

## **e-Procurement Practices in Four Areas in East Java, Indonesia: Accountability, Efficiency and Barriers**

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### **Abstract**

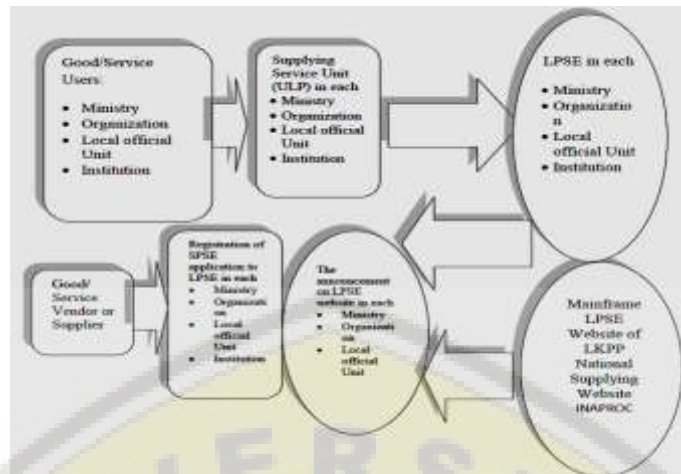
Electronic Procurement (electronic auctions) aims to cut the chain of bureaucracy and make public sectors spending more effective and efficient. This article discusses the implementation process of E-Procurement in four regencies in eastern Java: Sampang, Kediri, Surabaya and Jember with emphasis on the accountability and efficiency issues. The findings show that in 2011 there were 24,475 auction packages using the mainframe of e-Proc application with a value of more than 38 trillion Rupiah, of which 4.4 trillion Rupiah of state money could be saved by the application of e-Proc mainframe. There are two main aspects of the process of implementing e-Proc that hampered e-Proc acceleration and raised the potential for corruption in the process of implementing e-Proc: the user (end user of e-Proc) and the mediator (Procurement Services Unit-ULP of each government institution). These two elements play a crucial part in determining the process of E-Proc which subscribe to the notion of accountability, efficiency, transparency and fairness. Finally, this paper provides some recommendations to improve the current practice of e-Proc in Indonesia; first, creating indicators/criteria Transparency and accountability in the internal e-Proc implementator; Second, Injecting the value and the importance of leadership and personal integrity; Third, he need to reformulate a new system of E-Gov that compatible or supporting e-Proc; Four, Increasing the role of government monitoring unit.

**Keywor :** Electronic Procurement, East Java, Accountability

### **1. Introduction**

Electronic Government (E-Gov) is not a new concept in the governance sphere. Nowadays, almost all regencies in Indonesia have applied E-Gov. It is not only a medium for development and information, but E-Gov also acts as a means to communicate with the community. Similar to the usage of the internet by the private sector, E-Gov brings a change in the process of goods and services. By the use of E-Procurement (e-Proc), goods and public service can be delivered more effectively and efficiently, as well as reducing government spending. The use of e-Proc in public service shows transparency, which is relevant with the objective of the Indonesian government. Indeed, President Policy (PP) 80/2003 in its fourth change to PP 8/2006 did not regulate and organize the application of e-Proc, yet at the present time local government makes use of it in the public

service sector. Although offering several positive developments, the application of electronic procurement in Malaysia shown that issues such as accountability, transparency, corruption, integrity and cronyism still exist in the electronic procurement system in Malaysia (Hui, Othman, Omar, Rahman, & Haron, 2011). Data published in 2011 by the Indonesian Government Goods and Services Procurement Organization (Lembaga Kebijakan Pengadaan Barang dan Jasa Pemerintah/LKPP) states that at present there are thirty four (34) regencies in thirty three provinces in Indonesia which used e-Proc in government goods and service bidding. These studies will discuss several factors of e-Proc that act in supporting and accelerating roles. Furthermore, the process of implementation of e-Proc in four regencies of East Java (Sampang, Kediri, Surabaya and Jember) will be discussed.



**Figure 1. The Process of and Mechanism of Electronic Procurement in Indonesia**

## 2. e-Procurement Practice in Indonesia

The figure above shows the electronic bidding mechanism in Indonesia. The process is preceded with the demand of the users in each Ministry, organization and local government (province/regency/city) to each Procurement Service Unit (Unit Layanan Pengadaan/ULP). The ULP then will input the data related with the good/service procurement to the Electronic Bidding System (Sistem Pengadaan Lelang Secara Elektronik/SPSE) which is integrated with the Electronic Bidding Institution (Lembaga Pelelangan Secara Elektronik/LPSE) in each Ministry, organization and local government (province/regency/city). LPSE as the regulator of the electronic bidding will be the IT based electronic interaction area between ULP and each vendor/provider. The electronic bidding process is organized by the President Policy No 70 of 2012 which arrange the second change of President policy No 54 of 2010 about good/service procurement. e-proc transparency and accountability in four local governments of East Java.

E-Gov development in Indonesia has reached a significant advance, as shown in the report E-Government Survey 2012 released by UN. In this

report, Indonesia's position moves up 12 levels, from 109 in 2010 to 93 in 2011. Indonesia is also included in the list of nations with best performance, together with 30 other countries. This was achieved because during these several years, there was much optimal effort done by the Indonesian government in utilizing the Electronic Government in the public service. The release of President Instruction No. 17/2011 obligated all Indonesian government institutions to use e-Proc, with a clear objective. The central government offices should use 75% of the allocated budget, while the local government offices only requires to use 40% from its budget to be spend thorough the e-Procurement. This is such an important breakthrough because in President Policy No.54/2010 the minimum target on the application of e-Proc is not explicitly arranged. In East Java, there is a significant improvement on electronic bidding value, Deputy of Good/Service Procurement Policy and Strategy Development Sector, Himawan Adinegoro in a seminar on Government Good/Service Procurement Electronic System (Semiloka Sistem Elektronika Pengadaan Barang/Jasa Pemerintah) in Surabaya (Jawa Pos, September 28<sup>th</sup>, 2012). He states that the value of

E-Proc in East Java is 1.3 trillion rupiahs in September 2012.

Table 1. The value of Online Government Good/Service Procurement in East Java

No	Year	Total Value
1	2010	Rp 700.000.000.000
2	2011	Rp 1.300.000.000.000
3	2012	Rp 1.300.000.000.000

Himawan further states that the E-Proc implementation in East Java can be considered one of the best in Indonesia, though among 38 cities and regencies in East Java there is one region (Bangkalan) which has not performed online bidding. This study focuses on the package volume and the bidding value which is offered by Sampang, Kediri, Surabaya and Jember through the LPSE website in each regency

**Table2. The Amount Of e-Procurement Package compare to the regular procurement package**

Regency	Year	e-Proc Bidding Package	Non e-Proc Package
Sampang	2012	108	262
	2013	367	1
Kediri	2012	123	13
	2013	220	0
Jember	2012	73	120
	2013	294	1
Surabaya	2012	393	0
	2013	908	0

The table vividly describesThe recorded data on the LPSE website of Sampang until October 2012 shows that there is a balanced portion of local expense through LPSE website. This is relevant with the President Instruction No. 17/2011 which obliges all national institutions to implement E-

Proc in central government. Kediri also shows an excellent trend in LPSE application which is done by LPSE of the regency, even though there was a transition from manual style bidding before. As one of the institutions with much experience in doing electronic bidding, Surabaya seems to implement the E-Proc application optimally. The deputy of ULP of Surabaya, Mr. Tri Broto, states that what is important is ‘the political will’ in implementing electronicbidding through LPSE Surabaya, so that it can be done well without intervention. While The recorded data on the LPSE website of Jember until October 2012 show a significant difference between expenses done electronically and non-electronically. The data show that Jember has done less electronic bidding, but with a quite significant value.

### 3. e-Proc and Local Government Budget

Government Good/Service Procurement Policy Organization (LKPP) is a regulator and provider of mainframe websites for all Indonesian Government Institutions. Its position as a regulator can guarantee the E-Proc principles: efficient, effective, transparent, competitive, indiscriminate, open and accountable. Data made by LKPP show that there are 315 LPSE in 32 provinces and 613 institutions in Indonesia. In 2012 there are about 24,475 bidding packages with the value more than 38 trillion rupiahs which use the E-Proc application. From these data, LKPP reportedly saved 4.4 trillion rupiahs worth of national financial efficiency. This efficiency comes from the cutting of transportation, accommodation, consolidation, and printing expenses. LKPP also acknowledges that there are 125 good/service vendors listed and verified officially in the SPSE system. This is consistent with the writer’s finding in Pemkot Surabaya which confirms the positive

performance of E-Proc implementation in cutting the government budget. The following data show the efficiency of the Surabaya budget after using the electronic bidding system.

**Table3. E-Proc Implementation and Efficiency in The City Surabaya**

Year	Budget (in billion)	Efficiency (in billion)	Percentage
2008	340	80	23.68%
2009	1,200	384	29.97%
2010	1,300	464	35.19%
2011	988	257	34.07%
2012	1,340	207	34.32%
2013*	5,068	1,392	26.93%

\*up to October

Based on the data above, Surabaya achieved a budget saving after implementing E-Proc of up until 1.392 zillion rupiahs since 2008 until September 2012, or saved the budget of 26.96% from the total 5.068 zillion rupiahs. While in a recent budget until September 2012 Surabaya can save 207 billion rupiahs, or about 19.32% of the total budget of 1.340 zillion rupiahs. This shows that the implementation of E-Proc has a positive influence on the saving of State funds.

#### 4. The Challenges of e-Proc Implementation in Four Regencies in East Java

This study has successfully identified several challenges in East Java. There are two main aspects that could be an obstacle in the acceleration of E-procs and could raise the potential of corruption in the E-Proc implementing process. They are the user factor, in this case the user of goods/services; and the mediator aspect, that is the ULP in each related ministry, organization and

institution. In the user aspect, the identified challenges will be:

1. The effort of Satuan Kerja Perangkat Daerah /SKPD (Local Government Unit/institution) to bring out their stuff from ULP
2. The package proposal from SKPD to ULP which is out of schedule
3. When SKPD offers a technical specification, asking for a certain brand
4. The absence of SKPD in the meetings
5. The cancellation of a package due to insufficient planning
6. SKPD disqualifies the winner with an inappropriate reason.

These challenges can cause the following problems:

1. The occurrence of corruption between SKPD with the vendor/partner
2. The occurrence of corruption between ULP and SKPD, which can be taken advantage of by vendor, politicians, and the related parties

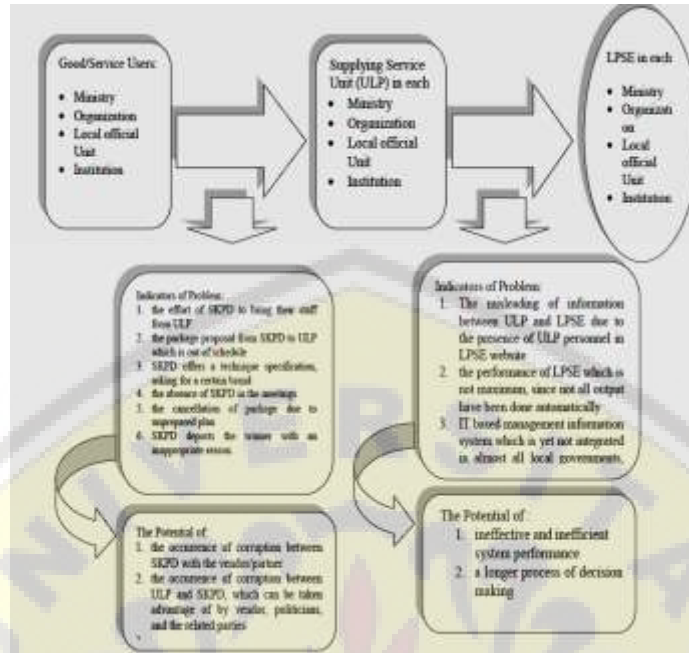
In the mediator aspect, the challenges can be:

1. Misleading information between ULP and LPSE due to the presence of ULP personnel in LPSE website
2. The performance of LPSE which is not maximum, since not all output has been done automatically
3. IT based management information system is not yet integrated in almost all local governments, except in Surabaya.

Those challenges will in return trigger the occurrence of the following deviations:

1. In-effective and in-efficient system performance
2. A lengthy process of decision making





**Figure 2. The challenges in the implementation of e-Proc in the four regions in east java**

In brief, the figure above described the main problem identified by this study is that E-Proc implementation in Indonesia has not been able to maximize the role of ULP as the mediator in the E-Proc process. The fact that ULP is part of the local government is one of the aspects that may endanger the transparency and accountability of E-Proc. This study shows that it is necessary to make a strict differentiation between the mediator and user in the E-Proc process. If they are put together, there will be potential of deviation, administratively or politically.

## 5. Conclusion and Recommendation

E-Proc is important in all aspects of government so that the bidding process will be more efficient, effective and transparent. It will reduce expenses, corruption and mis-allocation of public sources in the era of decentralization in Indonesia. This study shows how the implementation of e-Proc in four regencies in East Java (Sampang, Kediri, Surabaya, and

Jember) has advanced in several ways, though there are also some challenges. These are:

1. The unclear indicator of transparency and accountability in the procurement process
2. The low level of political commitment of the local government.
3. The absence of the E-Gov system which is compatible with the central e-Proc mainframe
4. The weak internal monitoring by the central and local governments, which can be a crucial aspect in the implementation of transparent and accountable E-Proc.

Several recommendations on fostering the process and the implementation of e-procs that endorse the principles of accountability and efficiency in Indonesia :

1. Creating Indicators/Criteria Transparency and accountability in the internal e-Proc implementator:
  - a. Not mentioning any specific brands or the specification of goods/services to be auctioned

- b. Submission of Procurement based on a predetermined rotation auction date
  - c. Periodic Rotation ULP members to reduce the potential for fraud
  - d. The strict dichotomy between the committee of ULP
2. The Importance of Leadership and personal integrity
    - a. The enactment of internal integrity pact
    - b. The enactment of a sustainable performance monitoring unit in Local government (ULP-LPSE).
    - c. The need of political endorsement from the local political stakeholder. .
  3. The need to reformulated a new system of E-Gov that compatible or supporting e-Proc: *E-City Planning .E-Budgeting, E-Project Plannin, E-Procurement, E-Sourcing, E-Delivery,E-Controlling,E-Performance,E-Asset*
  4. Increasing the role of government monitoring unit (Inspectorate)
    - a. Revitalizing the institutional monitoring of the implementation of the E-Proc
    - b. Revitalizing the institutional monitoring on the Standard Operating Procedure of e-Proc
    - c. Revitalization on the institutional authority of ULP and LPSE
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