On the Persistence of Political and Economic Institutions in Banking

By Sharon Poczter[1]

Abstract

This paper analyzes quantitatively whether a particular economic institution often underpinning political regime change – the influence of political connections in banking - persists over structurally different political institutions. While theory suggests that economic institutions persist over political transitions if the benefits accruing to political elites remain, quantification of the enduring influence of politics in banking has thus far been limited. Using data covering the population of Indonesian banks and their changing political connections over the democratic transition, this paper finds that while the influence of political ties on bank behavior remains unchanged over the structural change in political institutions, *how* political power in banking is derived changes over time. Namely, democratization results in a shift from in political ties in banking from those with formal to informal political influence. While the political influence in banking is formerly concentrated more in officials with formal government positions, bank behavior is more influenced by elites with informal political positions after democratization. While an intent of political regime change may be to dismantle the influence of this underlying economic institution, these results suggest a model of captured democracy whereby the influence of political elites persists regardless of changes to political institutions. From a practical perspective it also suggests that changes in political influence will not dismantle the politics-banking channel, but rather result in banks shifting to less transparent ties.

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1. Introduction

While the persistence of economic institutions is well-documented, there is substantial observational evidence that political institutions do not endure over time. For instance, while current levels of economic development in many countries are attributed to the persistence of original colonial institutions, these same settings often undergo substantial political regime change over the course of development. Understanding whether political regime change goes hand-in-hand with changes to economic institutions is important because the aim of costly political regime change is often to address failing economic institutions that are thought to cause widespread social problems such as inequality, or poverty. Yet, empirical work providing evidence as to whether political institutions and economic institutions change simultaneously is scant.

This paper aims to fill this gap by analyzing whether a predominant economic institution in developed and emerging economies alike – the politics-banking relationship -- changes over political regime change in a large emerging market. Using a unique data set of the political connections in the Indonesian banking sector over a structural change in the political regime, the analysis suggests that while the political institution changes, the influence of political elites on bank behavior persists. In particular, this study shows that the influence of political connectedness on bank behavior (as measured by elites' membership on the boards of banks or as shareholders) survives political regime change, even when controlling for bank-specific time invariant characteristics and implementing additional analyses to address further issues of endogeneity. Banks with a larger proportion of board members with political influence tend to be have lower performance and solvency. Further, I find evidence that democratization leads to the transfer of the influence of political elites from power allocated directly through formalized political positions to power obtained informally through bureaucratic or private sector means, as the impact of informal elites on bank behavior increases after the transition.

This result provides empirical evidence for the model developed by Acemoglu and Robinson (2006), in which elites substitute directly granted de jure political power with informally obtained de facto political power as response to changes in political institutions. In response to a new political structure in which the distribution of political power shifts away from elites, elites use informal political power to offset changes in direct power in order to protect their privileged positions. In this regard, the outright political influence of elites is replaced by a less transparent, yet no less influential relationship of elites to banks. Even when the identity of the elites changes as a result of reform, if the persistence of incentives for whoever is in power to distort the system for their own benefit remains, the current elites are simply replaced by newcomers who have no incentive to act differently (Michels 1915). Thus, a change in political institutions need not lead to a change in economic institutions, or in this particular case, democratization may not eliminate the influence of the government in banking.

Political influence may affect bank behavior in several ways. On the one hand political connections can provide banks with preferential treatment from the government including bailouts from failure, relaxations of regulatory oversight, or direct protection from competition through the restriction of bank charters. If efficiently allocated, this could give politically connected banks an advantage over competitors, allowing them to take on more risk and increase performance. On the other hand, political interference in the management of banks can decrease performance if politicians use the bank as a vehicle to pursue political objectives outside of profit maximization. Weakened incentives from government protection may further lead politically connected banks to weak performance. It is therefore left as an empirical issue, whether on-balance, politically connected banks exhibit weaker or stronger performance over time.

This paper studies whether this influence persists over time and if so, *how* it changes. While the intent of democratization in particular may be to shift political power away from elites, theory suggests that as long as economic institutions bestowing benefits to political power for elites persist, the political influence of elites will remain, albeit in a different form. In particular, this study measures changes to both formal power obtained directly through political institutions versus informal power obtained by channels such as the control of private sector or bureaucratic resources over democratization. This is important as if only formal power is measured, what may appear as a structural break in institutions from democratization may in fact be concealing a "captured democracy", whereby economist institutions favoring the elite persist (Acemoglu & Robinson 2006). Furthermore, the persistence of political influence and the transition to informal political power suggests that political transition does not change the reliance of banks on the benefits of political influence, and in fact may increase search costs for banks looking to shift political connections to elites with informal political influence.

The enduring influence of government in banking is important to examine as an example of a potentially enduring economic institution for several reasons. First, banking is one of the most economically important, and politically connected industries. With control over the allocation of financial resources in an economy, the government and the banking sector are often inextricably linked. Even beyond state ownership of banks, the government often takes an active role in regulating banks, and saving failing banks from failure, for instance. With this connection, both the government as well as banks can influence one another over the control of a significant allocation of financial resources within an economy. This allocation of potentially scarce resources may directly impact economic development. Second, political regimes are often dismantled at least in part because of close connections between finance and politics (O'Donnell *et al.* 1986) . Periods of financial crisis, for instance, often expose the intimate relationship between financial markets and the government, calling into question the legitimacy of the sitting government, and helping to usher in changes to political power. A main motivation of political regime change, therefore, may be the movement of political power from one set of actors to another, and the minimization of government-banking ties. Finally, political regime change is costly from an economic, political, and social perspective. Thus, it is important to understand if a main motivation - the dissolution of the government-banking relationship, is achieved.

This paper builds on the existing literature examining the impact on bank behavior of political connections (Bae *et al.* 2002; Dinç 2005; Micco *et al.* 2007; Li *et al.* 2008; Baum *et al.* 2010) in several important ways. Measuring how the influence of politics in banking over long periods of time is difficult as the prior empirical literature implicitly models political connections as time-invariant by using static measures of political connections. A main motivation for the collection of dynamic data on the influence of political elites in banking was to address the changing nature of these connections over time. Furthermore, prior work on the government-banking relationship focuses almost exclusively on state ownership or publicly traded banks (Dinç 2005;

Micco *et al.* 2007; Kostovetsky 2009; Baum *et al.* 2010), even though the benefits of political connections are more likely to accrue towards privately held banks to the extent that high leverage or low taxation reflect benefits, especially as privately held banks face less disclosure requirements than their publicly traded counterparts. Results based on this select group of banks may be subject to selection bias and from a generalizability perspective are limited to these particularly parts of the banking sector. Here, results based on data from the population of banks over time allows for conclusions to be descriptive of the entire banking sector. This is particularly important in emerging markets, in which banking plays the dominant role for resource allocation in the economy.

Section 2 discusses the theoretical background behind the persistence of political and economic institutions over time. In Section 3, the institutions are described within the Indonesian context. Section 4 discusses the unique hand-collected data connecting elites with political influence to the banking sector in Indonesia. A discussion of the main results is then followed by the conclusions drawn from this analysis regarding the persistence of political and economic institutions in banking in Sections 5 and 6.

2. Political Regime Change and the Politics-Banking Relationship in Indonesia

Several features of the particular politics-banking relationship and the changes to the political structure make contemporary Indonesia, and particularly the period 1993-2009 an ideal setting in which to empirically examine the coevolution of economic and political institutions. First, the close connection between firms and politics in Indonesia is well-established (Fisman 2001; Leuz & Oberholzer-Gee 2006). And while these other studies focus on publicly traded firms in non-financial sectors, the banking industry is not an exception. Even a more coarse review of the political connectedness in the Indonesian banking sector than the one provided by this analysis suggests that politicians and banks are intimately tied Indonesia prior to 1999. For instance, prior to 1999, several of the largest banks in Indonesia were at least partially owned by a relative of Suharto (Poczter 2015).

Most importantly, Indonesia's democratic transition in 1999 represented a fundamental break in the formal institutional structure of Indonesian politics, ending over three decades of authoritarian rule under Suharto's New Order regime. While the details of the fledgling democracy would not be completely settled until 2004, the most significant changes were in place upon the first elections (on the evolution of Indonesian democracy from 1999 onwards, see Horowitz (2013). After 1999, the managed political competition under the authoritarian regime, transitioned to a competitive multiparty democracy with dozens of political parties competing for power.

Scholars have suggested, however, that while 1999 marked the transition to democracy, many of the pre-existing economic institutions carried over from the authoritarian regime including the persistent influence of powerful political elites (Hadiz 2004). Further, work examining the political continuities suggests that the identity of the powerful elites also did not change over the democratic transition. This qualitative work suggests that while Indonesia experienced a definitive political transition, prior economic institutions such as the influence of elites remained.

3. Data and Methods

Data description

Two main datasets were used for this analysis. The first includes annual balance sheet, income statement, and descriptive information for the population of Indonesian banks from 1993-2009. This data was obtained from the central bank of Indonesia, Bank of Indonesia (henceforth the "BI dataset"). Private data from the years 1993-2000 were digitized and translated from Bahasa Indonesia into English by the author, and merged with the same data from 2001-2008, which are publicly available. The BI dataset provides the information used for the majority of the variables in the analysis. In particular, the BI dataset includes the names of each board member and shareholder for every Indonesian bank over this period. Indonesian banks are required to have a two-tiered board, consisting of a board of directors, and an oversight-related board of commissioners. Banks also may choose to have additional boards for supplementary oversight and governance. These include supervisory boards, audit boards and compliance boards. In addition, banks offering shariah banking may also have an additional board for the governance of shariah transactions. Only information from the board of directors, commissioners, audit board, supervisory board and shareholders are used here, however, as the remaining board memberships over this time was extremely small.

The second dataset includes the necessary information on political elites (henceforth the “elites dataset”). Two hand-collected datasets of the curriculum vitaes of political elites were appended in order to complete the elites dataset. Most of the data comes from the *Encyclopedia of Prominent Indonesians*, a comprehensive database of profiles of the most influential Indonesian political elites. The database is maintained by the prominent non-profit media consulting firm Tokohindonesia, whose aim it is to increase political transparency in contemporary Indonesia (See Appendix A for more information as to how this data were collected).

The other dataset used to capture the CVs of political elites was confidential information obtained for all members of the bicameral Indonesia legislature elected in 2001 and 2005 (the House of Representatives (DPR) and House of Regional Representatives (DPD). All members of the DPR and DPD are asked to provide a CV to the government once elected to office, and this information was provided to the author by a member of the DPD. These additional CVs were used to both verify and add to the *Encyclopedia of Prominent Indonesians*.

All in all, the elites dataset include information for over 1600 political elites active in the pre and post-Suharto period in Indonesia. These elites have formal political positions at the federal and local level (members of parliament, the cabinet, governors, mayors) as well as those with no formal political position but considerable political influence through participation in political parties, private sector means, or relationships with politicians (for instance, Suharto's children). For each political elite, the dataset has information regarding birth place, education, political party membership, professional experiences, and political positions held by the person over time.

The final dataset was constructed by matching the names of the political elites to the names of all of the board members and shareholders of each Indonesian bank for each year from 1993-2008 using an algorithm generated for these purposes. Thus, political connectedness is defined as having a political elite (ambassador, bureaucrat, local government official, cabinet minister, member of Parliament or political party official, or influential member of the private sector) either on the board of directors, board of commissioners, audit board, supervisory board, or as a shareholder of the bank.

Altogether, the combined dataset includes 32,014 bank-year-member level observations, with 278 banks, over a 16 year period. Over this period, 41%of banks at some point in the sample have at least one politician as a board member or shareholder. For those that banks with political connections over this period, over 50% with more than one politician.

Summary Statistics

As the ultimate dataset is on the bank-year-board member level, I provide descriptive statistics at all three levels. Table 1 provides background information regarding the banks in the sample. Over this period, 278 banks were in the sample, the majority of which were domestic non-state owned banks in terms of number, while state owned banks played a predominant role in the banking sector in terms of size. State banks are larger, lend more, and are higher performing and are more stable in terms of solvency over this period relative to all other banks types.

Table 2 shows the number of bank-level connections in each position in the sample per bank type. Over this period, the population of Indonesian banks had 202 distinct connections to political elites. In support of the previous point that privately held banks are likely to have more political connections that publicly traded banks, Table 2 shows that 75% of the political connections over this period were to domestically-owned private banks. Unsurprisingly, over sixty percent of the elites connected to banks sat on the board of directors and board of commissioners, the required boards that likely have more influence on bank decision-making.

Finally, the elites are categorized by their political position at the time they were connected to the bank from nine “positions”: ambassador, bureaucrat, local government (governor, mayor), member of the military, minister, parliament member, officer of a political party, or those with private or public sector positions. The cross-sectional distribution of these positions is more dispersed for all of the banks overall. Table 3 indicates that of these positions, elites working in the private sector represented approximately 35% of the connections in the data. This is even higher for domestic private banks, where 44% of the connections for these banks were to elites with private sector positions. Members of parliament and ministers represented the next largest frequency, with 18% and 12% of the connections from these groups.

So far, the descriptive statistics of the elites look at the entirety of the political connections in the cross-section. Incorporating a more dynamic approach, when dividing the data into pre and post democratic transition, the data show that after the political regime change, the proportion of private sector elites increased dramatically as a fraction of the total number of political connections. Table 4 further examines the dynamics of the political connections. Table 4 clearly indicates a drop in the proportion of politicians on each type of board, but several years after the initial political change. Of particular interest are the required board of directors and board of commissioners over this period. Table 4 shows the average proportion of politically connected board members on each board, for each year over the dataset. The average proportion for domestic private banks, for instance, changed from 41% at its high in 1999 to 12% in 2008. Altogether, this provides preliminary evidence that while the proportion of politicians of the total number of board members decreased following transition, a larger proportion of these were from the private sector.

4. Results

To first measure whether the whether the connection to political elites matters for bank behavior over the 1993-2008, a baseline fixed effects regression is implemented. To capture an annual measure of political connectedness for each bank, the proportion of board members (shareholders) that are politicians is used. The outcomes variables used to describe bank behavior includes variables of interest measure efficiency (total interest expense, total operating income), solvency (as measured by the z-score, capital adequacy ratio, and loan loss provision), performance (return on equity and net interest margin), and profit (total profit/loss).[2]

Two main regressions are implemented for each time period. The first includes only one measure of political connections, POLCON BOARD, which is equal to the proportion of board members across all boards in that year that are political elites. The second includes two measures, POLCON BOARD INFORMAL and POLCON BOARD DIRECT, the proportion of total board members that are "informal" political elites and those that are directly elected political elites. Informal political elites political influence comes from less formal channels than the officials holding political office. Directly

[2] See Appendix B for the calculation of these measures.

elected officials include ambassadors, local government officials, ministers and members of parliament. Those informal elites include bureaucrats, members of the military, officers in political parties, and those with private and public sector positions at the time of sitting on the board. Each regression includes controls for bank level controls, bank fixed effects, and year dummy variable controls.

Tables 5-7 present the results of the two baseline fixed effects regressions for three separate time periods. Table 5 measures the overall influence of political connections on bank behavior over the entire 1993-2008 time period. The other two periods examine the influence of political connections under the authoritarian regime (1993-1996), and after the transition to democracy (2000-2008). The aim of the analysis is to understand the changes to how political connections influence bank behavior over this structural political regime change.

The results indicate shows that for the entire period 1993-2008, political connections negatively influence the outcome variables of efficiency, and performance, and solvency. Over this period, informal elites negatively influence performance and solvency, and have no impact on efficiency, while direct political elites negatively influenced each outcome variable.

Tables 6 and 7 show the same regression for only pre-democratization and post-democratization years, respectively. The interest here lies in the changes in magnitude of the relationship between informal and direct political elites and bank behavior over the political regime transition. Altogether political connections negatively influence bank behavior both before and after the political transition, except for efficiency. Efficiency is only related to direct political connections during the authoritarian regime. Afterwards, direct political connections positively influence efficiency, while informal negatively influence political connections. For all of the other outcome variables, the magnitude of the impact of the informal measures increase post-democratization, the negative influence of informal political connections increases, while the influence of direct political connections decreases, or becomes no longer significant in predicting the outcome (solvency). For example, in column (3) of Table 6, informal elites during the authoritarian regime decrease net interest margin by approximately 8 percent, while in the democratic period, informal elites decrease net interest margin by 10 percent.

An additional question is whether the relationship between politically connected banks and bank financial outcomes is a Suharto family phenomenon only. While this would not bias the results, it would be interesting to understand whether the nature of this economic institution is driven by the changes in a very small group of people. Namely, if under the authoritarian regime, Suharto's family members had formal political positions and were connected to banks, and then transitioned away from formal positions, perhaps the results are capturing the changes to a small group of political elites.

5. Robustness and additional hypotheses

To test the robustness of the relationship between political ties and bank behavior, an additional estimation is conducted to consider the potential impact the widespread recapitalization program implemented in the Indonesian banking sector as a response to the Asian financial crisis. First, I include an indicator in the full-panel regression analysis that controls for the potential impact of receiving recapitalization funds from the government. Without controlling for the post-recapitalization years, the infusion of capital may bias our coefficient of interest if the recapitalization is correlated with the proportion of politicians on the board and also influenced bank behavior. When this is included as a bank-level control, however, the magnitudes of the results for the full panel do not change significantly.

In addition, the baseline analysis is conducted again using alternative measures of political connections, rather than the proportion of board members that have political influence. Namely, political connections are measured as a dummy variable equal to one if the bank was politically connected in that year. Being less fine-grained, this measure is less informative and cannot help distinguish changes to informal and formal political power. These results mirror the outcome with the original measure of political connections, yet are of different magnitude.

The main concern for this paper is that the coefficient of political connections is biased, as financial outcomes leads banks to seek political connections rather than banks making decisions regarding behavior based on their reliance on their political ties. While this is difficult to address with the baseline measure of political connections, a Heckman two-step procedure is implemented using the political connectedness indicator. First, the likelihood of a bank being politically connected is calculated using the same control variable used for the original analysis, plus additional controls variables known to distinguish whether a firm has political connections including size (loans), and age, both calculated in natural logs. Results of the Heckman analysis also indicate slightly different magnitudes for the coefficients of interest, without a particular pattern in this change from the original results.[3]

[3]Author is currently finishing these results for inclusion in a later version.

Conclusion

While the intimate relationship between banking and the state has been a precursor to political regime change, whether this relationship survives regime change is untested. Nevertheless, many societies undergo costly structural changes to political institutions with the hopes of diminishing political graft in banking. Thus, we do not know whether these transitions actually represent true change or whether they merely the persistence of underlying institutions.

The basic idea of this paper is to capture whether an important economic institution – the politics-banking relationship, persists over political regime change and how the persistence of this institution could have lasting effects on economic outcomes, namely the financial outcomes of the banking sector of a large emerging market. By separating political power into power obtained from direct and informal political, channels, the main result paint a picture of the changing nature of political economy over a democratic transition. In particular, the influence of political elites on bank behavior moves from direct to informal over democratization. This expands on Acemoglu and Robinson 2006's concept of "captured democracy", an equilibrium in which democracy coexists with elite-centered economic institutions by showing that such institutions survive regime change.

While nailing down the precise reason for the persistence of political ties of the banking sector is beyond the scope of this paper, several possibilities could explain why political connections continue to influence the behavior of banks post-regime change. For instance, even though democratization puts pressure on ruling elites, it may be the case that elites still possess considerable de facto power through their control over economic resources. Furthermore, the corresponding persistence of and changes to economic and political institutions (respectively) may not in fact reflect the long-term equilibrium if ingrained economic institutions are more costly to disassemble. This may be particularly applicable to the politics-banking relationship which banks may be reluctant to let go of if it diminishes bank value. Thus, until the incentives of the elites are altered, economic institutions favoring the elite will persist.

Appendix A.

The primary source of data is the *Encyclopedia of Prominent Indonesians [Encyclopedia]*. The *Encyclopedia* is a comprehensive online database of profiles of the most Indonesian contemporary and historical political figures. The database was created and is maintained by a non-profit media consulting firm whose aim it is to increase political transparency in contemporary Indonesia. Politicians and other elites are included only if primary source information and validation is obtained via direct interviews with the politicians or a family member of the politician. A summary of the method employed to add a politician is the following: Persons of political influence to be included are suggested and discussed among the consulting firm's executive officers and staff members, all of whom are current or former journalists specializing in politics. The idea is to include those who have held significant political offices as well as those who may not have directly have been an elected politician, but yield considerable political influence as important members of the military, private sector, a political party, or are significant bureaucrats. Then, the person is contacted for a face-to-face interview. If the person cannot meet in person, the interview is conducted over the phone. If that is not possible, their direct family (spouse, parents or siblings) is contacted and an interview is requested. Persons are only included if either of these primary sources are available. Further details on the interview process can be found in Appendix A.

To check internal consistency and add to the Encyclopedia, an additional dataset of CVs of the most influential politicians was obtained privately from a prominent political risk consulting firm in Indonesia. Finally, an additional confidential dataset of CVs of the members of Indonesian bicameral legislature was obtained from the Indonesian government, as newly elected parliamentarians are asked to submit a CV once elected. The information from the Encyclopedia was hand-entered in 2009 and updated annually until 2012.

The *Encyclopedia of Prominent Indonesians* was created and is maintained by Tokoh Indonesia, a not-for-profit media consulting firm with the mission to "create greater transparency"[4] of the political sector in Indonesia. Its members and staff are largely journalists specializing in politics. The *Encyclopedia of Prominent Indonesians* includes information about the most influential formal and informal leaders (both current and historic) involved in politics in Indonesia as determined by Tokoh's staff. Each profile includes the individual's curriculum vitae and other personal information.
The *Encyclopedia of Prominent Indonesians* EnTokoh Indonesia describes the standard procedure for adding a profile to the Encyclopedia as follows. Based on the editor-in-chief's and the staff's collective expertise, a politician is considered for addition to the *Encylopedia*. There is no limit to the number of persons who could in principle be included in their search. After a politician is considered worth adding, Tokoh Indonesia collects primary source data on the CVs of politicians by interviewing the person of interest in person or if unavailable in person, by phone. If the person cannot be reached, Tokoh Indonesia then interviews his or her family members also in person first and if unavailable then by phone. If primary sources are entirely unavailable, two main secondary sources are used. First, the Indonesian Ministry of Social Affairs may provide

[4]Translated from Bahasa Indonesia by a research assistant, Edwin Thong, after interviewing the Vice President of Tokoh Indonesia via phone.

Tokoh Indonesia with politicians CVs by request. Second, Tokoh searches the following eight newspapers for information regarding the politcians CV: *Kompas*, *Republika*, *Suara Pembaruan*, *Media Indonesia*, *Indopos*, *Tempo*, *Gatra*, and *Berita Indonesia.* Tokoh also searches the secondary sources for information for those politicians whom primary sources were available for any additional information or discrepancies. Any additional or conflicting information is confirmed via phone or text with the respective individuals or their families by sending them document copies of the information. If the secondary information cannot be verified or discrepancies not clarified by primary sources, the additional information is not included in the Encyclopedia. Tokoh Indonesia maintains open communication with the profiled individuals and their families in case they need to correct or add any information on the website.

The information from each profile in the Encyclopedia was hand-entered. The bulk of the data was entered in 2009, and each year it was update to include politicians added to the Encylopedia each year until 2012. Data included information regarding the politician's personal, educational, private sector and political background. Personal information includes year of birth, birthplace, name of spouse and children, and religious affiliation. Educational background includes the dates, location, and institutions for each degree obtained. Private sector/non-government background includes information regarding the title of the position, the name of the company or organization, and the dates for each non-governmental position held. Political background includes the title and dates for each political position held as well as political party affiliation. Political positions fall into one of six categories: ambassador, bureaucrat, local government official, cabinet minister, member of Parliament or political party official.

Next, the information from the main dataset was verified using additional data provided by an independent company conducting political risk analysis in Indonesia, PT Reformasi Info Sastra [PT Ris]. One of the leading political risk consulting firms in Indonesia, PT Ris specializes in the analysis of investment conditions, providing clients with strategic consulting, customized research, and syndicated reports. The data used are from Pt Ris's book *Who's Who in the Yudhoyono Era [Who's Who]*, which provides the CVs of more than 140 government officials, policy-makers and politicians, including the entire cabinet, security officials, the leaders of major state institutions, senior civil servants, political party chairs, parliamentary faction heads and major state enterprise directors. Almost all of the politicians from Who's Who appear in the Tokoh Indonesia dataset. Discrepancies in information between the two datasets were minor.

The third source of data is the CVs of all members of the bicameral Indonesia legislature (the House of Representatives (DPR) and House of Regional Representatives (DPD), obtained confidentially from a source in the Indonesian government. All members of the DPR and DPD are asked to provide a CV to the government once elected to office. Again, this was used to both verify and supplant the Encyclopedia.

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Table 1. Bank-level descriptive statistics for population of Indonesian banks 1993-1996, 1999-2008.

	(1) Number of banks	(2) Lending	(3) Efficiency	(4) Net interst margin	(5) Return on equity	(6) Solvency
Domestic private	183	4311	244	0.09	0.11	0.06
Foreign	14	4021	1157	0.09	0.14	0.08
Joint venture	38	1322	625	0.08	0.34	0.04
Regional development bank	30	1248	256	0.14	0.16	0.05
State bank	13	31500	8612	0.10	0.13	0.09

Note: Desriptive statistics for lending, efficiency, performance, profitability and solvency measures for the population of Indonesian banks over the period 1993-1996, 1999-2008. The years 1997, 1998 are excluded as data in this period are more difficult to interpret in light of the bank balance sheet issues caused by the Asian financial crisis. Variables are measured as averages over the 1993-1996, 1999-2008 period by bank type for lending (thousands IDR), efficiency (as measured by total interest expense in thousands IDR), performance (as measured by the ratio of net interest income to total assets (NIM) and return on equity (ROE)), and bank solvency (as measured by the z-score). Z-score= $((ROA_{it}+CA)_{it}/\sigma(ROA)_{i}$.

Table 2. Bank-level political connections by type of bank and political position for the population of Indonesian banks 1993-2008

	Bank-level political connections through:					
	(1)	(2)	(3)	(4)	(5)	(6)
	Board of directors	Board of commissioners	Audit board	Supervisory board	Shareholders	Total
Domestic private	45	63	15	0	29	152
Foreign	0	0	0	0	0	0
Joint venture	4	6	4	0	0	14
Regional development bank	2	4	7	6	0	19
State bank	7	4	2	4	0	17
Total	58	77	28	10	29	202

Note: These values represent the total number of political connection by position for each type of bank. For example, column (1) indicates that domestic private banks had political connetions via the board of directors. In total, the population of Indonesian banks had 202 political connections over the 1993-2008 period. This measurement considers each particular politician-position as one connection. Thus, if the politician was on the board for 4 years, this still only counts as 1 connection. However, if the politician was one year on the board of commissioners, and the next year on the board of directors, this is counted as two connections.

Table 3. Distribution of political connection by career position by bank type for the population of Indonesian banks 1993-2008

	(1) Ambassadors	(2) Bureaucrat	(3) Local government	(4) Military	(5) Minister	(6) Parliament	(7) Party	(8) Private sector	(9) Public sector	(10) Total
Domestic private	0	2	2	16	19	25	7	67	14	152
Joint venture	1	1	0	0	2	2	4	2	2	14
Regional development	0	0	6	1	1	5	4	0	2	19
State owned	0	1	0	2	4	5	1	4	0	17
	1	4	8	19	26	37	16	73	18	202

Table 4. Proportion of politically connected board members and shareholders by year for the population of Indonesian banks 1993-2008

	(1) Board of directors	(2) Board of commissioners	(3) Audit board	(4) Supervisory board	(5) Shareholders
1993	0.28	0.49		0.61	0.24
1994	0.31	0.49		0.61	0.23
1995	0.30	0.51	0.58	0.49	0.27
1996	0.32	0.49	0.55	0.58	0.28
1997	0.34	0.46	0.54	0.53	0.30
1998	0.35	0.47	0.54	0.44	0.32
1999	0.41	0.56	0.63	0.20	0.15
2000	0.41	0.56	0.50	0.20	0.15
2001	0.40	0.39	0.50		0.17
2002	0.30	0.39	0.50		0.21
2003	0.23	0.28	0.50		0.33
2004	0.18	0.32	0.50		0.17
2005	0.19	0.23	0.50		0.12
2006	0.21	0.24	0.50		0.14
2007	0.19	0.23	0.50		0.20
2008	0.12	0.24	0.50		0.20

Note: Each value is calculated as the proportion of politicians sitting on each board/as shareholders each board each year averaged over all banks for that year. There were no supervisory boards after 2000, and no audit before 1995.

Table 5. The relationship between bank political connections and outcomes for the population of Indonesian banks 1993-2008

		(1)	(2)	(3)	(4)
			Performance		
	Dependent Variable	Efficiency	Return on equity	Net interest margin	Solvency
(1)	POLCON BOARD	-0.0323*	-0.0904**	-0.0475*	-0.0172*
		(0.0187)	(0.0389)	(0.0249)	(0.00989)
(2)	POLCON BOARD INFORMAL	-0.189	-0.225**	-0.0369***	-0.0481**
		(0.226)	(0.104)	(0.00851)	(0.0201)
(3)	POLCON BOARD FORMAL	-0.0524**	-0.0502*	-0.0557**	0.0509**
		(0.0254)	(0.0276)	(0.0216)	(0.0228)
	Bank Level Controls	X	X	X	X
	Fixed Effects	X	X	X	X
	Year Dummies	X	X	X	X
	Observations	2369	2222	2222	2369
	R-squared	0.13	0.14	0.11	0.10

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

This table shows the results of two regressions. Row 1 indicates the results from a regression looking at the influence of politically connected boards on bank behavior. Rows (2) and (3) report the results from a separate regressions, which splits political influence between formal and informal influence

POLCON BOARD is the proportion of politicians on all boards in that bank year. POLCON INFORMALis the proportion of total board members that are elites without a formal politial position. POLCON FORMALis the proportion of board members that are political elites with a formal political position. Each value in percentage form such that the magnitudes indicate that for every one out of ten increase in the boar members, the outcome measured changed by the percentage indicated in the table.
Solvency is measures using z-score, where z-score= log((ROAit+CA)it/σ(ROA)i

Efficiency is measured as total interest expense,performance as return on equity and net interest margin, and solvency as the z-score.
All dependent variables in log form
Financial crisis years 1997 and 1998 removed as banks struggled with accurately representing their financial statements

Table 6. The relationship between bank political connections and outcomes for the population of Indonesian banks, pre-democratization 1993-1996

		(1)	(2)	(3)	(4)
			Performance		
	Dependent Variable	Efficiency	Return on equity	Net interest margin	Solvency
(1)	POLCON BOARD	0.0108	-0.0907**	-0.0733***	-0.0373***
		(0.0339)	(0.0433)	(0.0277)	(0.0144)
(2)	POLCON BOARD INFORMAL	0.0829	-0.0926***	-0.0803***	-0.0648**
		(0.0579)	(0.0300)	(0.0277)	(0.0301)
(3)	POLCON BOARD FORMAL	-0.0444*	-0.0459*	-0.0712**	0.0348*
		(0.0267)	(0.0258)	(0.0299)	(0.0198)
	Bank Level Controls	X	X	X	X
	Fixed Effects	X	X	X	X
	Year Dummies	X	X	X	X
	Observations	745	730	730	745
	R-squared	0.18	0.15	0.12	0.11

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

This table shows the results of two regressions. Row 1 indicates the results from a regression looking at the influence of politically connected boards on bank behavior. Rows (2) and (3) report the results from a separate regressions, which splits political influence between formal and informal influence

POLCON BOARD is the proportion of politicians on all boards in that bank year. POLCON INFORMALis the proportion of total board members that are elites without a formal politial position. POLCON FORMALis the proportion of board members that are political elites with a formal political position. Each value in percentage form such that the magnitudes indicate that for every one out of ten increase in the boar members, the outcome measured changed by the percentage indicated in the table.

Efficiency is measured as total interest expense,performance as return on equity and net interest margin, and solvency as the z-score.
Solvency is measures using z-score, where z-score= log((ROAit+CA)it/σ(ROA)i
All dependent variables in log form

Table 7. The relationship between bank political connections and outcomes for the population of Indonesian banks post-democratization 2000-2008

		(1)	(2)	(3)	(4)
			Performance		
	Dependent Variable	Efficiency	Return on equity	Net interest margin	Solvency
(1)	POLCON BOARD	0.00650	-0.107**	-0.0633***	-0.0608***
		(0.00811)	(0.0445)	(0.0287)	(0.0140)
(2)	POLCON BOARD INFORMAL	-0.027**	-0.258**	-0.103***	-0.1216**
		(0.0073)	(0.123)	(0.0567)	(0.0252)
(3)	POLCON BOARD FORMAL	0.0156**	-0.0124**	-0.0259***	0.0618
		(0.00739)	(0.0054)	(0.0055)	(0.0400)
	Bank Level Controls	X	X	X	X
	Fixed Effects	X	X	X	X
	Year Dummies	X	X	X	X
	Observations	1624	1492	1492	1624
	R-squared	0.12	0.11	0.089	0.16

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

This table shows the results of two regressions. Row 1 indicates the results from a regression looking at the influence of politically connected boards on bank behavior. Rows (2) and (3) report the results from a separate regressions, which splits political influence between formal and informal influence

POLCON BOARD is the proportion of politicians on all boards in that bank year. POLCON INFORMALis the proportion of total board members that are elites without a formal politial position. POLCON FORMALis the proportion of board members that are political elites with a formal political position. Each value in percentage form such that the magnitudes indicate that for every one out of ten increase in the boar members, the outcome measured changed by the percentage indicated in the table.

Efficiency is measured as total interest expense,performance as return on equity and net interest margin, and solvency as the z-score.
Solvency is measures using z-score, where z-score= log((ROAit+CA)it/σ(ROA)i
All dependent variables in log form