deters investment, and hinders economic development. The multifaceted nature of corruption, evident in various sectors and high-profile scandals, necessitates a concerted effort to implement meaningful reforms. Addressing this challenge is not merely a matter of improving governance; it is crucial for unlocking Indonesia's full potential and ensuring a more equitable and prosperous future for its citizens. The time for decisive and comprehensive action is now, to break free from the shackles of corruption and pave the way for sustainable development and growth.

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