Does the Pandemic Stop Infrastructure Progress in Indonesia?[1]

4 Quick Findings on Infrastructure Projects in 2020

Indonesia Corruption Watch analyzed infrastructure tenders in 2020 to understand how the country has been performing against the national infrastructure plan during the pandemic. ICW applied OCP's OCDS & OC4IDS indicators and red flags indicators and this is what they discovered:

State-Owned Enterprises are the biggest beneficiaries of government infrastructure contracts with the majority of tender duration carried out within approximately 1 month.

From the information accessibility, they found that tender description was not clear - making it difficult for new business to understand what the government is looking for and for the public to monitor this process ie. over 70% of tenders did not have enough description on their tenders and more than 80% have very short tender titles. This is reflected in the participation of new suppliers with only less than 8% of the total contracts being given to new suppliers.

This analysis is carried out per datasets available by January 2021. Some datasets may be updated by procurement agencies after the research is carried out and not captured in this analysis. Some figures (tenders, projects, tender value, etc) on this blog may vary based on data capture date. Please check our detailed report for a better picture. We encourage you to check our infrastructure dashboard for the most recent datasets.

Corruption Risks On Infrastructure Projects

The world needs a total of US$97.5 trillion worth of investments to meet the growing needs of infrastructure (GIH). As of 2017, there is a US$18 trillion infrastructure investment gap that we need to solve. The need to drive investment in infrastructure has never been higher and we need everyone to squeeze the investment to close the efficiency gaps. Unfortunately, IMF found that there is 30% efficiency gap between the amount of money spent and the coverage and outputs of infrastructure delivered. This means that vital, life-changing infrastructure is not being delivered to citizens.

A survey by the Global Infrastructure Hub in 2019 shows that 97% of investors believe that environmental, social, and governance factors are important considerations in infrastructure procurement decisions. So there is a critical need to make sure all related stakeholders agree to carry out a whole life-cycle of openness on all public infrastructure projects - from planning, procurement to delivery. Infrastructure related procurement also has unique characteristics with having multiple actors, multiple levels, and multiple levels of coordination where those coordination might happen in siloed and fragmented places with no joined up approaches or coordination. Infrastructure projects are complex and difficult to compare like for like which leads to making it harder to spot anomalies and to benchmark costs. In goods and services, lower prices might be a good thing but in infrastructure projects, lower prices are often a bad sign. We need now, more than ever, infrastructure contracts that are 'open-by-design' to help overcome these challenges so that multiple actors can better coordinate and work together.

In Indonesia, there is a disparity of the infrastructure development between the eastern part and the western part of the country where 80% of national economic growth is attributed to the western part.

[1] Wana Alamsyah, Kes Tutoorong, Nanda Sihombing

According to the Global Competitiveness Report 2016-2017, Indonesia ranks 60th overall out of 138 countries in infrastructure. This is not a surprise - an archipelagic nation can only strive if the transportation infrastructure is well developed - a challenge that the country continues to solve. President Joko Widodo has made infrastructure development as one of his administration's key focuses since 2014. However, the government can only afford to finance 30% of the infrastructure projects - requiring private funding to close this gap. With shortage of funding at the global level - only those countries with good and transparent infrastructure projects will gain interest from the business community.

But the nations' big size makes it difficult to carry out reform rapidly. In his first term, Jokowi mandated all procurement methods including infrastructure development with a public budget to undergo an e-procurement process. The Ministry of Public Works and Public Housing, the ministry responsible for managing infrastructure development, only was able to join the national e-procurement system in 2016 - 6 years after the national e-procurement system was established. Progress takes time - something that the country can't afford that much.

Indonesia Corruption Watch (ICW) did an analysis to get more insights on general issues in infrastructure procurement and whether the government has done a sufficient job to address the concerns of accountability to build trust of those private investors.

One of the highlights is there is little access to information that deeply affects market entrance to go beyond the usual suspects - in Indonesia's case: the big State-Owned Enterprises.
With Indonesia as the lead of G20 pushing for digital transformation, this lack of information is certainly a concern.

Vague information does not only stop new vendors to participate but also public agencies themselves to monitor whether they get better offers from those participating in the bidding ie. Almost 70% of tender do not have adequate information on their tender description - limiting only those who are used to joining public procurement and potentially have previous experience to assess whether or not they would / could join public tender.

Another problem would be there is still 10% of procurement projects that only begin quite late in the last quarter of the fiscal year - these are often perceived as a last-minute attempt to spend allocated budget and tend to be executed with little planning or due process. That process would put a lot of burden on suppliers to complete any complex infrastructure projects in such a short period of time and may affect the quality of public service that the citizens would receive.

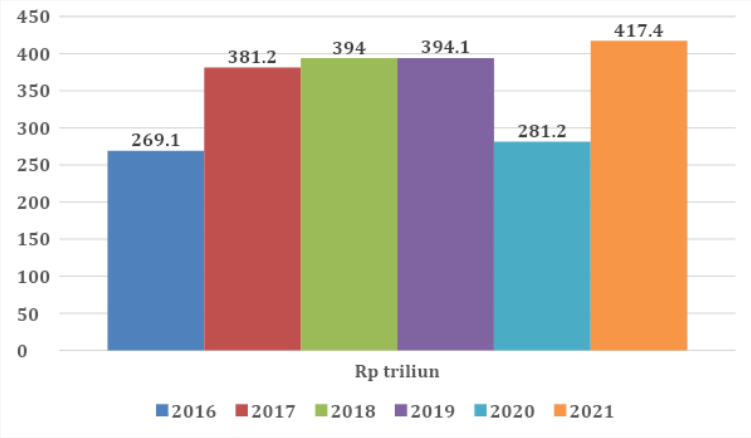
These findings also highlight the areas that are under-researched ie. tracking on how the money was spent and whether or not both the primary contractor and subcontractors are being paid on time and how there is no data on bidder data and subcontractors of infrastructure projects - making it difficult to unpack the problems.

Details

Based on ICW's research, construction works have always dominated the state's large expenditures in the past decade - it can be seen from the 98.75 percent of the contract value of the top 10 vendors in 2011-2020 is from construction works. At the start of the pandemic in 2020, the construction work was put

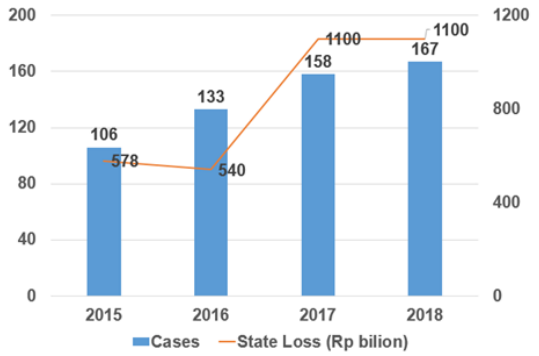
on hold and resumed in 2021 with 148% increase. In order to recover from the pandemic and make sure that the state budget is spent efficiently with the highest value for money, there is a need to ensure that the budget spent is in line with the performance of infrastructure development to avoid experience in 2019 where infrastructure projects underperformed with only 46% of 223 national strategic projects plan were achieved.

We also found a data gap for subcontractors involved in infrastructure projects affecting limitation of market competition and potential involvement of MSMEs. Another unique challenge to Indonesia is that State-Owned Enterprises is excluded from the public procurement rules since 2018 making it more challenging to get clearer picture on how these SOEs carry out their procurement activities.



Infrastructure Budget 2016-2021
Source: Kata Data, Ministry of Public Works and Public Housing, Ministry of Finance (2021)

There was an increase of 50% corruption cases in infrastructure projects from 2015-2018, In those 3 years, ICW monitored 564 corruption cases related to infrastructure with an estimated total state loss of IDR 3.31 trillion (USD 230 million) from the analysis of the Supreme Audit.



Increasing Corruption Trend in the Infrastructure Sector 2015-2018
Source: (ICW processed by Katadata)

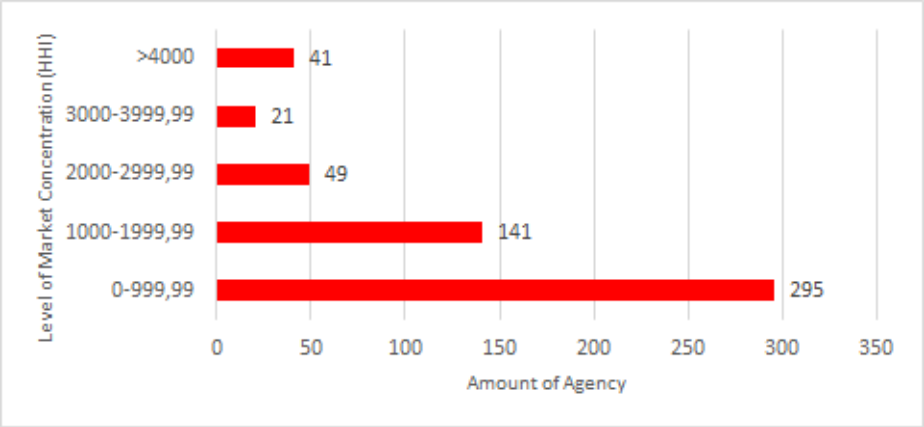
In Indonesia, the Ministry of Public Works and Public Housing manages the majority of the construction but they are not not the only government agency who carry out construction works. Our research on 10 years of procurement tender data shows that the Ministry of Public Works ranked as the agency with the highest market competition in 2020. We then dived deeper into the 2020 data visualisation on construction tenders beyond the Ministry for Public Works and Public Housing to better understand the situation.

The infrastructure dashboard developed in April 2021 helped our analysis on infrastructure tender carried out in 2020. The dashboard was developed with the 3 (three) OCP guidelines: OC4IDS use cases; OCDS Redflags Mapping; and OCDS Use-Case Guide.

The quick findings

1. State-Owned Enterprises (SOEs) dominating the Indonesian construction project

Opentender associates a market with each government agency. Based on that definition, we found that, in aggregate number, more than half of infrastructure projects (53.9%) in all government agencies natoinal and subnational have a low-market concentration, however the highest maket concentration can be found 7.5% of government agencies in 2020 with more than HHI value over 4,000. In general, a market concentration with HHI value higher than 2,500 is considered to be highly concentrated.



Market Concentration for Construction Work in 2020
Source: Opentender.net

Focusing on the top 10 primary construction work suppliers in 2020, we manually tracked them and found that 4 out of them are State-Owned Enterprises. This tracking finding also resonates with the findings where almost all of the suppliers (9 out of 10) who are getting the biggest contract value in 2020, across all types of procurement including goods & services nation-wide, are also SOEs. However, despite the large amount of public contracts won by state-owned enterprises, the quality of the projects is questionable.

Top 10 Procurements with the Highest Contract Value

Tender Title	Category	Provider	HPS	Contract	announcement	PAGU	Shoes
SERANG TOLL ROAD DEVELOPMENT - PANIMBANG SECTION 3 (CILELES -PANIMBANG)	Construction Works	SINO ROAD AND BRIDGE GROUP CO., LTD	IDR 4.60 Trillion	IDR 4.59 Trillion	06 December 2019	IDR 4.60 Trillion	57
Improvement of the Railway Signaling and Telecommunications System on the Jatinegara – Bogor and Manggarai – Jakarta city MYC 2020-2022 (non-binding tender)	Construction Works	PT. LEN INDUSTRY (PERSERO)	IDR 1.06 Trillion	IDR 1.04 Trillion	24 September 2020	IDR 1.06 Trillion	71
Stadium Construction in the Sport Center Area (Multiyears)	Construction Works	PT. PP (PERSERO) TBK	Rp 944.72 Billion	IDR 874.32 Billion	07 February 2020	IDR 983.00 Billion	57
Kendari - Toronipa Road Development	Construction Works	PT. HOUSING DEVELOPMENT (PERSERO) TBK	IDR 799.26 Billion	IDR 756.90 Billion	24 January 2020	IDR 800.00 Billion	61
Rehabilitation and Improvement of Swamp Irrigation Network in Block A Working Area Kapuas	Construction Works	PT. WIJAYA KARYA (PERSERO) TBK	IDR 808.55 Billion	IDR 738.05 Billion	23 July 2020	IDR 808.55 Billion	61
Bekasi River Flood Control Package 1	Construction Works	PT ADHI KARYA (PERSERO) TBK	IDR 666.90 Billion	IDR 591.66 Billion	07 September 2020	IDR 666.90 Billion	75
- Works of the Airport Side Facility of Siboru Fakfak Airport	Construction Works	PT. HOUSING DEVELOPMENT (PERSERO) TBK	Rp 604.11 Billion	IDR 572.49 Billion	03 September 2020	IDR 684.78 Billion	61
Sepaku Semoi Dam Development Kab. North Paser Sharpener	Construction Works	PT BRANTAS ABIPRAYA (PERSERO)	IDR 676.73 Billion	IDR 556.42 Billion	27 December 2019	IDR 676.73 Billion	75
Construction of Ameroro Dam, Konawe Regency, Southeast Sulawesi Province (Package-II)	Construction Works	PT. HUTAMA KARYA REGION IV (PERSERO)	IDR 589.37 Billion	IDR 518.65 Billion	28 December 2020	IDR 589.37 Billion	61
New Nabire Airport Air Side Facility Work Phase I	Construction Works	PT. NINDYA KARYA (PERSERO)	IDR 479.56 Billion	IDR 442.29 Billion	05 May 2020	IDR 501.74 Billion	57

SOEs

Top 10 Procurement with the Highest Contract Value in 2020
Source: Opentender.net

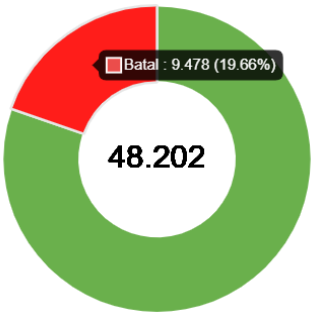
There are 159,308 construction companies in Indonesia including small, medium, and large enterprises. However, as State-Owned Enterprises dominate the biggest contracts throughout the country, it means that many small and large private construction companies are missing out on the benefit in Indonesia's grand plan of infrastructure development during Jokowi's administration. An adjustment shall be made to accommodate the newest national regulation passed in 2021 that mandated all public agencies to allocate 40% of its budget to Micro Small Medium Enterprises (MSMEs), - including infrastructure projects. There is a gap in data availability that even though the government requires vendors to include their subcontractors in their proposal, currently there is no system that measures whether or not a construction vendor works with subcontractors and/or whether their subcontractors have good track record in other regions in Indonesia.

This also means that there is a need to improve outreach to new business to have greater vendor participation on infrastructure tender. In 2020, there were only 5,012 new suppliers (13.6%) winning contracts for the first time nationwide, winning a total of IDR 14 trillion (USD 964 million) (7.9%) of the total infrastructure projects in total. There is still no analysis/insights as to why new businesses are not participating in the bidding and/or winning contracts.

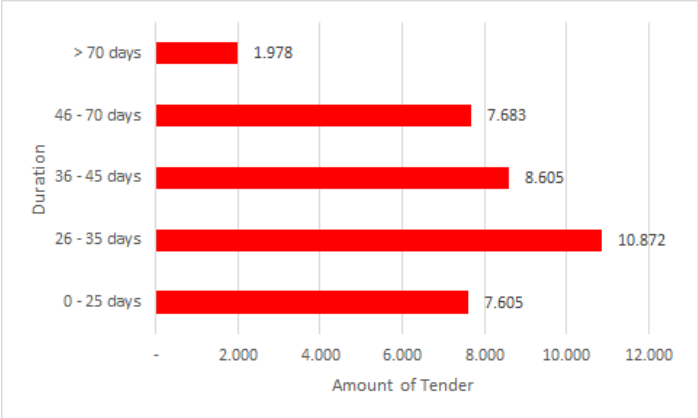
The supplier winning the highest valued infrastructure contract in 2020 is SINO ROAD AND BRIDGE GROUP CO., LTD (SRBGC) - a Chinese company that formed a coalition with 2 other SOEs. From our manual tracking, we found that this coalition was formed for the first time in 2020. However, SRBGC did not have a good track record. In 2017, it won the Manado-Bitung Toll Road project in North Sulawesi where the work carried out was not in accordance with the target. The physical realization was only 13.47% of the agreed 26.06% - showing that only half of the agreed work has been completed. The toll road construction was also problematic due to late payments to subcontractors. This also means that there may need to be an oversight process that links past performance to future planning in construction tenders. This is to ensure that the suppliers who won public contracts are the best quality of suppliers. Currently, integrating vendor performance on tender evaluation process only applies to blacklisted companies who will automatically be excluded from the selection process when they are actively being blacklisted.

2. One month of tendering process

Half of the construction tenders were carried out between 0-35 calendar days. But we also found that nearly 1 in 5 construction tenders were canceled - totaling 9,478 out of 48,202 tenders. For an open and competitive tendering, that duration could be considered short notice limiting participation for new vendors.



Percent of Canceled Tenders in 2020
Source: Opentender



Days Between Tender Start Date and Award Date in 2020
Source: Opentender

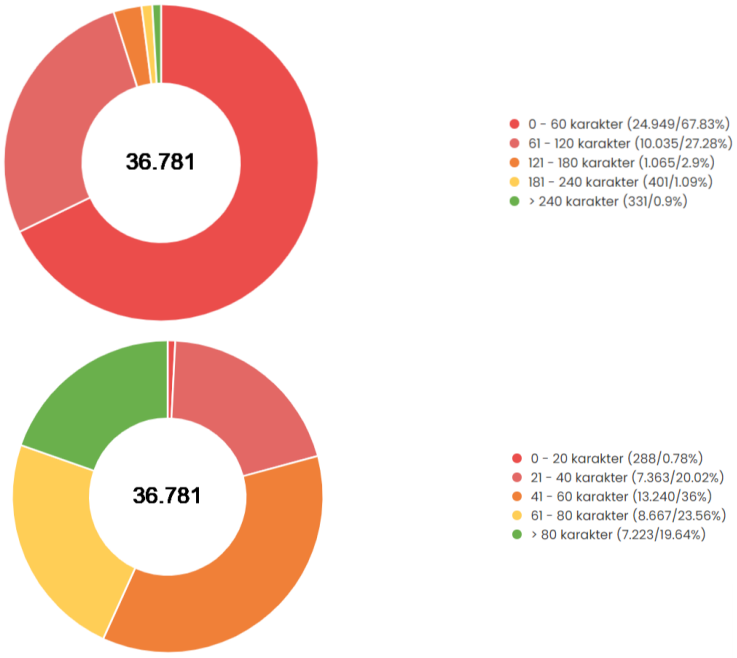
On the other hand, we also found that there were almost 20% canceled tenders (9,478 tenders) in 2020. This is a significant number for construction projects and may have put a strain on the resources and time allocation for procuring entities to re-publish the tender. This would also push further the timeline and may cause lower quality of public services if tender cancellation keeps repeating.

Unfortunately, the cause of tender cancellation could not be analysed due to the lack of data quality. The current available data is only in unstructured text format where most of the information is incomplete / empty. The lack of category in the reasons for a tender being canceled pose challenges in further analysis.

3. Information on tender is lacking

For more vendors to be able to participate in the infrastructure projects and for the public to monitor the process, tenders should have more detailed information. However, we found that less than 1% of infrastructure tender in 2020 provided enough detail in its tender description (more than 240 characters).

The majority of tenders (80%) have titles less than 80 characters (approximately 8 words) and 68% of tenders provide less than 60 characters (approximately 6 words) in their tender descriptions. This lack of information can reduce the opportunity not only for vendors to be able to participate in the public procurement process but also for the public to help monitor infrastructure projects.



Percent of Tenders with Fewer than 20 Characters in Title in 2020
Source: Opentender

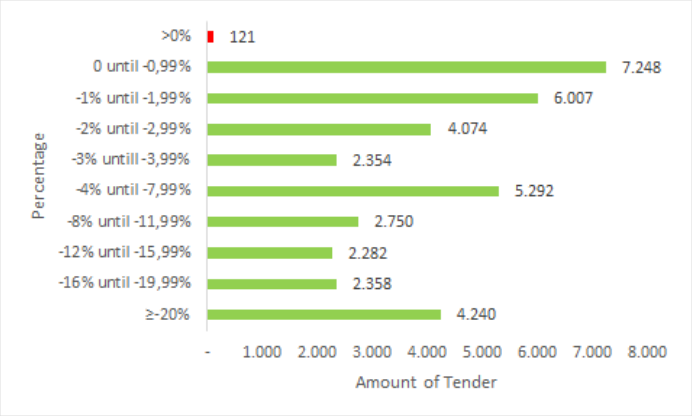
Percent of Tenders with Fewer than 60 Characters in the Description iin 2020
Source: Opentender[2]

The lack of information is not only about the information in tender or title or description. In infrastructure projects, public agencies usually split the projects based on an annual plan and sometimes will have 1 big project split into several stages or based on different areas/locus. A physical construction project sometimes would also be accompanied by consultancy tender ie. to provide infrastructure planning, design, etc. There is no common identifier that unites these tenders together to provide a more holistic view and analysis to know who is involved in the whole project from start to finish.

4. 25% of Infrastructure Tender is High Risk

Opentender, which considers both contract values below 80% and above 99% as high risk, identified 25% of the infrastructure award value in 2020 with a red flag.

[2] Opentender. Accessed on 13 January 2021



Percentage of Difference between Award Value vs Tender Value in 2020

Source: Opentender

Procurement projects that only begin quite late in a fiscal year are often perceived as a last-minute attempt to spend allocated budget and tend to be executed with little planning or due process. In this regard, we found that 1 in 10 of tenders were announced in the 4th quarter of 2020 (October, November, December) making a construction project have to be completed in less than 3 months. These tenders were single year contracts (not multi-year) and are **not** part of the advance planning for next year's budget. That puts a lot of burden on suppliers to complete any complex infrastructure projects in such a short period of time and may affect the quality of public service that the citizens would receive.

What's Next?

While the low market concentration in infrastructure projects gives a false sense of competition. When digging deeper, we found problematic findings such as low rate of new suppliers participation which can be caused by lacking clear information on tender, and with a quarter of them having less than 3 months implementation duration.

There are more layers on infrastructure-related projects that could and should be investigated further. However, lack of data availability, disclosure, and quality puts a challenge on data-driven analysis. We recommend the following points to related stakeholders to enable a more transparent, accountable construction project delivery so Indonesian citizens can receive the best quality of public services:

- More and better data on bidders for infrastructure projects - including subcontractors. Having this data will provide a more holistic view on competition and market concentration as well as a better picture on whether private sectors outside State-Owned Enterprises have been bidding but not winning contracts or whether they have never participated at all in the process.
- Further analysis on infrastructure projects from non-tender data to enable whether there are more new suppliers registered in other procurement methods. This is also to capture a more holistic view of whether tender duration needs to be adjusted to the current market
- Once a clearer picture on participation on construction projects are captured, we also recommend further analysis private construction companies on their experience (or lack thereof) on participating in public bidding
- Integration of data analysis on the evaluation system for better future planning especially for past vendors who did not complete their projects as agreed in the contract ie. publication on SIKAP (vendor

management system), dava availability improvement related to implementation phase such as progress report, project delivery, handover report, etc.

- More advanced planning (tender in the first quarter) is required to reduce the number of construction tenders carried out in the last quarter of the year.
- We also recommend for agencies in charge of construction work to improve tender notices with clearer description and title complemented with better and systemic announcement of tender notices.
- Publication of more structured better quality data and category in the reasoning for canceled tenders. Having the data better structured will enable us to further investigate the reasons for the canceled tenders and how to prevent it in the future.
- Create a common identifier for every infrastructure project from start-to-finish, including all types of procurement methods.

ICW will continue to work on monitoring infrastructure related tenders in the future. We plan to develop a joint-approach with the National Public Procurement Agency to focus on monitoring infrastructure projects engaging broader citizens as part of our strategy in public monitoring.

You may also find the following resources relevant:

- ICW detailed 2020 Infrastructure data-use report here
- Details of 10 years procurement analysis by ICW
- Data-use story on how the opentender.net s ite helps spot shady government spending
- A story from 10 years of collaboration between Indonesian government and civil society as partners in crime prevention