

**UNDISBURSED LOCAL BUDGETS:  
THE DILEMMA OF PUBLIC PROCUREMENT REFORM AND  
ANTI-CORRUPTION INITIATIVES IN INDONESIA**

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**1. Background**

Having been severely hit by Asian financial crisis and the entailed political turmoil in 1998, Indonesia has embarked on the era of *reformasi* (reforms). Political democratization, decentralization, judicial transformation, and recently administrative reform are among the wide-ranging fundamental reforms. In 2004, for the first time in the country's history, the president was directly elected by the people. The most remarkable achievement was that the election could be conducted in a relatively free, fair, and peaceful manner. Democratization was also followed through with direct elections of provincial governors and district heads and members of parliaments at all levels. Under the new political constellation characterized by a multi-party system, new forms of checks and balances, and more opened public demands, the transition towards democratic governance is far from settled. Nevertheless, it has become clear that Indonesian political system has put a brake on the past authoritarian system and that all elements of democratic institutions have been put in place.

Following the implementation of decentralization measures in 2001, political power and administration system are devolved to sub-national units, especially the regencies and cities. While in past almost all initiatives and tasks were determined by the central government in Jakarta, at present district officials have become the key actors. There have been massive transfers of officials from the central government to the local governments since decentralization. Although the transfers did not imply total displacement as many of the officials have actually resided in the districts, it certainly involved drastic changes of civil service status for many public officials. Meanwhile, nearly one third of central government expenditure was also transferred to the provinces and districts. Some experts consider that, in terms of spending, Indonesia is currently one of the most decentralized countries in the world. As local governments are now in charge of planning, budgeting, and implementing various development tasks, they are also responsible for public procurements that are essential for national development. In order to create a modern system for public procurement, the government ratified Presidential Decree No.80 of 2003 that also turned out to be an important benchmark for administrative reform in the country.

Anti-corruption initiatives have been implemented as part of judicial reform. When the government took an important symbolic action to establish KPK (*Komisi Pemberantasan Korupsi*, Corruption Erradication Commission), it was hailed by the public at large. Many believe that Indonesian development progress has been bogged down by rampant corruption that involve political elites, public officials and their clientele businessmen. When the KPK has proven to be effective in combating corruption and some corrupt politicians and high-rank officials were prosecuted and sent to jail, people started to have a faith in KPK. In fact, the Indonesian ranking in the Corruption Perception Index is getting better due to the performance of KPK.

However, there are new signs that lack of capacity among local government officials, anti-corruption measures, and stringent penalties in the new public procurement system have also created problems. In 2008, while central government is painstakingly in deficit of Rp 61.9 trillion, the local

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governments have a total surplus of Rp 43 trillion due to unspent budgets.<sup>2</sup> As most of the local officials are afraid of stiff regulations and corruption charges, they opted to avoid public procurement tasks, to reserve the fund in local banks, or to keep the fund unspent.

This paper is aimed at describing the current initiatives in public procurement reform in Indonesia and its impact on the effort to ensure public accountability. It will specifically describe the dilemma between control and disbursement, i.e. holding public procurement accountable while tackling the problem of undisbursed local budgets. Selected cases of local government will be presented in detail.

## **2. Decentralization and Public Procurement Reform**

Indonesia is a country with sheer size, multi-ethnic and diverse social and cultural background. Therefore, the consequence for democratization in the country would always relates to decentralization policy. At present, Indonesia consists of thirty-three provinces, four of which have special status. Each province has its own political legislature and governor. The provinces are then subdivided into cities (*kota*) and regencies (*kabupaten*), which are subdivided into sub-districts (*kecamatan*), and again into urban kampongs (*kelurahan*) and rural villages (*desa*). Under the political pressures from the region after the demise of the New Order government, new laws on regional administration were enacted. Policy implementation for decentralizing tasks and budgets to sub-national governments was started in 2001 along with the radical reforms in the country.

Law No.32/2004 on Regional Administration, law No.33/2004 on Fiscal Balance between Central and Regional Governments, and two laws for special autonomy provinces (Law No.18/2001 on Aceh and Law No.21/2001 on Papua) are the current basic regulatory frameworks for decentralization policy. All of these laws have also been equipped with ancillary regulations to ensure that decentralization policy would be implemented accordingly. Many observers found, however, that the performance of decentralization policy is still fall short. Although international experts hailed the initial success of “the big bang” decentralization policy in Indonesia as it did not cause chaotic consequences, the objective of decentralization to create more responsible local governments and better public services have ended up with disappointment. On the part of central government, many sectoral ministries are reluctant to cede their power to local government authorities. It is not easy to convince those who had enjoyed privileges and powers in the past to give more power to the local officials. Meanwhile, contrary to theoretical postulates that decentralization would create “good local government” (Smith, 1985; Manor, 1999), it turned out that most local government authorities do not use their assumed power to improve the quality of public services.

Nevertheless, it is worth to note the important steps that have been taken to change the political landscape and the inter-governmental relations through decentralization. As explained, cities and regencies have become the key administrative units for providing various government services. At the same time, the total inter-governmental transfers increased significantly from about 5 percent to 47 percent to the benefit of poorest regions in the country. Provincial and district governments are currently entitled to spend a record 40 percent of total public funds. It shows that the level of fiscal decentralization in Indonesia is even higher than the OECD average and higher than many other East Asian countries.

The policy of fiscal decentralization is implemented along with significant improvement in Indonesian national economy after the East Asian financial crisis. Prudent macroeconomic policies and extremely low budget deficit were instrumental for economic recovery. There have been internal shocks (e.g. the 2004 tsunami, large earthquake in Central Java, floods in Jakarta, terrorist strikes in Bali, avian flu epidemic) and external shocks (e.g. international fuel price increase and global economic crisis in

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<sup>2</sup> Financial Notes (*Nota Keuangan*), 2009 National Budget.

2008) that posed a great challenge to the economic policy. However, the Indonesian economy has fared reasonably well and has overcome the aftermath of these internal and external shocks. Debt ratio has been declining steadily and the economy has grown in recent years at about 5 percent.

Learning from the lessons of financial crisis, the Indonesian government has also ratified new laws that are aimed at creating a prudence and viable financial system. Law No.17/2003 on State Finance underpins the reform of government budgeting process. It provides basic budget processes as developing a macro-economic and fiscal framework, establishing a budget timetable, setting out the budget information to be supplied to parliament. Law No.1/2004 provides the basis for modernizing budget execution and reporting. Reforms being undertaken include steps to rationalize the government bank accounts and to centralize cash management, simplify and speed up the payment system, and to improve reporting on budget execution. Law No.15/2004 provides the broad legal framework for the operation on the country's supreme audit institution, BPK (*Badan Pemeriksa Keuangan*, The National Audit Board), to reinforce its position and mandate as an external audit institution reporting to parliament. This law does not remove restrictions on BPK's scope as articulated in some older legislations with respect to, for instance, its access to records of Tax Revenues department. Nonetheless, it has laid out the basic premise for BPK as the only external auditor and the Supreme Audit Institution in the country.

As public policy making is decentralized, the future of economic performance and national development is no longer depended only on the central government policy. New laws on *otonomi daerah* (regional autonomy) dramatically increased authority and responsibility of the district government officials. However, these laws also exacerbated further the Indonesian procurement system that was already being guided by overlapping laws and implementing regulations. There were concerns about additional risk of overlapping jurisdiction due to rapid decentralization process, which might resulting in potential segmentation of both procurement market and procurement legal framework.

Hence, with the pivot role of Bappenas (*Badan Perencana Pembangunan Nasional*, The National Development Planning Board), the government issued Presidential Decree No.80/2003 as the main initiative of public procurement reform. The decree was issued with two main objectives: 1) promoting basic principles of procurement, i.e. transparency, open and fair competition, efficiency (value for money), effectiveness, non-discrimination, and accountability; and 2) committing to the future establishment of an NPPO (National Public Procurement Office). It appears that the initiative of public procurement is directed to follow international standards for public procurement in which all the stakeholders have an access to ensure that the basic principles are upheld appropriately. The problem in Indonesia, however, is that the number and type of stakeholders has become more complex as a result of its decentralized government structure. Table 1 shows the possible stakeholders who are involved in public procurement across different levels of government.

Table 1. Stakeholders in Indonesia's Decentralized Public Procurement

Stakeholders	Central	Provincial	City/District
LAWMAKERS (Politicians, Members of Parliament)	√	√	√
EXECUTIVES (President, Ministers, Governors, Mayors, Regents)	√	√	√
POLICY MAKERS (Civil Service Officials)	√	√	√
TRAINERS (Training Boards, Tertiary Educational Institutions, Academia)	√	√	
PROCURERS / USERS (Government Entities at all levels)	√	√	√

SUPPLIERS / PROVIDERS (Business community, private sector suppliers of goods, construction companies, consultants, etc.)	√	√	√
MONITORS (Inspectorat General, Audit Offices)	√	√	√
JUDICIAL AND ADJUDICATORS (Ministry of Justice, Ombudsman, Courts, etc.)	√		
GOVERNMENT ANTI-CORRUPTION AGENCIES (Corruption Eradication Commission / KPK, General Attorney)	√	√	√
BUSINESS PROFESSIONAL ASSOCIATIONS (Chambers, Associations, Institutes)	√	√	√
PUBLIC WATCHDOGS (NGOs, Academia)	√	√	√
MEDIA / PRESS	√	√	√
THE PUBLIC	√	√	√
OVERSEAS DEVELOPMENT AIDS (Multi and Bilateral Donors)	√		

Source: Adapted from Bappenas, 2007

The Presidential Decree No.80/2003 has provided necessary principles and procedures appropriate for international standards. Some progress has been made in comparison to the previous regulatory frameworks. In order to bolster integrity, for example, aggrieved bidders can request administrative review of the procurement decision, which may result in the reopening of tender procedures or the cancellation of given contract. The internal audit and public scrutiny are welcome to detect any possibility of improper conduct on the part of government officials or private company bidders. More importantly, citizens can request information about issues related to procurement planning, evaluation of bids, and contract implementation. Against any possible erring procurement agency, people may seek further information or file a complaint. It is required that procurement documents have to be stored for 10-30 years, which would allow reviews and regulatory enforcement at a much later stage.

It should be noted, however, that under a more democratic and decentralized administration system, public procurement process in Indonesia has to accommodate various interests at the national, provincial as well as district levels. With the needs for reform in many aspect of political, economic and social systems, public procurement reform is really a huge and daunting task in the country. The next step for evaluating procurement reform is to assess whether its implementation satisfy objective and verifiable standards. There are four pillars of reform to be used in public procurement, namely: 1) legislature and regulatory framework, 2) institutional framework and management capacity, 3) procurement operations and market practices, and 3) integrity and transparency.

As Presidential Decree No.80/2003 and other accompanying regulations are enacted by different levels of government, which might perceive the needs for reform from different scopes, many of the regulations are currently either overlapped or conflicting among others. As will be explained further, these regulations frequently shackle public officials in all levels of government. Experts suggested that Presidential Decree No.80/2003 needs to be upgraded into a law in order to strengthen and consolidate it with a national public procurement system. Moreover, other relevant regulations pertaining to detailed procedures for procurement of goods and services, procurement monitoring, e-procurement and emergency situations caused by natural disasters have to be considered.

A national certification system has been introduced since early 2008 to ensure that procurers and users of the government contracting entities achieve a basic level of competency. But lack of capacity

among national and sub-national government officials have been the main hurdle for the certification system to work properly. As many of the officials failed during the exams for certification, there is a serious scarcity of human resource, particularly at the district level. An independent LKPP (*Lembaga Kebijakan Pengadaan Pemerintah*, Public Procurement Policy Institution) has been established by Presidential Decree No.106/2007. This institution has a responsibility to develop national strategy and policy on public procurement including its monitoring and evaluation, human resource capacity building, and advisory services in case of conflicts in procurement. Yet it remains to be seen whether this new institution can work independently and professionally.

In general, market for public procurement in Indonesia is still segmented. In a way, this might be caused by decentralization policy. But many cases also show that it is because the private sector behavior in the country. The fact that only less than five percent of private suppliers participate in public procurement proved that lack of capacity is not only the problem of public officials but also that of the private companies. Therefore, professional trainings and certification board also have to be integrated into the private company development.

Issues on integrity and accountability are in fact directly linked to the corrupt behavior during the interaction among government officials and the private company executives as will be explained further. Unfortunately, the current audit structure for public procurement is too complex and confusing with blurred and overlapping jurisdictions. Audit functions at all levels of government, including that of the BPK (National Audit Board), BPKP (*Badan Pemeriksa Keuangan dan Pembangunan*, Financial and Development Audit Board), *Inspektorat Daerah* (Local Government Audit Agency), and audit units in each government departments, are currently being reformed. The more important benchmark to measure the success of these reforms, however, is not only regulations and ideas for reform but also whether it can solve many practical problems such as weak capacity, unclear path for government procurement practitioners, unprofessional complaint handling mechanism, and high tolerance for corrupt behavior.

### **3. Anti-Corruption Initiatives**

The Indonesian president Susilo Bambang Yudhoyono (affectionately called "SBY") is currently serving for his second term as he gained a landslide victory in the 2009 general elections. To some extent, people gave a credit to SBY for his popular policy in stabilizing the national economy and his apparent commitment in combating rampant corruption in the country. SBY himself has vowed that combating corruption was one of the priorities in his first term in service and he would continue his policy in the second term. However, critics have contended that SBY is not sincere enough on anti-corruption movement. Media and experts criticized that SBY was too slow to make decisions although he gained a popular support.<sup>3</sup> Currently, people also begin to question his anti-corruption commitment as SBY was in conflict with some KPK commissioners and apparently against a full probe of fraudulent bailout policy for the Century bank.<sup>4</sup>

At any rate, it is worth to note policies under president SBY in order to understand the current progress of democratization. Against the rampant corruptions, there were cases of involuntary counter

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<sup>3</sup> SBY is generally described as indecisive and too much of a micro-manager although he gained a popular support. When SBY had to announce his first-term cabinet, he let himself to be pushed around by political bargaining rather than flexed his power and claimed his strong mandate. *Republika*, 22 Oct 2004.

<sup>4</sup> President SBY ordered to sack Bibit S. Riyanto and Chandra Hamzah, two of KPK commissioners who are popular for their integrity. The case of Century bank bailout is still being debated by Special Committee in the parliament. Although most conclusions mentioned that the scandal only involves policy makers at the ministerial level, many believe that the president might be implicated. *Antara News*, 12 Nov 2009; *Kompas*, 7 Feb 2010.

actions that started to attract public attention. In 2004, as many as 43 members of provincial parliament, including the chairman, of West Sumatra were convicted for corruption. For the first time, a verdict against politicians was decided with the president's endorsement and the corrupt members of local parliament were put in jail. Though there were many other cases to be investigated in Aceh, West Java, Lampung, and other provinces, the West Sumatra case was a good start.

Although during SBY's presidency there is no new anti-corruption law, he proved his commitment with the Presidential Instruction (Inpres) No. 5/2004 on The Acceleration of Anti-Corruption Measures. He also encouraged the previously established KPK (*Komisi Pemberantasan Korupsi*, Corruption Eradication Commission) to work better and act professionally against corruptors with the issuance of Presidential Decree (Keppres) No.11/2005 on Special Team Against Corruption. Together with the DPR, the president also ratified Law No.1/2006 on *Pembuktian Timbal-Balik* (Reciprocal Process of Conviction), which would help prosecutors to find hard evidence against corruption. In order to support legal process on corruption cases, the lawmakers also ratified Law No.13/2006 on *Perlindungan Saksi dan Korban* (Protection for Witnesses and Victims), which then supported by Government Regulation (Perpres) No.13/2007 on the Eligibility for Members of LPSK (*Lembaga Perlindungan Saksi dan Korban*, Board of Protection for Witnesses and Victims).

The public begin to have a confidence with KPK as it turned out that this Commission is quite serious in prosecuting corrupt officials. Between 2004-2009, KPK has prosecuted at least 19 regional heads (governors, mayors and regents) for corruption. Most of these executives have been convicted and put into jail. The modus operandi for corruption at the provincial and local levels is generally related to the use of APBD (local budgets) for vested interests and/or personal gains. The Indonesia Corruption Watch (ICW) noted that more than 30 percent of the public budget for procurement has been siphoned off for political and personal interests.<sup>5</sup>

The problem with KPK, however, is its limited authority and scope of work for prosecuting corrupt officials. As a newly established Commission with only about 60 staffs, KPK has to cover all cases of corruption at the national level as well as 497 districts in the country. By law, KPK is only allowed to probe corruption cases of high-rank policy makers (*penyelenggara negara*). This means that KPK can only touch ministries, members of parliament, provincial governors and district heads. Cases involving heads of local agencies (*Kepala Dinas*), *Kuasa Pengguna Anggaran* (Budget Authorities), and *Pejabat Pembuat Komitmen* (Project Officers) must be handed over to the *Kejaksaan Negeri* (District Attorneys) and further investigations must be given to local authorities, including the *Kepolisian Daerah* (District Police). Unfortunately, District Attorney, Local Judges, and District Police officials in Indonesia are notorious for their involvement in racketeering, lack of transparency, and other forms of judicial frauds.

Limited capacity to curb corruption and to ensure fair investigation in the district public procurement gives enough reasons to worry given the magnitude of corruption at this level. The KPK in 2009 reported that about 35 percent of the local budget for procurement is corrupted. Earlier, the World Bank statistics on Indonesia in 2007 showed that corruption cases in public procurement stood out as the highest.<sup>6</sup> The Presidential Decree No.80/2003 provides that government officials are not allowed to carry out procurement without procedures of open tender except simple projects that worth less than Rp 50 millions. The procedures for auction and tender fall into four categories: 1) *Penunjukan langsung* (direct appointment), that is undertaken by appointing a capable contractor by negotiating technical aspects and the costs for procuring goods and services; 2) *Pemilihan langsung* (direct selection), i.e. selecting among

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<sup>5</sup> "APBD Sasaran Utama Korupsi" (Local Budgets Are the Main Target of Corruption), *Berita Baru*, 24 Dec 2009.

<sup>6</sup> *Kompas*, 16 July 2009.

at least three potential bidders according to certain procedures and standards; 3) *Lelang terbatas* (limited tender), i.e. undertaking auction by inviting potential bidders as it involve complex and sophisticated projects, in which two envelopes of bidding documents are examined separately; and 4) *Lelang umum* (public, opened tender), i.e. undertaking auction by announcement through media, especially for long-term and complex projects, in which there are two stages for qualifying the potential bidders with two envelopes of documents to be examined separately. With regards to these standards, KPK found that most of the procurement fraud (94 percent) was because of wrong procedure for direct appointment and the rest was because of mark-up and deceit in the costs' own-estimate (HPS, *Harga Perkiraan Sendiri*).<sup>7</sup>

Aside from the curative measures, there are also some preventive measures being undertaken by the government agencies, especially those that is initiated by the Ministry of Finance, the Bappenas, and some regional heads. One of the significant initiatives is the implementation of electronic procurement (e-Procurement) with all its elements including e-tendering, e-reverse auction, e-selection, and e-purchase. President SBY has ordered the Coordinating Ministry for Economy, Ministry of Finance, Ministry of Public Works and the Bappenas to study and conduct pilot projects of e-Procurement among the central government departments and selected provincial and local governments.<sup>8</sup> Six provinces (West Sumatra, Central Kalimantan, West Java, East Java, Gorontalo, and Jogjakarta Special Region) are also committed to start e-Procurement projects. In East Java, for example, e-Procurement proved to be effective in eradicating corruption during the procurement process. However, due to limited facilities for Internet connection and the geographical diversity, e-Procurement system cannot be implemented in all regions of Indonesia. Until early 2010, only about 25 percent of the public procurement in the regions can be conducted using Information and Communication Technology.

Under a more democratic political setting, there is also an encouraging phenomenon that many elements of the civil society are becoming more active in controlling the conduct of public officials and are more critical to any malfeasance and corrupt behavior. Media, which is currently free and independent, are very much critical of corrupt public officials. Many NGOs are also focused on advocating the public so as to aware of corruption cases and to prevent themselves from participating in bribery and embezzlement. Indonesia Corruption Watch (ICW) was founded in 1998 and has since become very active in demanding clean government, i.e. free from corruption, collusion, and nepotism. Backed by international NGOs such as International Transparency and work together other anti-corruption NGOs such as Parliament Watch Indonesia (ParWI) and similar NGOs at the regional level, these community organizations are important to improve awareness on the danger of corruption in the country. There is also an NGO purposely focused on public procurement, the Indonesia Procurement Watch (IPW). Even though IPW is relatively new (founded in late 2002) and have not been able to cover and publish all cases of procurement corruption in the country,<sup>9</sup> it certainly shows public concern about certain aspect of government conduct including public procurement.

There is still skeptical notion among experts that NGO activities are inadequate due to lack of information and professional investigation against corruption. Many are concerned that the NGO themes of advocacy are limited to public disdain instead of real concerted actions against corruption. Nevertheless, a recent case on the under-current conflicts between the KPK and the National Police has

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<sup>7</sup> *Kompas*, 3 Dec 2009; *Jurnal Nasional*, 3 Dec 2009.

<sup>8</sup> Djojosoekarto, Agung; *E-Procurement di Indonesia: Pengembangan Layanan Pengadaan Barang dan Jasa Pemerintah Secara Elektronik*, Kemitraan dan LPSE Nasional, Jakarta, 2008, p. 53.

<sup>9</sup> For more detailed content, see [www.iprocwatch.org](http://www.iprocwatch.org).

shown that the NGOs could take an important role for supporting anti-corruption movement in opposition to repressive and arbitrary action.<sup>10</sup> The public attitude towards corrupt behavior is the basic element to combat corruption and to ensure fair trials for the wrongdoers. This is particularly true in procurement as usually it involves local officials, private companies and various stakeholders at the local level. Insofar, cases of corruption in public procurement are not always come into public discourse. But there is no doubt that anti-corruption initiatives in public procurement inevitably need the support of public at large.

#### **4. Procurement Dwindle and Undisbursed Budget**

The lots of anti-corruption initiatives of the government and the public disdain against corrupt behavior have resulted in integrity improvement to the Indonesian public administration, albeit insignificantly. The imprisonment of some high-rank officials, members of parliament, and businessmen constituted a shock therapy to the rampant corruption in the country. According to Transparency International, while in 2008 Indonesia was ranked 126, in 2009 she was ranked 111 out of 180 countries in the world. It was not a big jump, but there is at least a hope that things can get better. During the first term of SBY presidency, the Corruption Perception Index in Indonesia has improved from 2.6 to 2.8. Certainly, it is still considerably low compared to that of countries in the region such as Malaysia that scored 5.1 and Singapore that scored 8.0. As corrupt behavior has deeply ingrained in Indonesian public administration, it really needs an extra effort to change the behavior.

Yet the anti-corruption initiatives have made some impacts, not only on the politicians and the elites but also the lower levels of bureaucrats. The corrupt bureaucrats finally realized that they are not invincible anymore. To some extent, it is definitely a good start for the long awaited overhaul of combating corruption in the country. Many believe that anti-corruption and public procurement reform are essential for recuperating Indonesian economy that has been stagnant over the last decade. Nevertheless, as anti-corruption measures are intensified, public procurement process is closely watched, and lawyers are ready to take actions against corrupt public officials, many bureaucrats are becoming more anxious for taking a responsibility in public procurement.

The current public procurement reform under Presidential Decree No.80/2003 requires the PPK (*Pejabat Pembuat Komitmen*, Public Procurement Official) to follow a more complex process to ensure that integrity is upheld along the process. The new system for public procurement needs better understanding about modern public auctions, probity and contract procedures, and supervisory follow-ups, which means that it can only be carried out by capable bureaucrats. With the anti-corruption measures, the risk for being charged of procedural infringement is definitely higher, in which one may end up in a case of corruption. One of the high profile cases in public procurement was discovered in 2005 when Yusril Ihza Mahendra, the minister of Justice and Human Rights, was grilled by the KPK for his involvement in the Rp 18.48 billion procurement of AFIS (Automated Fingerprint Identification System). The case was widely covered by the media and, although nobody was put in jail, president SBY finally sacked Yusril Ihza Mahendra from his ministerial post.<sup>11</sup>

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<sup>10</sup> Two KPK commissioners, Bibit S.Riyanto and Chandra Hamzah, who have been recognized for their integrity, were capriciously detained by the National Police with the accusation of regulatory infringement. The NGOs, academics, and the press outrageously criticized the action by mobilizing opinion through social networking sites in the Internet and concerted demonstration against the action of the National Police and the General Attorney. The public protest, with a discourse dubbed as "gecko against crocodile" was successful in forcing the government to reinstate Mr. Riyanto and Mr. Hamzah as the KPK commissioners and to induce limited reform within the National Police and the General Attorney. *Kompas*, 24 Nov 2009; *Tempo*, 7 Dec 2009; *Gatra*, 7 Dec 2009.

<sup>11</sup> Cecep Darmawan, "Haruskah Memberantas Korupsi dengan Korupsi?", *Pikiran Rakyat*, 19 Feb 2007.



For most of public officials, the incentive for the position of the project officer or PPK is not comparable to the risk. Candidates for PPK would consider that the incentive is not worth at all. Therefore, more public officials are becoming reluctant to be appointed as a PPK. Many of them do not want to be involved in any procurement tasks. Evidence suggests that "deficiencies in public procurement and tighter oversight in the context of authorities' ongoing anti-corruption initiatives have made local government officials wary of executing budgetary commitments for fear of prosecution".<sup>12</sup> The modern system of public procurement introduced in Presidential Decree No.80/2003 urged public officials to understand various forms of legal contracts and all of its complex procedures. However, while they are assigned to take care of public procurement contracts worth billion rupiahs, they are only given regular incentives of about Rp 400 thousands. That is the reason why many public officials are becoming disinterested in procurement tasks. In East Java, for example, out of 500 candidates of the PPK there were only 5 who passed the exam on public procurement. It was not because the exam was extremely difficult, but because most of the candidates did not want to pass the exam and did not want to take the job in public procurement.<sup>13</sup>

The fact that many public officials try to avoid any task related to public procurement has decreased government effectiveness at the local level. Some experts even worried that it might jeopardize the future of decentralization policy in Indonesia. On the part of central government, the Bappenas is increasingly worried that many public officials do not want to take up a job in public procurement.<sup>14</sup> At the local level, as the problem is even worse, mayors and regents have expressed concern about reform initiatives in public procurement. In 2007, 91 mayors under the auspices of All Indonesian City Mayors (Apkasi) expressed their concern to then Vice President Jusuf Kalla about difficulties in appointing project officers for public procurement. They also demanded an amendment in Presidential Decree 80/2003 so that the provision for full scale open tender would only apply for procurement projects of more than Rp 500 million instead of the current level of Rp 50 million.<sup>15</sup>

The combination of stricter regulation on public procurement, new spirit of charging officials for any irregularity, and scarcity of capable human resources who are willing to carry out tasks in procurement has resulted in public procurement dwindle in the country. Projects undertaking, especially at the local level, are slowed down. Much of the fund for public procurement has left undisbursed in the local governments' coffer in the so-called *Silpa* (*Sisa Lebih Penggunaan Anggaran*, The Standby/Undisbursed Funds). This has been substantially reduced the effectiveness of public funds to stimulate economic activities during the global crisis, which also impacted on Indonesia in the second half of 2008. The Ministry of Finance reported that only about 95 percent of the Rp 292.4 trillion total budget was able to be disbursed. In 2008, there was about Rp 45 trillion was left in the local governments' *Silpa*.<sup>16</sup> This is certainly problematic given the fact that, along with the decentralization policy, much more funds are allocated at the sub-national levels.

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<sup>12</sup> Anonymous, "Economic Assessment of Indonesia 2008", *OECD Policy Brief*, July 2008, p.8.

<sup>13</sup> "Ogah Jadi Pimpro", *Batam Pos*, 2 Feb 2009.

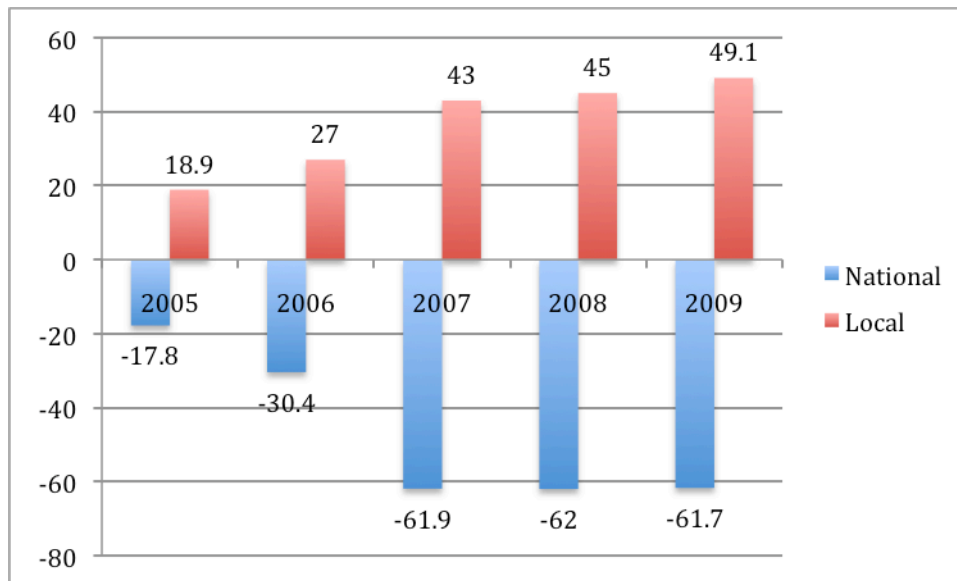
<sup>14</sup> "Bappenas Minta PNS Tak Takut Jadi Pimpro", *Seputar Indonesia*, 10 April 2008; "Jangan Takut Jadi Pimpro", *Sriwijaya Post*, 10 March 2009.

<sup>15</sup> "Walikota Mengeloh Sulit Cari Pimpro", *Sumatra Ekspres*, 11 July 2007.

<sup>16</sup> "Sri Mulyani: Sisa Anggaran Daerah Rp 45 triliun", *PAB-Online*, 11 Dec 2008.

There are alarming facts about much reserve and unspent funds at the local governments. Table 2 describes this problem very clearly. The number of local governments with budget surpluses has increased steadily. A number of explanations have been put forward, with the delay of disbursement and bad planning frequently mentioned. Whatever the explanation, this is a serious matter that requires much attention from the central government as well as the local governments. In 2009, for example, it was ironic that while the central government seeks standby loans to finance the APBN deficit of about Rp 61.7 trillion, the local governments have a combined APBD surplus of over Rp 49.1 trillion.

**Table 2. Surplus and Deficit in Indonesian Government Budgets 2005-2009 (Trillion Rupiah)**



Source: Government Budgets and Financial Notes, 2005-2010

The local governments keep the undisbursed funds in various ways. Most of them keep the funds in the form of demand deposit at the BPD (*Bank Pembangunan Daerah*, Local Development Banks). As the amount of funds are steadily increased, more local government officials also reserved the funds in the form of SBIs (*Sertifikat Bank Indonesia*, the Indonesian Government Bonds) that have a short-term grace period and the SUN (*Surat Utang Negara*, National Treasury Bills) with a longer-term grace period. The Central Bank of Indonesia (BI) reported in 2007 that the total reserved funds in SBI has amounted to Rp 237 trillion and it was indicated that about one-fifth of the amount was deposited by the local governments.<sup>17</sup> Paskah Suzetta, the chairman of Bappenas, suggested the local governments to put reserved funds in SUN rather than SBI, so that the Bank of Indonesia would not be burdened by the interest rates.<sup>18</sup> However, as procurement dwindle continued and many of the local governments are more attracted by monetary return than real development impact to the local economy, local governments' deposited funds in SBI are continually increased.

<sup>17</sup> "Dana Menggunung di SBI", *Media Indonesia*, 1 March 2007. Another source has quoted that from about Rp 90 trillion of the local government funds invested in SBI, about 50 percent is invested under the local BPD accounts. *Suara Karya*, 30 May 2007.

<sup>18</sup> "Depdagri Segera Mengecek APBD yang Parkir di SBI", *Berita Depdagri*, 30 June 2008.

The problem of undisbursed funds in local government budget due to procurement dwindle would not only impact on local economy but also on national economy at large for three reasons. First, the role of public budget for stimulating the economy, as has been shown during the global crisis, and for further bolstering economic development in the country would be distorted. It is understood that the Indonesian economic growth can actually be triggered by public procurement expenditure and public investment. But if the trigger for economic multiplier is distorted, it would be difficult to stimulate economic growth in the country. Second, some policy alternatives for financing development would be useless. The central government has been painstakingly seek for additional funds, including foreign borrowings, for local development. For foreign borrowings the central government has to pay principals, interests, and commitment fees. All of this efforts are wasted if the decentralized funds are not used appropriately by the local governments. Third, with regards to the central government's bonds and treasury bills, the Bank of Indonesia have to pay the interests. The interests for SBI and SUN have been substantially increased for years. If the local government officials do not use the funds for productive public investments and are only attracted to the monetary incentives in the local budgets, there would be a serious impact on national economy. There are signs of inflationary effect while the public funds are becoming less effective in stimulating investments.

It appears that procurement dwindle and the problem of undisbursed funds proved that decentralization policy and reform initiatives in Indonesia have not been supported by improvement of local capacity in budgeting. It also shows that there is a persisting dilemma between control and disbursement, i.e. holding public procurement accountable while ensuring that the public funds are spent timely to stimulate economic activities at the local level. In order to describe this problem more clearly, cases in two selected districts will be presented in detail.

## 5. Case 1: Palembang

Located in the province of South Sumatra, the city of Palembang covers 400,61 km<sup>2</sup> area. The population in 2007 is 1,684,710 and majority are Muslims. In the 7<sup>th</sup> century Palembang was a capital of Sriwijaya kingdom and in the 16<sup>th</sup> century it was the capital of well-known sultanate Palembang. The glory of the past can still be visible with many ancient relics in the city. After the national prolonged economic crisis since 1997, the city has been able to diversify its economic potentials from mainly a trading center for agricultural products to become a center of industrial products and services in the southern part of Sumatra. With a 6.7% economic growth in 2008,<sup>19</sup> it is one of the fastest growing cities in the island.

However, many would argue, that the economy could have grown even better if the local authorities make the appropriate policy and if the government could ameliorate the practice of so-called “informal governance”. This is to say that public policy in the city of Palembang is controlled not only by the formal local authorities but also by many figures with vested interests surrounding them. To understand policy-making process in the city, one should go beyond formal structures in the government and realize how political cultures affect the strategic policies. For example, a comprehensive study described how the culture of asking a *lokak* (literary means “token” or “compensation”) is deeply ingrained in the political culture among elites on ordinary people in Palembang.<sup>20</sup> It means that the logic of “take and give”, that in practice constitutes underground bribery and corruption, would prevail when public authorities make decisions.

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<sup>19</sup> Bagian Pengolahan Data Elektronik, *Profil Kota Palembang*, 2007. [www.palembang.go.id/2007/](http://www.palembang.go.id/2007/).

<sup>20</sup> Elizabeth Fuller Collins, *Indonesia Dikhianati*. Jakarta, Gramedia Pustaka Utama. 2008, especially chapter 6.

The practice of informal governance was kept underground in the past, especially during the authoritarian New Order regime. Bribery and frauds was not easily visible to the public. Today, as the political interactions are more opened and media coverage is extensive, informal governance is committed more blatantly although hard evidence is not always available for public scrutiny. The intimate relationships between businessmen and local authorities in the city of Palembang sometimes shock the people because a particular policy might simply nonsense and irrational in terms of budget and priorities.

In 2008, the KPK detained Yusuf Emir Faisal, a member of DPR from the PKB fraction, for receiving a bribe of Rp 375 million from Chandra Antonio Tan, a notable businessman of Palembang. The fraud was related to the plan to build Tanjung Api-api harbor on a mangrove forest in South Sumatra. The Tanjung Api-api plan is considered important as it would facilitate inter-regional trade and boost the economy. A harbor is urgently needed because trade has been inefficient and depended on limited infrastructure of roads and water transport systems through the big Musi river. The Tanjung Api-api harbor plan worth Rp 50 billion on 600 hectares mangrove forest is good on paper.

Yet after formal procedure of environmental impact analysis was cleared by the Ministry of Forestry and the fund from national budget was disbursed, public began to ponder as the progress for constructing the harbor was going too slow. The project is supposed to start in 2006 and finish in 2008. Then, there were news of bribery involving local businessmen and politicians at the local and national level.<sup>21</sup> It turned out that many of the local authorities, including Governor Syahrial Oesman (now retired), the Provincial Secretary (Sekda) Sofyan Rebutin, and other high-rank officials of the provincial government of South Sumatra and city government of Palembang were implicated in the case.

During the corruption trial, Yusuf Emir Faisal admitted his involvement and confessed that much of the money from the national budget had been distributed among his colleagues in Commission IV (transportation) of the DPR, politicians from PKB and other political parties, high-rank officials at the Department of Forestry, and local government officials. This was the reason why PT Chandratex Indo Artha, the contractor, could not manage the project according to the schedule. While investigation and trials are underway, the case of Tanjung Api-api illustrates the problem of informal governance in Palembang.

Another big project that likely draw controversy is the Musi III bridge that would be funded by national government budget. Governor of South Sumatra province Alex Noerdin and mayor of Palembang city Eddy Santana Putra are trying hard to ensure that the construction of the bridge can be started in 2009. A feasibility study explain that Musi III bridge would divert traffic from the main Ampera bridge and stimulate economic growth in the relatively backward areas such as Plaju and Seberang Ulu.<sup>22</sup> At present, the city has two bridges across Musi river. One is Ampera bridge that was built 40 years ago and is frequently packed with traffic jam. The second bridge was built in West Palembang and is accommodating traffic in the area but would not solve the problem of congestion in the eastern area.

Therefore, the plan to construct Musi III is aimed at releasing traffic congestion and expanding economic development in other parts of Palembang city. A bridge of 20 meter width and 400 meter long and requires about Rp 325 billion, this would be a big project that cannot be supported only by the local government budget. The public really hope that, unlike the case of Tanjung Api-api project, the

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<sup>21</sup> *Sriwijaya Post*, 16 November 2008; *Kompas*, 3 March 2009.

<sup>22</sup> Interview with Burkian, *Bagian Perekonomian kota Palembang*, 22 Feb 2008.

construction of Musi III bridge would not only become political commodity among local political elites and would not beset with corruptions.

Nevertheless, conflicts have already started regarding the designated location and land clearance. There are three alternatives for the bridge stands at the river bank; the area of *Kantor Tata-Kota* (Office of Urban Planning) of Palembang city government, the area of PT. Pupuk Sriwijaya (the big government-owned fertilizer factory), and around Kampung Arab (a residential area with many cultural sites). The local government argued that constructing the stand at the Kantor Tata-Kota would increase the cost of land clearance up to Rp 1,3 trillion. The second alternative is strongly rejected by the management of PT Pupuk Sriwijaya and would also cost more. Yet the third alternative is also refused by residents at the Kampung Arab.<sup>23</sup>

In the past, the Palembang city government would have consulted with the Ministry of Public Works in the central government and when they say “go” the plan would be materialized. In the more democratic and decentralized environment, however, the capability of the local government to negotiate the policy is really tested. When the bridge construction plan was announced to public in 2005, protests were directed to the local government. On 14 December 2005, for example, 300 residents of the Kampung Arab staged a demonstration at the DPRD building and the governor office. The next day, thousands of people attended *zikir bersama* (mass prayers) to protest the construction plan of Musi III bridge.<sup>24</sup> Although Mr. Eddy Santana Putra, the newly elected mayor for his second term, repeatedly says that the construction would be started in 2009, it is still unclear whether the policy would be smoothly executed. The public is also skeptical about the project as it can be just another collaborative government-businessmen rackets like the case of Tanjung Api-api harbor. At any rate, the case shows that, under decentralized political setting, more stake-holders are involved in the decision-making process for public projects. As more interests should be accommodated while the culture of “take and give” is still deep-rooted in the community, the policy outcomes are prone to abuse at the cost of the public at large.

There are also cases of informal governance within the city government of Palembang that create irresponsible public policies and sub-standard quality in public procurement. Procedure for city government procurement is one of the most notorious cases at point. As explained earlier, according to Presidential Decree No.80/2003, procurement for public offices must follow open tender, particularly those that require more than Rp 50 million of public budget. In Palembang, however, most of the procurement for vehicles, furniture, equipments, and stationaries do not follow any of this presidential decree. As a result, most of the equipments are below the minimum standard.

The problem is because the city government has been informally committed to “work together” with local *Kepolisian Daerah* (Regional Police Department) for guarding the procurement process. Initially, it was meant to ensure that there would be no unfair deal and misuse of authority during the process. However, the cooperative agreement turned out to be an informal backing and racketeering that involved policemen and Palembang city government. It is almost impossible for new bidders, no matter how good they are, to win the contract without consulting and cooperating under this informal agreement. Sometimes, the local government officials and the *Kepolisian Daerah* even asked *premans* (hoodlums, tough guys) to prevent outsiders and journalists from trying to uncover the bad practices in procurement.<sup>25</sup>

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<sup>23</sup> Ike Julies Tiati, *Konflik Pembangunan Jembatan Musi III dan Penggusuran Kampung Arab di Palembang*, master thesis, Program Studi Ketahanan Nasional, Gadjah Mada University, 2007.

<sup>24</sup> *Tempo*, 15 December 2005; *Detik News*, 18 December 2005.

<sup>25</sup> Musarawati, Meili; *Peningkatan Mutu Pengadaan Barang dan Jasa di Pemda Kota Palembang*, master thesis, Gadjah Mada University, 2008.

Although the Policy Department repeatedly urged anybody to file a report if he or she notice and experience a case with the *premans*, as for example stated by Brigadier General Achmad Ismail,<sup>26</sup> in fact no case is reported as most of the local officials and the bidders do not want to "rock the boat".

Several cases of blatant corruption, however, were discovered and investigated by the District Attorney. In 2006, the National Audit Board (BPK) found that five of the 17 packages for procuring vehicles, trucks and motorcycles for Palembang city government worth Rp 13 billion were corrupted.<sup>27</sup> Another example was a case in 2007 involving Dasril Sairin, the head of Local Agency for Social Affairs (*Dinas Sosial*), and Muhammad Ishak, the project officer for public procurement (PPK). It was indicated that a part the project for local cooperatives' empowerment with the fund of Rp 4.2 billion was misused so that Rp 371 million is leaked or corrupted.<sup>28</sup> It appeared that the anti-corruption movement at the national level has some repercussion at the provincial and local levels even though it has not touched all cases of frauds and malfeasance.

But the impact on the process of public procurement to the overall local government administration system should also be analyzed seriously. After the BPK, KPK and District Attorney are active in Palembang city, local government index of transparency is improved. Compared to the other districts in South Sumatra province, Palembang had always been left behind in terms of transparency. While in the past its financial report had always been given a status of *Tidak Dapat Diandalkan* (disclaimer, not reliable), in 2007, for the first time, the BPK has awarded a status of *Wajar Dengan Pengecualian* (Appropriate With Notes). However, the problem of "project officer scarcity" is also faced by the city government, which created procurement dwindle and undisbursed local budget. In 2009, it was indicated that The Silpa of Palembang city government in 2007 was amounted to Rp 44.5 billion, in 2008 was Rp 95.2 billion and in 2009 it was Rp 68.1 billion.<sup>29</sup> The amount of undisbursed funds and their percentage of the total expenditures are fluctuated in each fiscal year, but it appeared that the nominal amount of the funds is increasing.

The cause of undisbursed fund in Palembang city seems to be typical, that the lack of capacity, wary of procedural complexity and imbalances between "incentives and risks" have created procurement dwindle and stalemate. Public officials who are still willing to take the job in procurement "has to be able to stand from any political intervention and possible misappropriation while the current rate of incentive for the job is definitely less competitive for most public officials".<sup>30</sup> Public procurement efficiency in the city would be apparently depended on whether there are more capable public officials who are willing to work with integrity and smart enough not to be involved in administrative and political conspiracy.

## Case 2: Gunungkidul

The district of Gunungkidul is relatively left behind compared to other districts in the province of Jogjakarta. The total area is 1,486.36 square kilometer with mostly arid land in the southern part of the

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<sup>26</sup> *Sriwijaya Post*, 3 Dec 2008.

<sup>27</sup> "Tersangka Korupsi Bantuan Kube Kembalikan Uang Negara", *Antara News*, 2 Dec 2009.

<sup>28</sup> "Kejari Bidik Proyek Pemkot Palembang", *Sriwijaya Post*, 19 Nov 2009.

<sup>29</sup> Badan Pemeriksa Keuangan (BPK), *Laporan Hasil Pemeriksaan* (Financial Audit Reports) for Palembang City, various editions.

<sup>30</sup> Interview with Rusliardy, *Dinas Permukiman dan Prasarana Wilayah*, 27 Feb 2010.

province. Most of its 340,635 population (2006) are depended on dry farming, cattle breeding, and fishing. That is why the main contributor of Gunungkidul economy is agriculture (35.71 percent) and small industries and trades (14.02 percent). The total per capita regional GDP in 2007 is Rp 4.39 million.

One of the main public issues in Gunungkidul is availability of water during the dry season, especially in the sub-districts in the southern areas and along the coastal line of Tepus, Saptosari, Girisubo, Panggang, Tanjungsari and Semanu. In these drought-prone sub-districts, the people depend on some 260 natural water reservoirs (*telaga*) that are quickly dried up when the rainfall gets thinner. Therefore, the local government has to distribute clean water for people in these sub-districts with 15 tank trucks. The Gunungkidul district government has to allocate about Rp 450 million from the APBD to ensure that people's need for water is properly supplied. As sometimes the water-tank trucks do not operate regularly, people has to purchase water on their own. There was a case of a villager who had to sell his goat for Rp 120 thousand for a 5,000 litre of water worth Rp 80 thousand.<sup>31</sup> In other remote and dry sub-districts, the price could have been higher.

There are 11 out of 18 sub-districts in Gunungkidul that always have to deal with recurring problem of water during the dry season. Some of the 58,601 inhabitants in these sub-districts are considered as trapped in a vicious circle of poverty. This fact is very much ironic because actually there are six water springs in other areas of the district. Studies also indicate that under the mountaneous terrain of the district, there are plenty of under ground caves and water tunnels with more than enough debits. Also, some of the water springs have abundant reserves, such as Baron with 1,080 litre per second, Bribin cave with 1,000 litre per second, Seropan with 800 litre per second, and Ngobaran with 135 liter per second of debits. Unfortunately, it needs a huge investment to drill the water tunnels and to distribute the water from the springs.

In 2004, there was an initiative to make a deep drilling in Bribin cave to solve the problem of water in Gunungkidul. It was a cooperative venture among the Jogjakarta provincial government, the national nuclear institute (BATAN), the national Ministry of Research and Technology, and the technical and financial assistance of German government. Having invested with Rp 70 billion of fund, the project was ended with limited avail.

Having understood that almost half of the population are in either chronic and extreme poverty, however, the local government policy remains irresponsible. Even after decentralization was implemented with the hope of making public services closer to the local people, many irresponsible policy are still taken by local elites. In 2005, people of Gunungkidul were shocked with the news that Yoetikno, the former bupati, was convicted for corruption. When Yoetikno was in service for the period of 2000-2005, he initiated a procurement project for five units of trawl ships with a public fund of Rp 1.4 billion in total. The project was marked up and the scandal has resulted in a lost of Rp 705 million public fund. Many local government officials were involved in the scandal, including Supriyatmo (project leader), Sudiyarso

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<sup>31</sup> "Warga Gunungkidul Jual Ternak Untuk Beli Air", *Tempo Interaktif*, 2 August 2004.

(treasurer), Deni Chandra Rahman and Faisal Hidayatullah (private partners). Yoetikno was disqualified from running for the next local elections and was put in jail for years.<sup>32</sup>

The local council (DPRD) members of the 1999-2004 period were also involved in a case of public fund misappropriation. As many as 45 DPRD members were reported to acquire dubious allowances for themselves between Rp 60 to Rp 80 million. A total of Rp 2.4 billion was allocated from the APBD for these allowances. The National Auditor Board (BPK, *Badan Pemeriksa Keuangan*) found out that the allowances were illegal and ordered all the DPRD members to return the money back. Although the case could be categorized as corruption, no member of the DPRD was tried in the court as they returned back the money to the public coffer.<sup>33</sup>

Another case showed that local politicians are insensitive to the people's need. While many of the people in Gunungkidul stay in their poverty and hard living, these politicians gave priorities to their own interests. In 2007, the DPRD members were almost unanimously agreed to allocate public funds for buying computer laptops worth about Rp 10 million for each of the members. They argued that the computer laptops were needed to support their daily activities as representatives of the people. Although several members of DPRD admitted that it was a lavish expenditure from the APBD, most did not really care. While it is questionable as to whether the computers would be used appropriately and all the 45 members of the local parliaments have enough skill on computers, the project was approved and the media criticism was not heeded.<sup>34</sup>

The general picture at the national level that most of the block grant (DAU, *Dana Alokasi Umum*) is allocated for the wage bill of the public servants is clearly illustrated in the district of Gunungkidul. In late 2008, the local government had to allocate additional expenditures that became routines, i.e. for the increase of all local public servant (PNS) salaries and for the Sekdes (village secretaries) who were now given salaries as public servants. The new wage bills was estimated of resulting in local budget deficit of about Rp 50 billion.<sup>35</sup> Although the deficit was finally compensated by the central government by allocating more DAU grants to Gunungkidul, the schedule for APBD ratification had to be extended for three months.

It appeared that local decision makers have to deal with much politicking along the budgeting process while most units under the government are budget maximizers has left people aspiration unaccommodated. Many of the villagers need a breakthrough policy to help them out of the hardship during the dry seasons. Small scale industries badly need subsidies or credits to help them invest in more profitable businesses. About 49 percent of pre-elementary children in Gunungkidul have not exposed to early education (PAUD, *Pendidikan Anak Usia Dini*).<sup>36</sup> All these issues might be partly addressed if the

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<sup>32</sup> "Sidang Kasus Korupsi Rp 705 juta", *Kedaulatan Rakyat*, 23 August 2005.

<sup>33</sup> "Anggota Dewan Kaget Jadi Temuan BPK", *Kompas*, 4 June 2009.

<sup>34</sup> "Anggota DPRD Gunungkidul Dapat Laptop", 17 February 2008, available at [www.okezone.com](http://www.okezone.com).

<sup>35</sup> "APBD Gunungkidul Terancam Kolaps", *Kompas*, 5 December 2008.

<sup>36</sup> "Baru Separuh Jumlah Anak Terlayani PAUD", *Kedaulatan Rakyat*, 26 February 2009.



local government budget was used properly and the local politicians give more apprehension to the people's quality of life. It is unfortunate, however, that the local political setting is hard to change in the near future while the central government's Rp 34 billion stimulus package has not come as promised.

A similar case of trawl procurement was investigated in 2009. The District Attorney of Gunungkidul grilled Dwinggo Nirwanto, the head of Local Agency for Agriculture and Marine (*Dinas Pertanian dan Kelautan*) and Agus Utomo, the project officer for procurement (PPK), and a number of officials for possible misappropriation in the procurement that caused the lost of Rp 102 billion public fund.<sup>37</sup> Further investigations of the case showed, however, that it was not entirely a case of corruption or misuse of public funds. Rather, it was a case of procedural irregularity and that some of the provision in Presidential Decree No.80/2003 is actually difficult to be carried out in a district that has a special condition. One of the requirements to have a thorough trial and comparative evaluation of the trawl ship was difficult to be carried out because it would be too costly for Gunungkidul, which have a short coastal line and the trawl itself is targeted only for small-scale fishermen.<sup>38</sup>

As commonly happened in other districts, many public officials in Gunungkidul are afraid of being charged for corruption while there always possibility for procedural irregularities. Public officials are concerned that, although they have been very careful and do not want to commit in corruption, a minor fault in procedures and clerical tasks might led them to jail.<sup>39</sup> Again, the result is obvious slow-down in public procurement. After the local media covered District Attorney's investigation on possible misappropriation of books procurement in 2008, for example, the local government's effort to provide cheap books for primary school-children was ceased.<sup>40</sup> The disbursement of local public budget is slowed down as many of multi-years programs are also ceased due to legal investigation. Of the 2009 budget of Gunungkidul district government, it was found that as much as Rp 166.3 billion or 22.05% of the total planned expenditures was left undisbursed. Without a substantial improvement in public procurement approach, this tendency is likely perpetuated in the future.

## 6. Conclusions

After a tumultuous political change in late 1990s, Indonesia has been experiencing radical reforms in which decentralization and public procurement are among the most important initiatives for administrative reforms. Decentralization is implemented with the objective of creating more responsible local governments and better public services in the country. The new regulatory frameworks that provide more financial tasks to sub-national governments, either the provinces and the cities/districts, have substantially increased challenges for local government officials given the fact human resource is still the main issue at this level. Public procurement system is also being reformed in order to follow international standards while ensuring access to stake-holders in all levels of government. The issuance of Presidential

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<sup>37</sup> "Empat Oknum PNS dan Satu Rekanan Ditahan", *Radar Jogja*, 16 Jan 2010.

<sup>38</sup> Interview with Dwinggo Nirwanto, *Dinas Pertanian dan Kelautan*, 2 March 2010.

<sup>39</sup> "Batin Teman Itu Menderita..", *Republika*, 26 July 2006.

<sup>40</sup> "Kejari Wonosari Endus Korupsi Pengadaan Buku Ajar: Nilai Proyek Rp 10 M", 11 Dec 2009, [www.infokorupsi.com](http://www.infokorupsi.com), accessed in 17 Feb 2010.

Decree No.80/2003 is aimed at promoting and implementing basic principles in public procurement, including transparency, efficiency, and open and fair competition.

At the same time, there are new anti-corruption initiatives, started with the establishment of Anti-Corruption Commission (KPK), the more active National Audit Board (BPK) and General Attorney Office in investigating cases of corruption, and the new regulatory frameworks to curb the rampant corruption. All of this is occurred together with public disdain against corrupt officials. As the government has vowed to combat corruption in the country, high profile cases involving ministers, members of parliaments and notable businessmen started to attract public attention. Many of the convicted corrupt officials have been sentenced into jail. These initiatives have slightly improve Indonesian position in terms of international Corruption Perception Index.

However, as anti-corruption measures are intensified, public procurement process is closely watched, and lawyers are ready to take action against any procedural irregularity, while there is limited capacity among the local government officials, there is a problem of procurement dwindle. As a result, undisbursed local budget in the forms of reserves, bonds and treasury bill are substantially increased over years. The problem of procurement dwindle and undisbursed funds in the local budget proved that decentralization policy and public procurement initiatives in Indonesia have not been adequately supported by local human resource capacity in budgeting. Amid the optimistic notion on the public procurement reform, there is a persisting dilemma between control and disbursement of the public funds among the local government.

Cases in two districts have also supported the aforementioned issues. In Palembang, the culture of informal government, which in practice constitutes covert bribery and corruption, heavily influences the effectiveness of public procurement reform. When anti-corruption measures are intensified, public procurement is slowed-down and the undisbursed local budget is substantially increased. The public procurement efficiency in the city is depended on whether there are more capable public officials who are willing to work with integrity and smart enough not to be involved in administrative and political conspiracy. In Gunungkidul, vested political interests are dictating local budget allocations in such a way that the basic issues for the citizens, e.g. water facilities and primary education, are not appropriately addressed. Although government in the district is staffed with relatively capable personnel, they are afraid to be appointed in public procurement tasks because any minor fault in procedures might led them to corruption charges. The result is an obvious slow-down in public procurement and the increasing amount of undisbursed local budget. As it appears that this tendency is commonly applied in most of the districts in Indonesia, the dilemma between control and appropriate disbursement needs to be addressed. A substantial improvement in public procurement approach for reform is urgently needed.

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