

DEMOCRATIC DECENTRALISATION AND GOOD GOVERNANCE: THE
POLITICAL ECONOMY OF PROCUREMENT REFORM IN DECENTRALISED
INDONESIA

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Dissertation submitted for the degree of Doctor of Philosophy

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December 2017

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Abstract

Democratic decentralization in Indonesia has produced mixed outcomes vis-a-vis good governance at the local level since it was implemented in the late 1990s/early 2000s. Scholars such as Robison and Hadiz (2004), Hadiz (2010), and Hadiz and Robison (2013) have argued that predatory forces nurtured under the New Order have exercised a powerful enduring negative influence over local governance, undermining reform efforts. However, other scholars have argued that the influence of these forces has been ameliorated to some extent by incentives created by democratisation for local elites to promote populist policies. Where local elites have sought to win or maintain power by mobilising popular support, these scholars have argued, governance outcomes have been better than in regions where local elites have sought to win or maintain power through money politics or the cultivation of elite networks.

This dissertation contributes to the analysis of democratic decentralisation and its effects on the quality of local governance in Indonesia by examining the case of procurement reform. Procurement has historically been a major source of corruption in Indonesia, making reform of procurement systems a crucial battleground in the struggle for better governance. This battle has been played out at both the national and local levels. In contrast with existing analyses of democratic decentralisation, this dissertation argues that the extent of procurement reform at the local level has depended on the degree to which progressive civil society has been able to challenge predatory elites, energise potential reformist local leaders and public officials supportive of governance reform, and in so doing create a political landscape conducive to such reform.

To support this argument, this dissertation examines the political economy of procurement reform in two autonomous municipalities in Indonesia: Surabaya and

Bogor City. In Surabaya, it is argued, progressive activists, particularly non-government organizations (NGOs), university academics, and local media, have successfully challenged the political dominance of New Order-era predatory elites and energized reform-minded leaders and bureaucrats, creating an environment in which the latter could adopt and roll out wide-ranging procurement reforms that have served to promote significantly more accountable, transparent and cleaner procurement practices. By contrast, in Bogor, predatory elites with their origins in the previous regime have continued to control the local government. There has been no significant challenge from pro-democratic forces, as they have been underdeveloped, fragmented, and financially dependent upon local government. Together with new political and business actors who have inserted themselves into networks of corruption and influence, they have accordingly captured local government projects. Procurement reform has been limited, facilitating corrupt and collusive practices.

This dissertation concludes by suggesting that analysts of local politics and governance in Indonesia and other developing countries should consider the roles of a wider array of actors beyond predatory and populist elites. It also delivers a strong message to the proponents of democratic decentralization that the presence of organized pro-democratic forces can limit the prevalence of elite capture and ensure that democratic decentralization meets its intended outcomes, particularly in terms of improving local governance.

Declaration

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree. I give consent to this copy of my thesis, when deposited in the University Library, being made available for loan and photocopying, subject to the provisions of the Copyright Act 1968.

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Date: 20 December 2017

Mochamad Mustafa 

Acknowledgments

All praise and thanks are to Allah who is the Lord of the worlds, I put my trust in Allah, and there is no power and no strength except with Allah.

The writing and completion of this dissertation would not have been possible without the insight, inspiration, support, guidance and encouragement of many people in my life. I am hugely indebted to my principal supervisor, Professor Andrew Rosser, whose expertise, understanding, genuine guidance and direct support have made this dissertation possible. I have learned so much from his advice and comments such as ‘be consistent’, ‘vague’, ‘check throughout’, ‘be precise’, ‘repetition’, ‘unclear’, ‘unsupported arguments’, ‘substantiate it’, and ‘flesh it out’. Such guidance has shaped this dissertation. I also would like to express my sincere gratitude to Professor Kanishka Jayasuriya (my co-supervisor for the first three years) and Dr Thomas Wanner (my co-supervisor for the final year). They both came to help at the right time, assisting me to develop my ideas and keeping my writing on track. Of course, I remain forever indebted to my interviewees: NGO activists, journalists, businesses, government officials, legislative members, and politicians in Surabaya and Bogor City and at national level. I thank them all for their help, and most importantly their data, information, views and insights.

I am indebted to the Australia Award Scholarship (AAS) for providing the funding for this PhD program. I also wish to thank to all the academic staff in the Department of Anthropology and Development Studies and the International Student Office at the University of Adelaide for providing a loving, supportive and encouraging academic environment during this work. Very special gratitude goes to Dr Susan Hemer, Sharon Lewis and Niranjala Seimon (the AAS Liaison officer). Their unfailing assistance, support, and guidance have helped me persevere in facing my research challenge

during the writing of this thesis. I also greatly thank Alison-Jane Hunter, a professional editor, who has helped me improve the language and presentation of this dissertation.

I have benefited greatly from everyone in the ‘web of significance’ of the Department of Anthropology and Development Studies. It was great sharing study space with all of them. I also acknowledge the help, suggestions, advice and insights of my fellow students: Maryke C. van Diermen, Gracia Girsang (The University of Adelaide), Muhamad Taufan, Suryo Guritno, Yadi Hadian, Muhamad Yoga Pratama, Sukendar Sodik (Flinders University), Yuna Farhan (The University of Sydney) and Danang Widoyoko (Australian National University). My special gratitude and thanks go also to my all colleagues at the Asia Foundation, Indonesia, for their unwavering support and encouragement over the last few years. Special gratitude goes to Erman Rahman, Sandra Hamid and Hana Satriyo. Their advice, support and insights allowed me greater understanding in many parts of this dissertation.

Most of all, I would like to express my immeasurable appreciation and deepest gratitude to those to whom I owe everything in my life: my father (M. Syafii), mother (Umi Sa’adah), wife (Arie Vibrianti), daughters (Raissa Azalia Mustafa and Alissa Kayla Mustafa) and two-week-old son (Atara Bayanaka Mustafa). You all have been my strength in enduring the path of a PhD life that was not always smooth or straight.

Thanks to you all!

Abbreviations

ADB	Asian Development Bank
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> - Local Government Budget
APEKSI	<i>Asosiasi Pemerintah Kota Seluruh Indonesia</i> - Indonesian City Governments Association
ARDIN	<i>Asosiasi Rekanan Dagang Indonesia</i> - Association of Supplier Associations
ASPEKINDO	<i>Asosiasi Pengusaha Konstruksi Indonesia</i> - Indonesian Construction Businesses Association
Bappeda	<i>Badan Perencanaan Pembangunan Daerah</i> - Regional Development Planning Bureau
Bawasda	<i>Badan Pengawas Daerah</i> - Regional Supervisory Agency
BPK	<i>Badan Pemeriksa Keuangan</i> - Supreme Audit Bureau
BPKP	<i>Badan Pemeriksa Keuangan dan Pembangunan</i> - Financial and Development Audit Bureau
BPS	<i>Badan Pusat Statistik</i> - Centre Bureau of Statistics
CPI	Corruption Perception Index
CSR	Corporate Social Responsibility
CSO	Civil Society Organisation
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> – Regional House of Representatives
DPS	Development Program Section
EBA	European Business Assembly

EPS	Electronic Procurement Services
ESC	Environmentally Sustainable City
GAPENSI	Gabungan Pelaksana Konstruksi Nasional Indonesia - the Indonesian National Constructor Association
Gerindra	<i>Gerakan Indonesia Raya</i> - Great Indonesia Movement Party
Golkar	<i>Golongan Karya</i> - Party of the Functional Groups
GRDP	Gross Regional Domestic Product
GRMS	Government Resource Management System
GRS	<i>Gerakan Rakyat Surabaya</i> - Surabaya Citizen Movement
HANURA	<i>Hati Nurani Rakyat</i> - Citizen Conscience Party
HDI	Human Development Index
HMI	<i>Himpunan Mahasiswa Islam</i> - Muslim Students Association
ICLEI	International Council for Local Environmental Initiatives
IDR	Indonesian Rupiah
IDSa	Indonesian Digital Society Award
IGRA	Indonesian Green Region Award
INGOs	International Non-Government Organizations
INKINDO	<i>Ikatan Nasional Konsultan Indonesia</i> - National Association of Indonesian Consultants
IPB	<i>Institut Pertanian Bogor</i> - Bogor Agricultural University
IPW	Indonesian Procurement Watch
ITS	<i>Institut Teknologi Sepuluh Nopember</i> - 10 November Institute of Technology
Jabodetabekjur	Jakarta, Bogor, Bekasi, Tangerang and Cianjur
Jabotabek	Jakarta, Bogor, Bekasi and Tangerang

JPIP	Jawa Pos Institute of Pro-Otonomi
JPNN	Jawa Pos News Network
KADIN	<i>Kamar Dagang Indonesia</i> - Indonesian Chamber of Commerce
KAMMI	<i>Kesatuan Aksi Mahasiswa Muslim Indonesia</i> - The Unity of Indonesian Muslim Students Action
Keppres	<i>Keputusan Presiden</i> - Presidential Decree
KORP-H	<i>Koalisi Rakyat Penegak Supremasi Hukum</i> - Citizens' Coalition for the Supremacy of Law
KPK	<i>Komisi Pemberantasan Korupsi</i> – National Corruption Eradication Commission
KPPOD	<i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> - Monitoring Committee for the Implementation of Regional Autonomy
KPUD	<i>Komisi Pemilihan Umum Daerah</i> - Regional General Election Commission
LBH	<i>Lembaga Bantuan Hukum</i> - Legal Aid Foundation
LDMS	Local Development Monitoring Section
LKPP	<i>Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah</i> - National Procurement Policy Agency
LPJK	<i>Lembaga Pelayanan Jasa Konstruksi</i> - Construction Service Industry Board
MoHA	Ministry of Home Affairs
MoU	Memorandum of Understanding
NGO	Non-Government Organization
NPPA	National Procurement Policy Agency

PAD	<i>Pendapatan Asli Daerah</i> - Locally Generated Revenue
PAN	<i>Partai Amanat Nasional</i> - National Mandate Party
PBB	<i>Partai Bulan Bintang</i> - Crescent and Star Party
PBTI	<i>Partai Bhinneka Tunggal Ika Indonesia</i> - Unity in Diversity Party
PD	<i>Partai Demokrat</i> - Democrat Party
PDAM	<i>Perusahaan Daerah Air Minum</i> - local government-owned water company
PDIP	<i>Partai Demokrasi Indonesia Perjuangan</i> - Indonesian Democratic Party of Struggle
PD PPJ	<i>Perusahaan Daerah Pasar Pasar Pakuan Jaya</i> - local stated-owned public markets company
PDS	<i>Partai Damai Sejahtera</i> - Prosperous Peace Party
Perpres	<i>Peraturan Presiden</i> - Presidential Regulation
PFM	Public Financial Management
PK	<i>Partai Keadilan</i> - Justice Party
PKB	<i>Partai Kebangkitan Bangsa</i> - National Awakening Party
PKNU	<i>Partai Kebangkitan Nasional Ulama</i> - Ulama National Awakening Party
PKP	<i>Partai Keadilan dan Persatuan</i> - Justice and Unity Party
PKS	<i>Partai Keadilan Sejahtera</i> - Prosperous Justice Party
PMII	<i>Persatuan Mahasiswa Islam Indonesia</i> - Indonesian Muslim Students Unity
PNI	<i>Partai Nasional Indonesia</i> - Indonesian Nationalist Party

PP	<i>Partai Persatuan</i> - Unity Party
PPKPBJP	<i>Pusat Pengembangan Kebijakan Pengadaan Barang/Jasa Publik</i> – Center for Public Procurement Policy Development
PPP	<i>Partai Persatuan Pembangunan</i> - United Development Party
PSU	Procurement Service Unit
PT	<i>Perseroan Terbatas</i> - Incorporated company
PTUN	<i>Peradilan Tata Usaha Negara</i> - State Administrative Court
PUDI	<i>Partai Uni-Demokrat</i> Indonesia - Indonesian Uni-Democrat Party
PWKS	<i>Paguyuban Warga Stren Kali</i> – Strenkali riverbank dwellers association
Satpol PP	<i>Satuan Polisi Pamong Praja</i> - civil service police unit
SCFM	Surya Cakra Frequency Modulation – a local radio station in Surabaya
SePS	Surabaya e-Procurement System
SPSE	<i>Sistem Pengadaan Secara Elektronik</i> - Electronic Procurement System
SVC	Street Vendor Cooperation
TAP MPR	<i>Ketetapan Majelis Permusyawaratan Rakyat</i> - Decree of Peoples Consultative Assembly
TII	Transparency International – Indonesia
Ubaya	<i>Universitas Surabaya</i> - The University of Surabaya
Unair	<i>Universitas Airlangga</i> - The University of Airlangga
VOC	<i>Vereenigde Oost-Indische Compagnie</i> - Dutch East India Company

Walhi

Wahana Lingkungan Hidup - The Indonesian Forum for the
Environment

CHAPTER 1

INTRODUCTION: RESEARCH BACKGROUND, APPROACHES, AND METHODOLOGY

1.1. Background

It is widely argued that democracy and decentralization can substantially improve the quality of governance in developing countries and, in turn, promote better development outcomes. Democracy under appropriate conditions, it is suggested, promotes better governance by increasing the public's ability to make demands on the state and the state's responsiveness to these demands; the latter reflecting, among other things, the fact that political elites need to secure popular approval in order to remain in power (Stiglitz 2000; Bhagwati 2002). Similarly, decentralization is said to improve governance by bringing the policy-making process closer to the people (Manor 1999; Przeworski, Stokes & Manin 1999; Crook & Manor 2000; Fisman & Gatti 2002). In practice, decentralisation does not always go together with a democratic system but in recent years it has increasingly done so. Crook and Manor (2000, p.1) have defined 'democratic decentralization' as occurring 'when resources, power, and often tasks are shifted to lower-level authorities who are somewhat independent of higher authorities, and who are at least somewhat democratic'.

Many scholars have asserted that democratic decentralization is especially beneficial in terms of promoting better governance and development outcomes for several reasons. It allows greater freedom of information; improves the accountability of local governments; makes governments more efficient and less

corrupt; and improves fiscal management and citizen participation, and thereby promotes economic and social development (Przeworski, Stokes, & Manin 1999; Fisman & Gatti 2002; Manor 1999; Crook & Manor 1998; Crook & Sverrisson 1999). However, assessments of the impact of democratic decentralisation in practice have produced mixed results. Crook and Sverrisson (1999) found that democratic decentralization contributed to increased citizen participation and representation in policy-making processes in some districts in the Philippines, India, and Uganda and, in turn, served to improve government revenues, increase employment growth, promote economic activity, and enhance human development, although they also found that such improvements did not materialise in other countries such as Chile, Bangladesh, Mexico, and Nigeria. In contrast, Koelble and Siddle (2013, p. 345) discovered that in South Africa democratic decentralisation contributed to local government failure to deliver public services (especially to the poor) and the prevalence of corruption and elite capture. Iqbal, Din and Ghani (2012, p. 187) similarly argued that in Pakistan, democratic decentralization led to less accountable and more corrupt governments.

In the Indonesian context, the outcomes of democratic decentralisation have also been mixed. Following the fall of the authoritarian New Order regime in 1998, the country embarked on the implementation of democratic decentralisation, with democratisation beginning in 1999 and decentralisation being implemented from 2001. Studies suggest that it has led to uneven governance and development outcomes at the local level. A number of local governments have shown increasing capacity to establish good local economic governance, but many others have failed to do so (Komite Pemantauan Pelaksanaan Otonomi Daerah (KPPOD) 2007; KPPOD 2011; von Luebke 2009; Darmawan 2009; Patunru & Rahman 2014). Such

mixed outcomes are also reflected in some other development indicators such as economic growth (Pepinsky & Wihardja 2011), inter-regional economic disparities (Hill & Vidyattama 2014), and the incidence of poverty (Illma & Wai-poi 2014).

What explains democratic decentralisation's mixed record, both in general and Indonesia specifically? Analysis so far has suggested that the effects of democratic decentralisation depend on the nature of the political circumstances prevailing in different countries and localities. There is no guarantee that democratic decentralization will produce, for example, better governance in service delivery, since there is no assurance of a supportive political economy context for improved performance by local government (Burki et al. 1998, pp. 3-4). Democratic institutions may fail to incentivise organized interests, media, and other stakeholders to acquire the skills required to participate in and influence local decision-making, (Crook & Manor 1998; Bardhan & Mookherjee 1999). At the same time, decentralization can lead to elite capture of the benefits of decentralization (Blair 2000, p.23), especially in localities that lack effective electoral competition, lack cohesive interest groups, and have a low level of public participation in local politics (Bardhan & Mookherjee 1999, pp. 136-137).

Initial analysis of democratic decentralization in Indonesia suggested that it resulted in 'elite capture'¹ by those nurtured under the New Order, sustaining the 'clientelism'² and 'patronage system'³ associated with the New Order within the

¹ This dissertation defines elite capture as the ability of local elites to exploit both formal and informal social and political power to elicit rents and maximise their interests (see Mattingly 2016, p. 385).

² Clientelism refers to a 'relationship between individuals with unequal economic and social status ("the boss" and his "clients") that entails the reciprocal exchange of goods and services based on a personal link that is generally perceived in terms of moral obligation' (Briquet 2015, p. 1).

³ A patronage system is a mode of power relations where 'a patron influences the behavior of his clients because he can grant or withdraw benefits, thereby rewarding compliance or punishing

newly empowered local governments. Robison and Hadiz (2004), Heryanto and Hadiz (2005), and Hadiz (2010), for instance, all argued that democratic decentralization was impeded by an ‘oligarchic’ system of power, resulting in weak democratic institutions and little progress in the creation of transparent and accountable governance. They also perceived civil societies to be weak, highly fragmented, and underdeveloped, limiting their ability to challenge old predatory elite groups. In other words, the local political structures and the limited availability and capacity of progressive elements produced a weak politico-economic foundation for improved governance and development outcomes.

More recent analysis, however, has presented a more complex picture. It has suggested that New Order-era elites have continued to exercise enormous influence over local governance, reflecting problems of elite capture. At the same time, the new elites that have emerged have often simply partaken in local competition for political power and resources (Aspinall 2013a; Aspinall 2003b; Buehler 2014). However, political competition has created incentives for political elites to be more responsive to societal demands and adopt more populist public policy orientations (von Luebke 2009; Choi & Fukuoka 2014; Rosser, Wilson & Sulistyanto 2011; Rosser & Sulistyanto 2013; Aspinall 2013a). Furthermore, civil society organizations have exercised some influence in local policy-making in a small number of cases through activities such as policy advocacy (Antlov, Brinkerhoff & Repp 2010, p. 421), and because activists have entered the political parties and government institutions (Aspinall 2013a, p.108).

disobedience’ (Kattering 1986, p.4). In political praxis, it also refers to a ‘practice in which the political party winning an election rewards its campaign workers and other active supporters by appointment to government posts and by other favours’ (Encyclopaedia Britannica 2017).

In broad terms, then, the existing literature on democratic decentralisation in Indonesia has focused on the role of elites (especially predatory and populist elites) in shaping the nature of local governance and told us little about the role of other actors such as civil society organisations, the media, and intellectuals (referred to here as ‘progressive’ forces) in constraining predatory elites and supporting populist elites. Nor has it given much attention to internal dynamics within the local bureaucracy. Their overwhelming focus has been on the incentives, strategies, and actions of local executives (i.e. district and municipal heads) and other members of the predatory and/or populist elite.

1.2. Purpose/Argument

The primary purpose of this research is twofold. First, the research seeks to enhance our understanding of the way in which political and economic factors have shaped the impact of democratic decentralisation on the quality of governance at a local level in Indonesia. In this respect, it argues, like existing analyses, that predatory elites have exercised a powerful, enduring, negative influence over local governance and that this has been ameliorated to some extent by the incentives that democratisation has created for local elites to promote populist policies. However, it widens the frame of analysis to incorporate a concern with the activism of progressive forces from various societal groups and the role of such actors within the bureaucracy. It argues that these actors have not always been marginal, as the current literature implies. Rather, they have been important in constraining predatory elites from totally dominating the local political system. They have also energised (through the application of pressure and the provision of support) potential reformist local leaders and public officials to bring about good governance

reform. In this vein, the dissertation contends that the existence or the absence of progressive forces influences the extent to which predatory elites and populist leaders can capture democratic decentralisation.

To support this analysis, in the following chapter this dissertation develops an analytical framework for understanding the political economy of local governance in Indonesia. In this respect, it argues that the impact of democratic decentralisation depends on the extent to which progressive forces have been able to challenge predatory elites successfully and, in so doing, create a political landscape that is supportive of good governance. Successful policy reforms, therefore, involve progressive elements building networks and alliances to confront predatory forces, not just the emergence of populist elites responding to electoral incentives.

Second, the research seeks to identify the lessons of the Indonesian case for other developing countries. In this respect, it argues that elite capture is one of the main problems in the implementation of democratic decentralisation, especially in a post-authoritarian country such as Indonesia. Its extent, however, depends on the presence of a vibrant civil society in intermediating citizens' voices in the local political structure. A locality where vibrant progressive elements are able to partake in crafting the local political structure will have more chance of developing diverse forms of good governance and therefore better development outcomes. Hence, proponents of good local governance such as international development agencies, International Non Government organisations (INGOs), and major national-level Non Government Organisations (NGOs) should promote the development of progressive civil society actors and explore ways of facilitating coalition-building amongst progressive civil society forces at the local level. At the same time, local progressive forces need to seek more effective strategies to influence local political

structure which include providing support for potential reformist politicians to become their prospective channels for articulation of their agenda within the government.

1.3. Research Methodology

1.3.1. Case Study Approach

To support this argument, this research uses a case study approach as its methodology. According to Creswell (2009, p.227), a case study approach is ‘a qualitative strategy in which the researcher explores in depth a program, event, activity, process, or one or more individuals. The case(s) are bounded by time and activity, and researchers collect detailed information using a variety of data collection procedures over a sustained period of time’. This type of study relies on multiple sources of empirical evidence to understand the phenomenon at hand (Hancock & Algozzine 2006). It utilizes this evidence to probe theoretical frameworks and the hypothetical assumptions they generate through an iterative process. It, therefore, has the potential to lead to the construction of an alternative, new, theoretical understanding (Creswell 2009).

1.3.2. Case Selection

In this project, the chosen case study is local procurement reform. Examining this case will contribute to our understanding of the impact of democratic decentralisation on the quality of local governance in Indonesia—and the mediating effects of political economy factors in this respect—for the following three reasons:

1. *Public procurement is associated with one of the main impediments to improved governance under democratic decentralisation in Indonesia: corruption.*

Despite the fall of the New Order, there is no significant evidence of reduced corruption. According to a 2011 survey by Transparency International Indonesia (TII) public procurement accounted for 70% of the total number of corruption cases in Indonesia, was responsible for US\$4 billion in state losses, and was the source of 80% of complaints related to corruption (Kredible 2011, p.12). The Ministry of Home Affairs in Indonesia reported in 2011 that 17 (out of 33) governors and 138 (out of 497) regents/mayors were suspected of involvement in corruption cases mostly due to their abuse of procurement-related regulations (Kurniawan 2012, p.1). Importantly, procurement related actors' commitment to implement reform is low and political intervention in government projects is still common (Komisi Pemberantasan Korupsi (KPK) 2015b, p.18).

2. *Public procurement has been one of the most important governance reform agendas at both the national and local levels since the fall of the New Order.*

Since 2000, the Indonesian government has embarked on efforts to ensure that its procurement procedures comply with international standards of accountability, transparency, openness and competitiveness, especially in the bidding process. Various regulatory and institutional reforms have been introduced, including the establishment of the National Procurement Policy Agency (NPPA) which functions to develop policies, standards, and procedures related to public procurement. The government has also established an official accreditation system, reorganised local procurement institutions through the creation of Procurement Service Units (PSU), and implemented Electronic

Procurement Services (EPS).⁴ Procurement reforms have been part and parcel of a broader range of governance reforms, including the 1999 construction law, the 1999 competition law, the 2003 state financial law, the 2004 treasury law, the 2004 state financial management and accountability audit law, and, most importantly, the 2001 corruption eradication law and the establishment of a corruption eradication commission in 2003 (Yulianto & Oeyoen 2011; Buehler 2012; Sack et al. 2014).

3. *There has been significant variation in the extent to which district level governments have achieved better governance through the implementation of the procurement reform.* Overall, the quality of public procurement and public financial management (PFM) are widely considered to be low (Patunru & Erman 2014; Sack et al. 2014). However, there are a small number of districts that have improved their procurement management. Sack et al. (2014, pp. 13-15), for example, note that even though the overall usage of e-procurement to facilitate bidding is low (about 11% of total procurement expenditure), there are 18 districts/municipalities that employ the system to manage more than 20% of their respective program budgets. Three of these used e-procurement for more than 50% of their program budgets in 2011. Between 2007 and 2011, there was a decrease in procurement expenditure of 65% of districts in Indonesia. But 13% of districts experienced an increase in their procurable budget, indicating their intention to make more government projects procurable through more

⁴ The purpose of PSUs is to centralize the procurement committee and procurement processes across local government departments or agencies in one streamlined institution. The purpose of EPS is to establish a system by which government-to-business interaction for procurement processes is managed electronically using publically accessible internet services at every stage from the initial project announcement to the selection of the bidders.

transparent, accountable, and competitive means. Finally, some districts have voluntarily introduced procurement reforms in an effort to reduce corrupt practices before being obligated to do so by national regulation (Sack et al. 2014, pp. 13-14).

1.3.3. Case Study Sites

To examine the ways in which political economy dynamics have shaped the impact of democratic decentralization on the quality of local governance in Indonesia, this study employs a comparative analysis⁵ of two sub-national regions: Surabaya and Bogor City. These cities were chosen using the most similar case study selection method, a method that is widely used in ‘small-n’ work in comparative politics. The fundamental principle of the most similar method is to select two or more units of analysis that share similar characteristics along many dimensions but vary in relation to the dependent variable of interest (Seawright & Gerring 2008, p. 304). The most similar approach was employed in this study as it ‘has strong affinities to a distinctive research goal, namely to determine whether a certain factor has an effect, that is, whether it “makes a difference”.’ (Blatter & Haverland 2012, p. 33). Indeed, it suits the aim of this study; that is, to understand the counterfactual conceptions of causation that produce varying outcomes from democratic decentralization.

⁵ According to Lijpart (1975, p. 164) the comparative method can be defined as ‘the method of testing hypothesized causal relationships among variables based on the same logic that guides the statistical method, but in which the cases are selected in such a way as to maximize the variance of the independent variables and to minimize the variance of the control variables’ (in Blatter and Haverland 2012, p. 42).

1.3.4. Locations of Case Study Sites

The selected case study sites, Surabaya and Bogor City, are similar in terms of their economic significance, city status, and leadership. The two cases differ, however, in the vibrancy of their civil society activism and the extent to which they have achieved good governance following democratic decentralization. The similarities and differences between the two cities are summarized below.

Figure 1: Locations of the case study sites



Source: Modified from Encyclopedia Britannica (2012) and Geocurrents.info (2017).

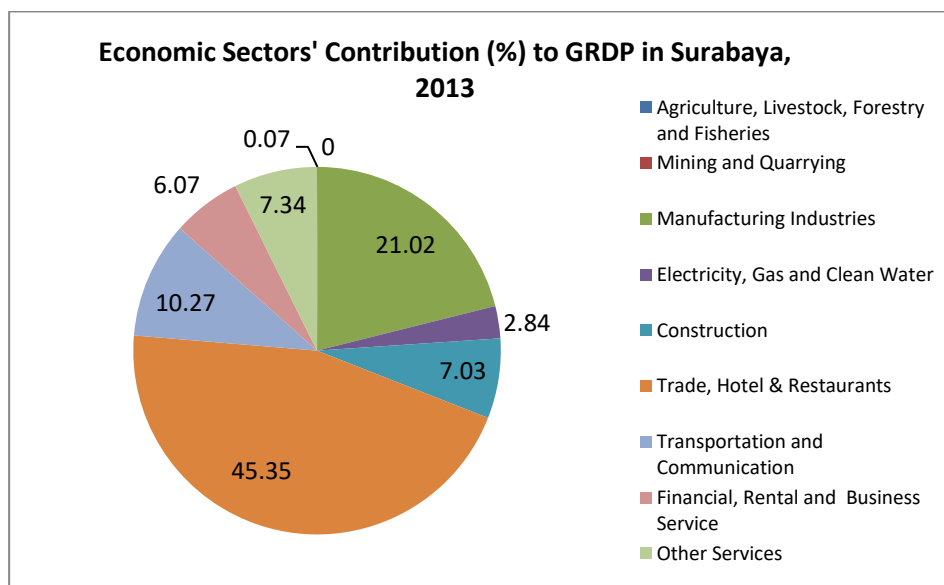
Similarities:

1. *Both cities are economically important.* Surabaya and Bogor City are both located on the island of Java, the country's most populous and economically prosperous island. Economic development under the New Order was highly

Java-centric, with the result that both cities faced opportunities for economic development that were denied to many cities outside the Java.

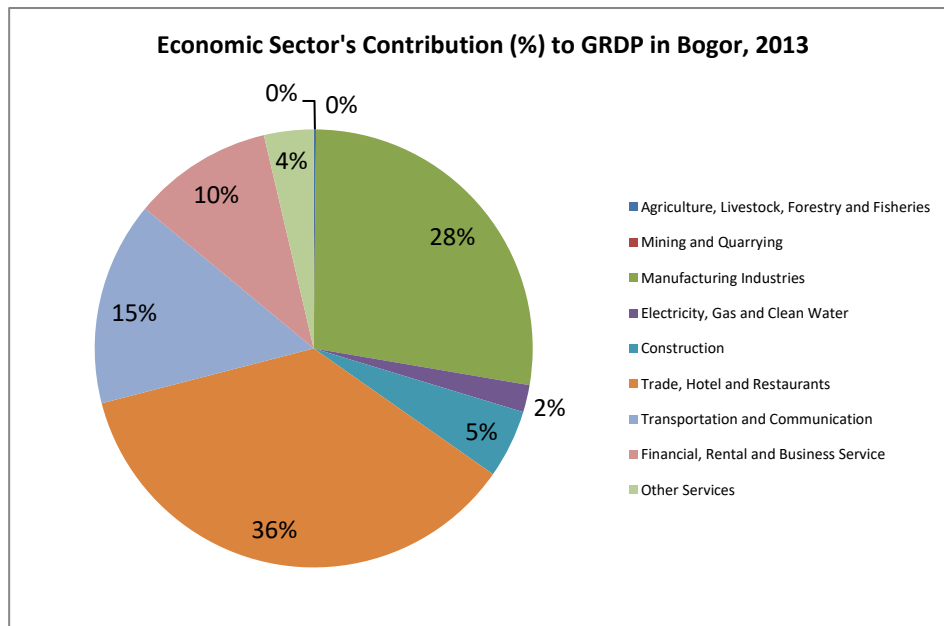
2. *Both cities are highly urbanised.* Surabaya is the capital city of East Java province and the second biggest city in Indonesia after Jakarta, the national capital. Bogor City is an important urban area in West Java. Even though Bogor City is not a provincial capital, it is among the biggest metropolitan areas in Indonesia. It ranks twelfth amongst the current total of 98 municipalities in Indonesia in terms of population. (MOHA 2016). It is also one of the centres of economic activity in West Java province and shares a border directly with Jakarta, making it highly connected to Indonesia's biggest and most important city. Both Surabaya and Bogor City have economies that are based on financial, rental and business services, and manufacturing industries. These sectors account for more than 66% of the Gross Regional Domestic Product (GRDP) in Surabaya (Figure 2) and 64% of GRDP in Bogor City (Figure 3).

Figure 2: Sectoral economic contribution (%) to GRDP in Surabaya, 2013



Source: Surabaya Central Bureau of Statistics (BPS Kota Surabaya 2014)

Figure 3: Sectoral economic contribution (%) to GRDP in Bogor City, 2013



Source: Bogor City Central Bureau of Statistics (BPS Kota Bogor 2014)

3. *Both cities have a similar status with respect to the country's decentralisation policies.* Both cities hold the status of being a municipal city, a second-level administrative entity, immediately below the provincial government. They have held this status since the Dutch colonial era and sustained it in the post-independence period through Law No. 16/1950 on the Establishment of Major Cities in East Java, Central Java, West Java and The Special Region of Jogjakarta, and Law No. 22/1999 on Regional Autonomy (and its subsequent regulatory laws). Under the current regional autonomy law, municipalities have the highest degree of autonomy administratively, financially and politically. For instance, they have responsibility for delivering most government services (including health, education, and infrastructure); have a wider extent of authority to generate local revenues; and, importantly, have a significant

amount of autonomy from the central government in terms of local policy-making.

4. *Both cities have undergone a shift in the nature of their local leadership, albeit at markedly different points in time.* In the early period of democratic decentralisation, both cities were ruled by what Robison and Hadiz (2004) would describe as ‘oligarchs’ or ‘predatory elites.’ In Surabaya, a mayor with a military background led the city administration from 1999 to 2002. In Bogor City, a career bureaucrat was mayor from 1999 to 2004. Both individuals were able to secure their mayoral positions despite a fall in Golkar’s (the New Order’s electoral vehicle) popularity in the 1999 national election. In Surabaya, this mayor was replaced with a reform-minded individual in 2002, signalling a shift in the balance of power between predatory and progressive forces, opening up scope for reform. This shift was consolidated with the election of a close ally and prominent bureaucratic reformer in 2010. In Bogor, two bureaucrats controlled the city’s administration from 1999 to 2014, demonstrating a continuation of rule by the New Order’s predatory elite. A reform-minded mayor came to power in 2014, several years later than in Surabaya.

Differences:

5. *Both cities exhibit different levels of civil society activism and local media engagement in local politics.* Surabaya is known for having a vibrant civil society that includes media, non-governmental organisations and local intellectuals. Robust activism by civil society and professional networks has had an important impact on local politics in that city following democratic decentralisation (Marijan 2008). Their role was also pivotal to the success of

several government-run development programs (Bunnell et al. 2010; Diliiani & Susanti 2015). Importantly, the city has also had several well-established and influential local media outlets that have contributed to the vibrancy of civil society activism. In contrast, in the city of Bogor, civil society activism has been less pronounced. There is little evidence of active engagement by civil society in both local politics and the local development process. The local media has not emerged as an influential independent force, since most of the local press is new and too small to channel societal interests. At the same time, the local media's reliance on access to local government for information has hindered its capacity to act in an independent and critical way.

6. *Both cities have achieved different levels of success with regards to good governance since democratic decentralisation.* Surabaya is one of the local governments with notable achievements in relation to good governance (Bunnell 2010; Diliiani & Susanti 2015), gaining international recognition for its governance reforms. For instance, it received awards such as Best City in Asia from City Net in 2012, the 2012 ASEAN Environmentally Sustainable City (ESC) Award from ASEAN Cooperation on Environmentally Sustainable Cities, the 2013 Asian Township Award from the United Nations, and The Future City award from the European Business Assembly (EBA) in 2014. In 2013, the mayor was named by *Forbes Indonesia* as one of its 'Most Inspiring Women', and in February 2014, she was named Mayor of the Month by the City Mayors' Foundation in the UK (Kota Surabaya 2016). Finally, Surabaya has been judged one of Indonesia's best performing regions in terms of government integrity by *Komisi Pemberantasan Korupsi- KPK* (the Indonesian Corruption

Eradication Commission) and Transparency International Indonesia (TII) (KPK 2013; Thohary et al. 2015).

In contrast, Bogor City has achieved little by way of innovation in good governance. There has been widespread public concern about the lack of governmental capacity to deal with issues such as waste management, traffic congestion, illegal street vendors, and the growth of slum areas that lack basic infrastructure, such as sanitation and water services. With regards to the implementation of good governance, the city government has displayed a weak commitment to ensuring transparency and accountability and addressing corruption. The effects have included the continuation of a corrupt and collusive bureaucratic system (see Chapter VI).

1.3.5. Process Tracing

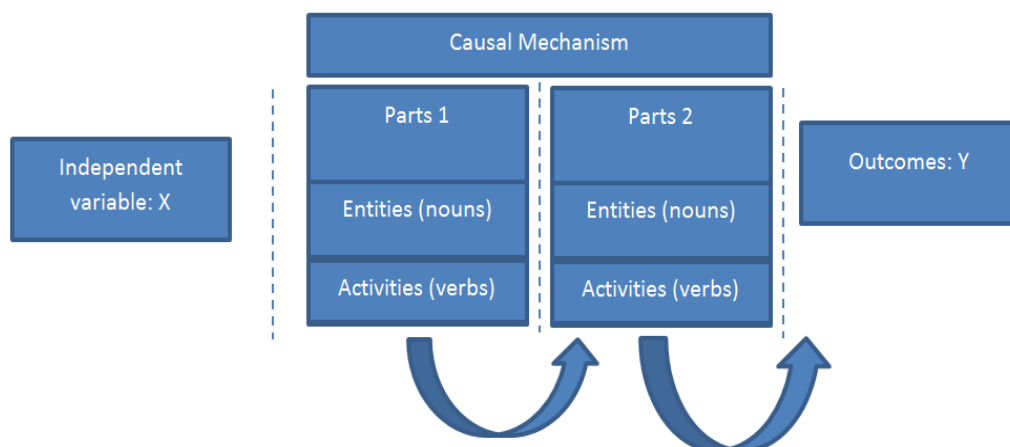
To analyze these case studies, and, in particular, to identify the causal mechanisms linking democratic decentralization, on the one hand, and different governance outcomes on the other, this dissertation utilizes process tracing methodology. This methodology is commonly used in research in sociology and comparative politics that uses a small number of case studies (small-n research) to test theoretical propositions. Process tracing involves identification of the causal mechanisms linking independent/explanatory variables and dependent/outcome variables. Causal mechanisms are ‘the processes and intervening variables through which an explanatory variable exerts a causal effect on an outcome variable’ (Bennett 1997 in Mahoney 2000, p. 412). In other words, process tracing enables ‘one to peer into the box of causality to locate the intermediate factors lying between some structural

cause and its purported effects’ (Gerring 2007, p. 45 in Beach & Pederson 2014, p. 2). In the words of Beach and Pederson (2014, p. 2):

Studying causal mechanisms with process-tracing methods enables the researcher to make strong within-case inferences about the causal process whereby outcomes are produced, enabling us to update the degree of confidence we hold in the validity of a theorized causal mechanism.

The central purpose of process tracing is to go beyond making correlations between an independent variable (X) and its outcomes (Y). It requires an understanding of the set of causal mechanisms that link these two variables. Fleshing out this idea, Beach (2012) describes the causal mechanism as involving an interlocking interaction of two or more parts, each of which consists of entities/nouns (objects engaging in activities) and activities/verbs (acts that transmit causal forces through causal mechanisms). The process tracing method thus involves three components: i) the independent variable (X), ii) the causal mechanism comprising one or more parts that explain the causal mechanism; and iii) the outcomes (Y). Adopting Beach (2012, p. 14), this structure is summarised in the following diagram:

Figure 4: Causal mechanism in process tracing



Following the structure above, for each case study site, I sorted and classified the gathered data according to whether it related to democratic decentralization (X), the quality of local governance (Y), or the identified parts of the causal mechanism linking the two (with procurement reform acting as the principal device for assessing both Y and the causal mechanisms). This study treats *structure* and *agency* by actors as the two parts of the causal mechanism that connect democratic decentralization and governance outcomes (for a discussion of how structure and agency fit into the analytical framework used in the dissertation, see Chapter 2). I interpreted the gathered data to develop an understanding of how each of these variables worked to shape the effect of democratic decentralization on the quality of local level governance; in so doing, I ensured that the theorized causal mechanisms were grounded in empirical reality. In the next step, I compared the results of these assessments from different sites to generate an overall narrative explanation of the causal mechanisms at work in the two case study sites and their differential effects on outcomes.

1.3.6. Types of Data and Data Collection Methods

This research draws on both primary and secondary sources of data and utilizes three data collection methods: 1) interviews with key informants (primary data); 2) participant observation (primary data); 3) collection and compilation of statistical data from government sources (primary data); and 4) collection of data from previously published work (secondary data).

With regards to 1), I collected data through in-depth interviews based on semi-structured interview questions in Surabaya and Bogor City between June 2014 and December 2014. In total, I interviewed 65 informants during this period consisting

of 32 in Surabaya , 27 in Bogor City, and 6 at the national level (i.e. Jakarta). I also conducted three additional interviews in Bogor City during a visit to the city from 15-22 January 2015, a phone call interview in February 2016 and two interviews with national NGOs' actors in Adelaide in July 2017, bringing the overall total number of interviewees to 71. The informants were sourced from different backgrounds and were selected based on their roles and knowledge about the dissertation topic. They included city mayors, former mayors, local legislative members, former legislative members, local bureaucratic officials, business/trade association actors, consultants, and civil society activists.

In interviewing these individuals, I employed semi-structured interviews, which is a type of in-depth interview with a certain degree of structure based on guiding interview questions (Holloway 1997). The interview questions are open in nature and are used to prompt the discussion process to enable the respondent to respond to particular themes, or to explore ideas further, based on their own perspectives, perceptions, experiences and understandings (Mason 2004). In implementing this method for this dissertation, the interview questions covered issues ranging from broad matters such as the local political context and elite actors' roles and influence in local policy-making, to specific issues related to local procurement reform implementation. I utilised a recording device (digital-audio) to record a number of interviews but otherwise relied on hand-written notes. Hand-written notes were used in situations where the researcher believed that the interviewee would be uncomfortable discussing sensitive issues of concern to the study. I also found that hand-written notes were often more effective in helping the researcher build an informal relationship with interviewees and reducing pressure on them in relation to revealing confidential information. The dissertation uses 'informant' as a

pseudonym for sources when discussing sensitive information to protect the safety of the individuals concerned.

With regards to 2), I used participant observation in Bogor City because secondary background data on issues of relevance to the dissertation were harder to come by. Specifically, I directly observed the Mayor of Bogor City, his campaign and expert team, and local government officials in their day-to-day work, holding formal and informal discussions with them. I did not conduct participant observation in Surabaya because alternative, secondary, sources of data were more readily available.

With regards to 3), I gathered data pertaining to the research topic from various local government agencies in Surabaya and Bogor City. This data included local budgetary data from local budget documents and data related to government programs and priorities from local development planning documents produced by Local Development Planning Bureau of the two cities and data on project procurement from procurement implementation reports produced by the Development Monitoring sections of the Local Secretary offices. I also sourced statistical data from the local arms of the Central Bureau of Statistics (BPS), much of which was online. For data on public procurement specifically, I utilised the online monitoring database developed by Indonesia Corruption Watch, Indonesia's best known anti-corruption Non-Government Organisation (NGO), in cooperation with the National Procurement Policy Agency (NPPA).⁶ This was accessible through a website established by these two organisations: www.opentender.net. Finally, I gathered further local budgetary data from the Directorate General of

Fiscal Balance at the Indonesian Ministry of Finance, specifically, its website:
<http://www.djpk.kemenkeu.go.id/>.

Finally, with regards to 4), I carried out analysis of documents such as academic studies that relate to the theoretical and empirical focus of the dissertation; government, NGO and donor studies and reports and media reports. Some of these were accessed through internet searches, while others were accessed in hard (or electronic) copy through the University of Adelaide library or directly from government, donor and NGO offices. This secondary data analysis was used to minimise weaknesses associated with interviews as a means of data collection. For instance, it was used to gain insight into complex issues that could not be fully examined in interviews and double-check material provided in interviews. Secondary sources were also an important source of data in their own right, given the fact that the nature of this dissertation is to explain policy outcomes and the dynamics surrounding them; matters that were in many cases well-documented in these sources.

1.4. Limitations

This dissertation's methodology has some limitations that limit the generalisability of the findings. Firstly, the two case study sites (Surabaya and Bogor City) may not be representative of all Indonesian district-level entities, given that the country has more than 500 such entities and these vary enormously in terms of size, resources, wealth, geographical features, administrative capacities, political affiliations, ethnic composition, and other factors. In particular, it is possible that Surabaya - the relatively successful case in this analysis - is an outlier among Indonesian district-level entities because of its relative wealth and the fact that it has a relatively large

middle class. It may also be that the analysis here speaks more to urban contexts in Indonesia than rural districts, limiting the extent to which the findings are applicable to the latter. Secondly, the focus of this thesis on procurement reform means that it does not provide a comprehensive assessment of the political economy of governance reform under democratic decentralisation in Indonesia. Analysis of other areas of governance reform such as those related to the environment, health, and education could yield different findings. For all these reasons, the findings presented in this dissertation, need to be regarded as tentative. Further case analysis is needed to test whether they are applicable to other regions and domains of governance.

1.5. Organisation of the Dissertation

This dissertation consists of eight chapters. This dissertation consists of eight chapters. This introductory chapter provides an overview of the dissertation, explaining the background, purpose and arguments, research methodology and organisation of the dissertation. Chapter 2 provides a contextual background for the process of democratic decentralisation implementation in Indonesia. It also examines various leading theoretical approaches to understanding the political economy of democratic decentralisation and its effects in the Indonesian context. This chapter also provides the dissertation's standpoints for combining a pluralist approach with social conflict, elite competition and elite leadership approaches to analyse the role of actors beyond the predatory and populist elite in the local political structure. Chapter 3 elaborates on the background of selected case study topics, i.e., public procurement, its operational definition, and its impact on policy reforms in Indonesia. The central part of the chapter includes an overview of the

political economy of public procurement in Indonesia, drawn from a review of the literature. Chapters 4, 5, 6, and 7 present the main research findings of the study. Chapter 4 provides a broad overview of Surabaya, its developmental progress, especially with regards to good governance reforms and the landscape of its political economy. Chapter 5 elaborates on the procurement reform process, its outcomes, and the role of political economy factors in shaping these outcomes. An overview of Bogor City, its good governance progression and its political economy landscape is presented in Chapter 6. Chapter 7 follows the same format as Chapter 5 with a focus on Bogor City. Chapter 8 summarises the previous chapters, examines the theoretical implications of the dissertation's findings, and recommends some policy strategies for development agencies and the local reformist leaders for promoting good governance reform.

CHAPTER 2

THE POLITICAL ECONOMY OF DEMOCRATIC DECENTRALIZATION IN INDONESIA: DEFINITIONS, BACKGROUND, AND CONCEPTUAL FRAMEWORK

2.1. Introduction

This chapter has three objectives. The first is to define key terms used in the dissertation and explore the presumed relationship between democratic decentralisation and good governance. The second objective is to provide an overview of Indonesia's experience with democratization and decentralization since independence. In this respect, it discusses further the findings from the literature on the impact of democratic decentralization since it was implemented in the late 1990s/early 2000s, especially with regards to governance reform and development outcomes. The third objective is to provide an overview of and then evaluate four competing theoretical approaches for understanding the variations in these outcomes across districts. These approaches comprise: social conflict, elite competition, elite leadership, and pluralism. The chapter argues in favour of the pluralist approach because it offers wider nuances for understanding the local political situation, especially with respect to the role of actors beyond the elites and local leadership. However, this thesis also combines pluralist analysis with the insights of social conflict, elite competition, and elite leadership approaches, to clarify the respective roles of local elites, local leaders, and broader progressive forces.

The chapter is organised into four sections. The first section focuses on the first objective, the second and third sections on the second objective, and the fourth section on the third objective.

2.2. Key Terms

In this sub-section, I i) define four key terms used in this dissertation: democracy, decentralization, democratic decentralization, and good governance and ii) explore the presumed relationship between democratic decentralization and good governance.

2.2.1. Definitions

Democracy is a concept with a long intellectual history. According to Sodaro (2004, p. 31),

The essential idea of democracy is that the people have the right to determine who governs them. In most cases, they elect the principal governing officials and hold them accountable for their actions. Democracies also impose legal limits on the government's authority by guaranteeing certain rights and freedoms to their citizens.

There has been a great deal of debate about the nature of democracy and how to define it (Potter, Goldblatt, Kiloh & Lewis 1997). As the term is used in this dissertation, it refers to the result of the democratisation process, which itself refers to

a movement over time from less accountable to more accountable government, from less competitive (non-existent) elections to freer and fairer competitive elections, from severely restricted to better

protected civil and political rights, from weak (or non-existent) autonomous associations in civil society to more autonomous and more numerous association (Potter, Goldblatt, Kiloh & Lewis 1997, p. 6).

Decentralization refers to the transfer of authority and responsibility for government functions from the central government to lower levels of administration and the private sector. More formally, according to Rondinelli, Nellis and Cheema (1983 p.14), decentralisation can be defined as ‘the transfer of responsibility for planning, management and resource raising and allocation from the central government or agencies to (a) field units of central government ministries or agencies, (b) subordinate units or levels of government, (c) semi-autonomous public authorities and corporations, (d) area-wide, regional or functional authorities, or (e) nongovernmental private or voluntary organisations.’

With regards to the relationship between central and local governments, which is the main focus of this thesis, the literature suggests that decentralisation generally takes three main forms: administrative, fiscal, and political. Administrative decentralization deconcentrates authority and primary responsibility for public service delivery from the central to local governments. Fiscal decentralization refers to giving local governments increased authority to manage financial resources. Finally, political decentralization devolves political power to the citizenry, their elected representatives and local governments with respect to the formulation and implementation of law and policies (Rondinelli, Nelliss & Cheema 1983; Crook & Manor 1998; Manor 1999; Crook & Manor 2000; Green 2005).

According to Manor (1999, p.1), decentralisation only leads to *democratic decentralisation* if it is of the third type, i.e. political decentralisation or devolution.

Administrative and/or fiscal decentralisation will not guarantee the democratisation process as it could be implemented while accountability remains hierarchically upward to the central government. Decentralisation without democracy enables the penetration of central authority into local government without necessarily empowering the local government and citizenry. Manor (1999, p.1) further argues that:

For democratic decentralization to work well, elected bodies at lower levels must have substantial powers and resources (financial and administrative), and strong accountability mechanisms must be created to hold bureaucrats accountable to elected representatives and elected representatives accountable to citizens.

Like democracy, *good governance* has been subject to a range of competing definitions. In work for the World Bank, Kaufmann, Kraay and Mastruzzi (2011, p. 222) have defined governance as:

the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

In accordance with this definition, they suggest that good governance entails six principles i.e. voice and accountability, political stability and the absence of violence, governmental effectiveness, regulatory quality, the rule of law, and control of corruption (Kaufmann, Kraay & Mastruzzi, 2011, p. 223).

In a slightly different conceptualisation, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has defined governance as ‘the process of decision-making and the process by which decisions are implemented (or not implemented)’. It then argues that good governance involves eight values: ‘participation, consensus orientation, accountability, transparency, responsiveness, effectiveness and efficiency, equity and inclusiveness, and the rule of law’ (UNESCAP 1999, pp. 2-3).

In a third conceptualisation, the Organisation for Economic Co-operation and Development (OECD) (2011, p.2) has defined governance and its attributive principles as:

the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country’s constitutional values when facing changing problems and environments. The principal elements of good governance refer to accountability, transparency, efficiency, effectiveness, responsiveness, and the rule of law.

Despite the differences between these conceptualisations of governance, there is a common thread that runs through them, namely, an emphasis on the relationships between states and citizens, the nature of the decision-making processes, and whether or not such processes embody particular principles. With respect to these principles, there is sufficient overlap between the different conceptualisations that they can be distilled into five basic principles constituting *good* governance: participation, transparency, accountability, effectiveness, and responsiveness. This dissertation uses these five generic features to indicate good governance.

2.2.2. Democratic Decentralization and Good Governance

Scholars have claimed that democratic decentralization promotes good governance in various ways. Rondinelli, Nellis and Cheema (1983, p. 10) suggest it allows for greater inclusion of various public groups in policy-making, and increases political stability due to a wider representation of the public. The delegation of power to local authorities and the limitation of centralized control also ensures better approaches to policy-making and increases the productivity of the public sector through better resource allocation and control at the local level (Rondinelli, Nellis & Cheema 1983, p. 7). Furthering these arguments, Przeworski, Stokes and Manin (1999), Fisman and Gatti (2002), Manor (1999), Crook and Manor (1998), and Crook and Sverrisson (1999) all argue that democratic decentralisation promotes citizen participation, enabling people to have more control over the government's performance.

In practice, however, evidence from the implementation of democratic decentralization suggests that there is a varying quality of governance at the local level, suggesting that there is high uncertainty as to how democratic decentralization takes effect. As noted in the previous chapter, Crook and Sverrisson (1999), for example, find that democratic decentralization enables citizen participation and representation to flourish, with the result that there is a tangible improvement in government revenues, employment growth, economic activities, and overall human development in some districts in the Philippines, India, and Uganda. However, such improvements are not the case in other countries such as Chile, Bangladesh, Mexico and Nigeria (Crook and Sverrisson 1999). Evidence from Africa and Latin America shows that improvements in efficiency and equity

are rarely found as a result of democratic decentralization (Robinson, 2007, pp. 3-4). Some of the literature also reports that in many cases such changes do not lead to improvement in the quality of service delivery in sub-Saharan Africa (Conyers 2007) and in South Africa (Koeble & Siddle 2013). Rather there are signs of the prevalence of corruption in South Africa (Koeble & Siddle 2013, p. 345) and in Pakistan (Iqbal, Din & Ghani 2013, p. 21).

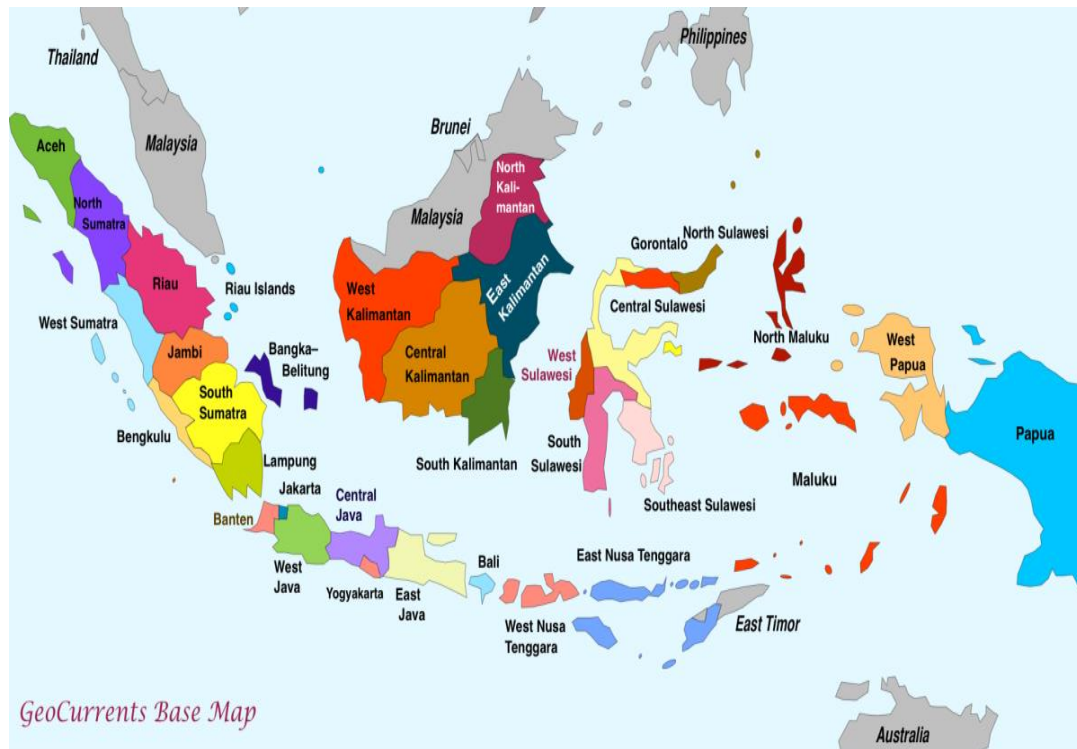
2.3. Democratic Decentralization in Indonesia

Indonesia is a big country characterised by enormous social and cultural diversity, an archipelagic landscape, and abundant natural resources. Its territory covers 1,904,569 square kilometers in an arc that runs from west to east. The country shares land borders with Papua New Guinea, East Timor and Malaysia and marine borders with Singapore, the Philippines, Australia, Palau and the Indian territory of the Andaman Nicobar Islands and other countries. Its combined aquatic and terrestrial area makes it the 7th largest country in the world in geographic terms. It is also the largest island country, with more than 13,400 islands. The country emerges as the fourth most populous country after the United States, China, and India with more than 245 million inhabitants. No fewer than 300 distinct ethnicities and 700 linguistic/dialectic groups inhabit the country (*Badan Pusat Statistik* (BPS) 2015).

Currently, the country divides its territory into several autonomous regions, consisting of 34 provinces and 514 localities, the latter comprising 416 regencies and 98 cities (Indonesian Ministry of Home Affairs 2016). Given this enormous diversity, many believe that decentralization is the form of government most likely to yield efficient, effective and responsive governance in the country (Turner et al.

2003). However, as shown below, democratic decentralisation is entangled with the development of a unitary democratic state, political unrest and and changing political regimes.

Figure 5: Map of Indonesia



Source: Geocurrents.info (2017).

2.3.1. The Early Independence Era (1945-1965)

Even though the country proclaimed its independence on 17 August 1945, the country's sovereignty only fully began on 27 December 1949. The proclamation of independence followed the defeat of Japan in World War II, which forced the Japanese to retreat from its colonies in the South Pacific in September 1944, including Indonesia, after having taken over the country from the Dutch in 1942. The proclamation on 17 August 1945 marked the establishment of the Indonesian Republic as a democratic country, with the appointment of Soekarno as President

and Mohammad Hatta as Vice President, the issuance of the provisional national constitution in 1945, the creation of the cabinet that was responsible to the President, and the creation of the Central National Committee, consisting of 135 figures who acted as an advisory body (Feith 2007 p. 8). The Proclamation of Independence in 1945 did not lead the country to gain sovereignty until the Dutch formally transferred its sovereignty to the newly established country of Indonesia on 27 December 1949 (Feith 2007; Lev 2009). The period from 1945 to 1949 marked the revolutionary period against the Dutch that returned to the colony following the defeat of the Japanese. In short, during the revolutionary period (1945 to 1949), the struggle to reclaim sovereignty from the Dutch and to protect national unity hindered the country from establishing a working administrative and political structure of government at the national and local levels. Adding to the imperfections of the country's political arrangements was severe friction amongst the revolutionary independence movement groups that had separatist dimensions (Feith 2007, p. 29). This worked against the establishment of new well-institutionalized arrangements across central, provincial and local governments (Turner et al. 2003). Nevertheless, several laws favouring regional autonomy emerged in the decade following the Declaration of Independence. The country's first law, Law No. 1/1945, explicitly granted autonomous status to three types of local government, namely, *karesidenan*, which constituted the first level of administration below the national level, and districts and municipalities, which constituted the second level, and which sat immediately under *karesidenan*. This law also provided for provincial governments (8 in that period) to mediate between the central government and the *karesidenan*. These were not autonomous as they merely represented the national government at the local level. The law retained the administrative arrangements

introduced by the Dutch in the 1920s, which divided the country into several provinces, each of which consisted of several districts (Fitriani, Hofman & Kaiser 2005).

Law No. 22/1948 clarified the division of functions between the central and autonomous local governments, abolished the karesidenan, and granted autonomy to provincial governments. This structure placed provincial governments at the first level below the national level (Daerah Tingkat 1) and subdivided them into major districts and cities at the second level (Daerah Tingkat II) and smaller cities or regions at the third level (Daerah Tingkat III). Based on the law, all autonomous governments required a regional head who was appointed by the central government, based on a shortlist of candidates proposed by regional parliaments. The autonomous administrations also had the authority to source funds through local taxes, retribution charges, local state companies, and other revenue streams. The functions and responsibilities of the autonomous administrations were specified in the regulations on the establishment of each province, city or district. Commonly, local government responsibilities encompassed general public administration and the provision of most public services such as health, education, infrastructure, trade, information and social affairs. However, prior to the 1950s, neither Law 1/1945 nor 22/1948 were effectively implemented given the above-mentioned country-wide struggle during the revolutionary periods. There was also no regulation to direct the financial arrangements between the centre and the regions with the result that power remained concentrated in the hands of the central government (Turner et al. 2003).

Following the retreat of the Dutch in 1949, the country followed a federal system which was enacted based on the conditions of the sovereignty transfer as stated in

the Dutch-Indonesia agreement. The federal system, however, lasted only a year before it was replaced by a unitary system in 1950 (Feith 2007). At that point, the country issued a Provisional Constitution, 1950, which mandated the country reinstate the National Constitution of 1945 under an Indonesian unitary system and implement a parliamentary system based on liberal democracy. It marked the establishment of a provisional peoples' consultative assembly and the arrangement of executive and assembly relationships under which the president was responsible to the assembly. This new system was in place until 1959, and witnessed the implementation of the country's first general elections in 1955 for the national parliament and in 1957 for local parliaments. A multi-party-political system, freedom to establish political parties, and a parliamentary system with a strong opposition were also introduced (Lev 2009). According to Lev (2009, p. 1), 'politics were freer and more open, there was a strong and active press and political conflict had a recognized though inadequate institutional plan'.

With regards to the decentralisation policy, the government issued Law No. 32/1956 on the financial balance between national and local governments and Law No.1/1957 on the principles of local administration. The first introduced clear guidance on the local sources of finance to which local governments had access. These included transfers from the national government and a large number of local taxes. The latter fortified the power of local parliaments because they now had the right to elect local heads, determine local budget policies, formulate local regulations, control executive governments, and demand that heads of local governments account for their performance. However, the implementation of liberal democracy and democratic decentralisation policies did not last long. Increasing conflict among groups such as the military, Islamic organisations and

the communist party, and growing rebellions and agitations in several regions, exposed the brittleness of liberal democracy. This situation motivated President Soekarno to introduce Guided Democracy (1959-1965), a highly presidential and autocratic system of government (Lev 2009, pp. 359-361). In this period, Soekarno transformed the decentralized rule of liberal democracy into a centralized form of governance. He did this through Presidential Decision No 6/1959 on the Tasks and Functions of Local Heads and Investigator Bureau and No 5/1960 on the Duties and Functions of Local Legislatures. Based on the two regulations, even though the functions of local government remained broad with regards to service delivery (health, education, infrastructure, trade, information and social affairs), implementation was highly controlled by the central government. The president appointed local leaders and required them to report to him. The laws also limited the role of local assemblies in formulating policies by requiring involvement and consent from local heads in any local regulation formulation.

2.3.2. The New Order Era (1966-1998)

In 1965, severe political conflict, economic collapse and social breakdown led to an attempted coup by elements in the Indonesian Communist Party working in conjunction with elements in the military. In the end, the political turmoil resulted in the establishment of the so-called 'New Order' regime under Major-General Suharto. This regime ruled the country from 1966 to 1998. The New Order's approach to development was to enforce political order and stability, speed up economic growth, and protect the unity of the country. It was a military-bureaucratic dictatorship that exercised strong control over political parties and social organisations, de-politicized the public sphere and engaged in brutal

repression of opponents (Antlov 2003, p.75). Case (2002, pp. 9-14) classifies the New Order as a 'pseudo-democracy' because, despite the fact the New Order held elections, the press, opposition parties and civil society organisations were controlled and constrained, leading to the extinguishing of civil liberties. He also described the regime as having a pyramidal governance structure, with Suharto at the apex supported by a small elite consisting of the military, the bureaucracy, and business in the middle, and a "broad social base" sitting at the bottom (Case 2002, p. 31). The New Order is also often said to have been characterised by 'centralized clientelism' (Aspinall 2013b, p. 33). That is, it was a system with a strong pyramidal patronage network that extended from the president down to the village level, infusing the entire bureaucracy with corrupt behaviour (Crouch 2010, p. 17).

In terms of central and local government relationships, the New Order operated a highly centralised form of government. The central government refocused various government functions to the local level but tightly controlled fiscal and political power. The New Order introduced Law No. 5/1974 on local administration. This provided a conceptual framework for decentralization. It specified that the central government only exercised absolute control over strategic areas such as external relations, monetary and fiscal policy, the judiciary, land management and natural resources, mining, energy and telecommunication industries. The central government deconcentrated some particular areas of public service provision, such as health, education and agriculture, to the provinces and, to a lesser extent, district-level governments (Malley 2003, p. 108 & Hutchinson 2012, p. 8). Hence, the New Order regime applied the law conservatively so as to maintain a highly centralised system of government.

The New Order imposed a top-down planning system, only giving local governments minor responsibilities in relation to development policy and activities (Turner et al. 2003). One of the most cited examples in this respect was the national government grant program called Inpres (*Instruksi Presiden*, or Presidential Instruction). The allocation of grants under this program was highly centralized, and supervision of their implementation was very tight. The program effectively directed provincial and local governments to carry out prioritized infrastructure projects such as the building or rehabilitation of roads, bridges, irrigation systems, and schools. It involved earmarking grants from the national authority along with strict guidelines concerning their use and close supervision (Booth 2014). There were also parallel central government and military offices at the provincial and local levels. Together, these offices supervised all layers of local government on behalf of the central government (Malley 2003, p. 108; Turner et al. 2003, pp. 10-11). In the words of Butt (2010, p. 1): ‘The primary function of local governments - provincial, district, city and village - was to support and implement national policies and directives loyally’.

The central government also controlled the local budgetary system. Vital sources of government revenue such as corporate and income tax, value added tax (VAT), natural resource income, and property levies all accrued to the centre. Provincial and local governments only controlled a minor share of revenue, mainly from local taxes and their share of revenue from natural resources and property taxes. Overall, the central government collected 96 percent of government revenue, with 2.8 % and 1.1 % being left for provincial and district-level governments respectively. With regards to the distribution of state income, 82.2 percent was allocated to financing central government expenditure, while 9.9 percent and 7.9 percent were allocated

to funding provincial and district-level government expenditures respectively (Hutchinson 2012, p. 50).

In terms of local politics, the composition of local legislatures at provincial and local levels was determined through general elections which involved three parties: Golongan Karya or Golkar (the New Order electoral vehicle), Partai Demokrasi Indonesia or PDI (the Indonesian Democratic Party), and Partai Persatuan Pembangunan or PPP (the Unity and Development Party). The parties' respective share of the votes in each locality determined their representation in local parliaments. Given the New Order's tendency to control general elections, a significant proportion of members of parliaments at provincial and local levels, typically a large majority, were from Golkar. The other two parties experienced structural marginalization through co-option and surveillance throughout the New Order period and had only small parliamentary memberships (Case 2002). There were also some seats in the legislatures allocated to the military and police, giving the New Order even tighter control over regional and local politics (Crouch 2010, pp. 88-89). Provincial and district-level heads (governors and regents/mayors respectively) were formally elected by the local assembly but based on a short-list of candidates nominated by the Department of Home Affairs at central government level. This privileged the military and bureaucratic officials who showed a high degree of loyalty to the Suharto regime (Rasyid 2003, p. 64).

2.3.3. Post New Order Regime or Era Reformasi (1998-present)

Indonesia experienced economic, social and political turmoil as a result of the Asian Financial Crisis in 1997-1998, resulting in the fall of the New Order regime and the advent of the Reform Era (Era Reformasi). The country underwent democratisation,

re-establishing public political participation, freedom of the press, multi-party electoral and parliamentary systems during 1998-1999, and from 2004 direct presidential elections (Crouch 2010). In tandem with these changes, the country also embarked on an ambitious program of decentralization providing for it through the enactment of Law No. 22/1999 on regional autonomy and Law No. 25/1999 on the Fiscal Balance between Central and Local Governments. The government then implemented decentralisation from the beginning of 2001. Law No.22/1999 was subsequently replaced by Law No. 32/2004 and Law No. 23/2014, while Law No. 25/1999 was replaced by Law No. 33/2004.

Through these laws, the country implemented democratisation in three simultaneous forms: administrative, fiscal, and political. Administratively, decentralization entailed a new division of labour between the central and regional governments. The central government only had principal responsibility for foreign affairs, defence, security, religion, and monetary and fiscal authority. Almost all other responsibilities were given to district/city governments. These included responsibilities related to both mandatory functions (e.g. basic services such as health, education, public works, and transportation) and locally-specified functions (i.e. those based on local economic and social priorities such as industry, agriculture, and maritime affairs). The central government's role in relation to these areas was simply to provide general direction on macro-development matters, set service standards for public service delivery, and assist local governments in providing equal access to public goods and services, such as infrastructure, health, education and other various sectors through national programs or grants.

Provincial governments were allocated very few responsibilities. The decentralisation laws removed the structural/hierarchical relationship between

provincial governments and district-level governments, limiting the former's control over the latter to coordination tasks . However, under Law No. 32/2004, the provincial governments were granted authority to represent the central government, particularly in facilitating and supervising the implementation of national/macro-level policies at the district/city level. They were also empowered to deliver services on behalf of district/city governments if the latter were unable to do so. Finally, provincial governments were also given some autonomous power to deliver public services where this involved cross-district juridical boundary issues (Darmawan 2008, p. 50).

Since 2014, however, with issuance of Law No. 23/2014, there has been an extension of the increasing power of provincial governments to supervise local governments on behalf of the national government. The new regulation also widens the provincial government's authority to monitor, evaluate and provide consent (or object) to local regulations issued by districts, especially with regards to the local government's organisational structure, local development planning, local budgets, local accountability reports, spatial planning, local taxes and retributions. The new regulation also abolishes local government authority in various sectors such as energy and mineral resources, maritime sectors and forestry, all of which now are controlled by national and provincial governments. Law 23/2014 also grants the provincial government the right to deliver any functions where their implementation, benefits, and impact affect cross-district juridical boundaries and also tasks that are presumed to be more efficiently implemented at the provincial level (Perdana 2016, pp-1-3), leading to a weakening of power for local governments to perform such tasks.

With regards to the fiscal aspects of decentralization, Laws 25/1999 and 33/2004 on the Fiscal Balance between Central and Local Governments established arrangements for government expenditure and revenue that provided greater resources for provincial and district/municipality governments. Under these arrangements, the central government transfers funds to local governments through three main mechanisms: General Allocation Funds (i.e. funds transferred to an autonomous city to implement government administration and development programs); Special Allocation Funds (i.e. funds allocated to implement specific national priorities in the local jurisdiction); and revenue-sharing funds (i.e. funds generated by natural resource taxes, land and building taxes, property taxes, and income taxes sourced from each jurisdiction) (Darmawan 2008, pp.30 -31). District-level governments receive as much as 64% of mining, forestry, and property taxes, while provincial governments obtain 16% (Hutchinson 2015, p. 10). Finally, local governments are able to increase their sources of funding by raising locally-generated revenues and taking out regional loans. By 2011, provincial and district-level governments managed 36% of total public expenditure (Shah, Qibthiyyah & Dita 2012, p. 1; Hutchinson 2015, p.10).

Decentralisation also involved political reform at the local level. Local level politics became characterised by multi-party competition and direct elections of local parliament members, governors and district-level heads in a relatively transparent fashion. The power of local legislatures was fortified. Their authority encompassed stipulating and drafting local regulations, jointly with the local executive, including ones related to local revenue and expenditure/the budget. Their main tasks also included supervising the implementation of government programs and investigating and demanding accountability from local heads (Holtzappel 2009, pp.

11-12). Reserved seats for the military, which accounted for 10% of all local parliamentary seats, were abolished. Local parliaments initially elected local heads (mayors or regents), but following the issuance of Law No. 32/2004 on Local Government, the governors and mayors/regents were elected through direct elections instead (Rasyid 2003, p. 65).

Thus, democratic decentralization in Indonesia has significantly changed Indonesia's governmental arrangements in two significant respects. First, it turned an authoritarian political system into a democratic political system that allows freedom of expression, political representation, and citizen participation in the political process and policy-making. Second, it changed a centralistic mode of government into a decentralized form of governance through mechanisms such as delegation, devolution, and de-concentration of governing functions and the redistribution of power from a central government to local governments.

2.4. The Impact of Democratic Decentralization on Local Governance

Much analysis of democratic decentralisation in Indonesia has suggested that it has done little to improve the quality of local governance. For instance, a number of scholars have pointed to various institutional deficiencies that continue to hinder local capacity to provide good governance effectively and, in particular, deliver better services. These include an inability on the part of provincial authorities to monitor local governments properly (Seymour & Turner 2002; Firman 2008; Hutchinson 2015); ambiguity concerning the distribution of roles, power, and resources between and within different levels of government (Hofman & Kaiser 2002; Hill 2008; Hofman et al. 2006; Butt 2010); a lack of transparency and accountability; weak check and balance mechanisms; weak electoral incentives

(Hofman & Kaiser 2002; Sujarwoto 2010); and weak incentives to ensure public participation in local decision-making and monitoring (Kurniawan 2012, p.14). Finally, and perhaps most importantly, many scholars have argued that democratic decentralisation has done little to address corruption at the local level. For instance, Buehler (2010, p. 277) has noted that in 2008 alone, 20 governors, former governors, district heads and more than 1,000 members of provincial and district-level parliaments were detained in relation to, or named as suspects in, corruption cases (see also Kristiansen et al. 2008; Kurniawan 2012; Kis-Katos & Schulze 2013). More recently, the Corruption Eradication Commission (Komisi Pemberantasan Korupsi - KPK) has reported that up to August 2016, 343 regents/mayors and ex-regents/mayors and 18 governors were suspected of being involved in corruption cases related to the misuse of local budgets, collusive and corrupt public procurement practices, and/or collusion in local tax collections (Kompas 2016).

However, there is strong evidence to suggest that the impact of democratic decentralisation on local governance has varied significantly across regions and in some cases, in some respects at least, has been positive. For instance, an early study by Komite Pemantauan Pelaksanaan Otonomi Daerah (KPPOD, the Regional Autonomy Implementation Monitoring Committee) of 228 cities and districts showed that, while most districts had not adopted economically-friendly policies and institutions (defined as those having sound legal certainty, apparatuses and service performances, streamlined local regulations and leadership), some had. The districts / cities' scores in their assessment ranged from 7.16 (at the top) to 4.05 (at the bottom). 126 of the 228 surveyed localities (or about 55%) obtained a score of at least 6.0, indicating that they had adopted business friendly procedures (KPPOD

2005, pp. 25-27). Subsequent KPPOD studies in 2007 and 2010, which considered a wider range of governance indicators, told a similar story. The two surveys (243 districts in 2007 and 245 districts in 2010) found vast disparities in the quality of economic governance across regions as measured by the economic governance index created for these studies. For instance, the governance index scores awarded to the 243 districts/municipalities in the 2007 study ranged from 41.4 at the low end and up to 70.0 at the top end (KPPOD 2007, pp. 107-113). Similarly, the governance index scores awarded to the 245 districts in the 2010 study ranged from 39.4 to 80.5 (KPPOD 2011, pp. 101-107). In subsequent work, Rahman and Patunru (2014) found that some districts included in the 2007 and 2010 studies experienced progress in promoting improved economic governance, while many others experienced a worsening situation. Finally, small-n case study-based research has also suggested that democratic decentralisation has led to varying outcomes vis-à-vis governance reform at the local level (see, for instance, von Luebke 2009; Patunru & Wardhani 2008; Patunru et al. 2009; Pepinsky & Wihardja 2011; Bunnell et al. 2013; Rosser, Wilson & Sulistyanto 2011; Rosser & Sulistyanto 2013).

As discussed in Section 2.2, studies of international experiences have suggested that three main factors commonly shape the extent to which regions achieve good governance in the wake of democratic decentralisation: the nature of the institutional framework governing democratic decentralisation, the quality of citizen participation (or civil society), and elite capture. In the Indonesian context, it is difficult to explain variations in governance outcomes across regions in terms of the institutional arrangements governing democratic decentralisation because these are homogeneous and generically applied across districts. One thus has to

examine locally specific factors, such as the extent of local elite capture and the quality of citizen participation, especially that of progressive civil society, in the local decision-making process.

Much analysis of local level politics in Indonesia has suggested that significant local elite capture has impeded the implementation of good governance since the implementation of democratic decentralisation. Hadiz (2004: 2010) and Heryanto and Hadiz (2005), for instance, have argued that democratic decentralization in Indonesia has resulted in the capture of local political institutions and policy-making processes by predatory elites, resulting in a weak democracy that produces weak policies. Nordolt and van Klinken (2007, pp. 11) have described local politics in Indonesia as a patrimonial system dominated by a configuration of local aristocrats and bureaucrats. Green (2005), Hofman and Keiser (2002), and Aspinall and Fealy (2003) have suggested that democratic decentralisation is characterised by a concentration of power in the hands of local elites, corrupt local politicians, and bureaucrats. Buehler (2010) has found that democratic decentralization increases the cost of electoral competition and the prevalence of money politics, leading to corrupt behaviour by electoral candidates. Echoing this, Buehler (2007) and Buehler and Tans (2007) have stated that local elites have been able to manipulate democratic elections and establish political dynasties, referring in particular to some districts in South Sulawesi (Pangkajene dan Kepulauan (Pangkep), Soppeng and Gowa) as examples. Finally, Aspinall (2013b) has concluded that democratic decentralisation has resulted in the fragmentation of local actors and the heightening of competition between local elites to capture local resources, even more than was the case under the New Order.

Meanwhile, such analysis has also suggested that civil society has been too weak to prevent elite capture. Four decades of authoritarianism, it is argued, depoliticised and disorganized civil society organizations (Hadiz 2004). They have consequently been highly fragmented, and their capacity has been weak, constraining their ability to challenge entrenched predatory elites (Antlov 2003; Hadiz 2003). There are signs that civil society organizations have been active in local policy-making, including through policy advocacy work (Antlov, Brinkerhoff & Repp 2010, p. 421) and by entering political institutions (Aspinall 2014, p. 429). However, their activism has been too modest in scale and scope and has often been undermined by local elites. In short, the prevalence of local capture in Indonesia has been strengthened in a political sphere where progressive elements failed to prevail due to their fragmentation and lack of political skill to build strong reformist coalitions (Antlov, 2003)

2.5. Theoretical Approaches Explaining the Varying Outcomes of Democratic Decentralization

This dissertation seeks to understand why governance outcomes have varied across regions in the wake of democratic decentralisation in Indonesia. In doing so, this dissertation considers four theoretical approaches to understanding local politics in Indonesia: namely, the social conflict, elite competition, elite leadership and pluralist approaches. These approaches all recognise that local politics in Indonesia have been subject to elite capture since the advent of democratic decentralisation, but they offer distinctive understandings of the nature of the local elite, the relationship between the elite and other sets of actors especially in civil society, and

how competition between and across these various actors shapes the local political landscape and, in turn, the scope for good governance reform.

2.5.1. Social Conflict Theory

Social conflict theory has emerged from analysis of Southeast Asia's political economy, especially that informed by the 'productionist' critique of dependency theory (see Higgott and Robison 1985, p.295). It is founded on the idea that conflicts between competing social and political interests shape the nature of policy and institutions and the way they operate (Rodan, Hewison & Robison 2006; Carroll 2005). It focuses on the patterns of domination and subordination that characterise specific historical and geographical contexts (Carroll 2005 p. 17). With regards to reform, it aims to understand 'how policy and institutional transformation take place within a broader pattern of social and political power' (Carroll 2005 p. 17).

Scholars such as Robison and Hadiz (Hadiz 2003; 2010; Robison and Hadiz 2004; and Hadiz and Robison (2013: 2014) have applied social conflict theory to the study of post-New Order politics in Indonesia, including at the local level. In their view, democratic decentralization has been hindered by the continuation of oligarchic rule. Economic and political development under the New Order produced a small group of 'politico-business' families who combined control over the state apparatus with extensive business interests. These families have maintained their political dominance in the post-New Order period (Robison & Hadiz 2004, p.187). In the words of Hadiz (2003, p. 593):

The institutions of Indonesia's new democracy have been captured
by predatory interests precisely because these were not swept away

by the tide of reform. In fact, old forces have been able to reinvent themselves through new alliances and vehicles, much like they have, for example, in parts of post-Communist Eastern Europe/ Central Asia. At the same time reformist interests – whether liberal, social democratic or more radical – have generally been marginalized from the process of political contestation in Indonesia.

Hadiz (2010) and Hadiz and Robison (2013; 2014) thus assert that post-New Order politics rests structurally and politically upon an oligarchic system. The influence of this system stretches from the national level to the grass roots level. Continued oligarchic rule has meant that the networks of patronage and influence constructed under the New Order have continued to control local political institutions, leading to the problem of elite capture (Hadiz & Robison 2013, p. 48) Hadiz believes that the beneficiaries of democratic decentralisation are largely ‘ individuals and groups who had earlier functioned as the local operators and apparatchiks of the previous New Order — small to medium-size, but politically well-connected, business people with big ambitions, as well as an array of the regime’s former henchmen and enforcers’ (Hadiz 2004, p. 712).

For its part, civil society has remained too weak to challenge oligarchic rule as a result of an extended period of political marginalization under the New Order. Civil society actors have failed to participate in local party politics and gain seats in local parliaments, meaning that there is limited representation for lower class interests (Hadiz 2003). As a consequence, rather than strengthening civil society participation at the local level, democratic decentralization has empowered three great entrenched oligarchic institutions: ‘regional notables, ‘politico-bureaucrats’ and ‘entrepreneurs’ (Hadiz & Robison, 2014: p. 44). Hadiz and Robison do not

reject the possibility that new actors may accumulate wealth and other power resources and in turn play a role in national and local politics, but they suggest that this is only possible through attachment to and accommodation of traditional oligarchical structures.

There are a number of criticisms of Hadiz and Robison's views. According to Liddle (2012), Hadiz and Robison fail to address the complexity of power struggles in Indonesia because they ignore the way in which non-material resources can motivate individual elites to promote more democratic policies. In the same vein, Pepinsky (2014) suggests that they tend to ignore the fluidity and fragmentation of networks and alliances within oligarchic systems. These networks and alliances, he claims, are mostly based on a desire for individual survival rather than to protect a shared oligarchic agenda. Rosser et al. (2005) and Aspinall (2013a) add that Hadiz and Robison's view of the oligarchic power structure underrates the potential ability of lower class organisations, such as trade unions and peasant organisations to demand citizen-oriented policies. Buehler (2014, pp. 158-159) challenges Hadiz and Robison's claims by arguing that in local level politics, the primary players are generally state-elites rather than members of the oligarchy. Those state elites do not necessarily refer to the old power alone, but also to the new players who acquire an elite status from different paths: some derive power from their wealth, and many others from their ability to access political resources, such as political institutions and official positions in the government.

This dissertation supports Hadiz and Robison's view that members of the oligarchy have played a key role in current local politics. In line with these criticisms, however, it contends that democratic decentralisation has, to some extent, undermined the authoritarian foundations on which oligarchic rule rests, for

instance: centralized power, army support, and de-politicisation of the public sphere. The current democratic environment has also allowed new political actors in civil society (for instance, NGOs, media, and intellectuals) greater access to the policy-making process. This in turn has posed restrictions and limitations on the extent of oligarchic domination. Importantly, variations in district performances in delivering good governance and development outcomes could also mean that oligarchic solidity has weakened in some regions, further requiring explanations that go beyond oligarchic power. These issues are investigated in this thesis.

2.5.2. Elite Competition Approach

The elite competition approach to understanding local politics has emerged out of studies that reflect critically on the social conflict approach as it has applied to national level politics. In a prominent example of this approach, Buehler (2014, pp 157-158) has argued that democratisation has generated greater competition between elites rather than continued predatory oligarchic rule. This competition has in turn propelled members of the elite to seek support from societal actors to help them win political battles against other members of the elite and sustain their political power, forcing them to be receptive to societal demands. He claims that:

With their political survival at stake after the collapse of the dictatorship in 1998, state elites hastily adopted various institutional changes, such as the introduction of free elections, the decentralization of power, and reform of the party system. These changes created competition among state elites. To find allies in their battles with one another, they subsequently started to ‘reach out’ and ‘reach down’ in the political arena. As a result, state elites have

become much more dependent upon ‘society’ than during the New Order. At the same time, state elites continue to mediate the influence of societal groups and interests as a consequence of their dominant position within the state and political institutions (Buehler, 2014, p. 158).

Buehler (2014, p. 158) also emphasizes that elite actors, rather than members of the oligarchy, have dominated at the local level. Many such actors have started their political careers since the New Order and have acquired elite status, not so much by having control over the means of production, as by acquiring positions of authority in local political institutions, especially the local bureaucracy.

To some extent, Pratikno and Lay (2013) also employ the elite competition approach when analysing the popular and successful implementation of participatory development in the city of Surakarta. They see that civil society activism in the city has been the product of an historical process going back to the pre-colonial period, but that civil society’s current ability to influence local decision-making has reflected elite competition in the city. They claim that ‘the commitment of local government to initiate participatory planning and budgeting in Surakarta was due primarily to constant confrontation between the political executive (bureaucracy) and parliament soon after the first democratic election in the post-Suharto era in 1999’ (Pratikno & Lay 2011, p. 55). In short then, elite competition theorists believe that local policy choices reflect competition among elites seeking to win their battles against one another, rather than the interests of poor and marginalized groups, even when they seemingly emanate from societal demands (Buehler 2014, p.159).

Buehler (2014) and Pratikno and Lay (2011) have provided critical insight into the complex dynamics of local policy-making and implementation in Indonesia. However, arguably, they underestimate the role of popular agency in forcing elites to accommodate societal demands. In the case of the implementation of Sharia law in South Sulawesi, for instance, Buehler suggests that this decision was taken because it was strongly and popularly promoted in the governor election in the provinces. He explains how various groups were able to put Sharia law on the agenda during the campaign process and demand its implementation after the election. But rather than understanding this in terms of the ability of popular forces to promote their demands during the election successfully, Buehler emphasizes the role of elite competition strategy. This is akin to seeing only one part of the proverbial elephant.

Importantly, the elite competition approach does not identify the patterns of elite competition that lead to good or bad policy decisions and implementation outcomes. Without this, the approach does not provide an answer to the question of how best to promote governance reform at the local level.

2.5.3. Elite Leadership Approach

Scholars such as von Luebke (2009), Patunru and Wardhani (2008), Patunru et al. (2009), Bunnell et al. (2013), Rosser, Wilson, and Sulistyanto (2011) and Rosser and Sulistyanto (2013) have suggested that the nature and quality of local leadership is a key variable in influencing local policy and implementation outcomes. They have argued that democratic decentralization provides incentives for local political leaders to pursue populist developmental policies to boost their political support and maintain or gain power; and they suggest that such policies might include those

aimed at promoting good governance. However, they offer different explanations regarding how leaders exercise influence on local governance performance.

Bunnell et al. (2013, p. 19) suggest that the individual quality of the leaders is the key factor in determining how well districts/cities perform. Yet they provide a limited explanation of what constitutes quality leadership. Von Luebke (2009) suggests that the quality of local leadership is essentially a function of leaders' levels of ambition. Ambitious leaders, he suggests, are more likely to pursue reformist policies and implement them than unambitious ones. In his words 'district heads with strong managerial skills and long-term career aspirations have successfully used their official powers to initiate broad-based reform and supervise bureaucratic performance' (von Luebke 2009, p. 202). In his later work (2012, p.28-29), he also adds the capacity to mediate horizontal and vertical conflicts among oligarchs and diverse grass root interests over the distribution of patronage as the determinant quality leadership

Rosser, Wilson, and Sulistyanto (2011) and Rosser and Sulistyanto (2013) question von Luebke's conceptualisation of leadership quality. They claim that there are numerous cases of ambitious local leaders pursuing successful political careers without adopting reformist policies. Instead of levels of ambition, they focus on the political strategies that local leaders use to promote their careers and the way in which these reflect the nature of leaders' political networks and constituencies. They see local leaders as:

employing strategies that lie along a spectrum ranging from, at one end, 'political entrepreneurship' (Kosack 2009)—that is, the mobilisation of the poor through populist policies—to, at the other end, patronage distribution—that is, the mobilization of the poor and

non-poor through the cultivation of clientelist networks (Rosser, Wilson, & Sulistyanto 2011 p.15).

Furthermore, they suggest that leaders' choices of strategy will reflect the extent to which their principal bases of political support rely on particular groups (Rosser & Sulistyanto 2012, p. 541). Accordingly, they suggest that leaders who are relatively free from predatory links and networks will have greater incentives to pursue populist policies, whilst those with substantial support from the predatory elite will prefer a patronage-based strategy. Both strategies have the potential to ensure that political leaders get re-elected or are able to enhance their domination over competing political actors from the political parties or parliaments (Rosser, Wilson & Sulistyanto 2011, p.3).

Both von Luebke's (2009) and Rosser, Wilson and Sulistyanto's (2011) analyses aid our understanding of the mixed impact of democratic decentralisation across districts in Indonesia. However, further assessment of the local political context is needed, in particular, of the relationships between leaders and the wider array of actors involved in local politics. Without this, there is a risk of overrating the leadership's capacity. For example, Rosser, Wilson and Sulistyanto (2011) and Rosser and Sulistyanto (2013) both focus on the nature of leaders' networks during the electoral process, which may not be the same as the coalitions they build in the post-election period. Political conflict does not only occur during an election. At the same time, local elites, especially predatory ones, will always seek to build links to a leader, regardless of their initial base of support, thus constraining the ability of the local leader to act as s/he wishes. Every local head will be under enormous pressure to gain political support for his/her administration. Therefore, they will need to define and redefine their connections strategically in order to survive.

Most problematically, elite leadership proponents pay insufficient attention to the role of societal forces in the policy-making process. Rosser and Sulistyanto (2011), for example, note that civil society may support reform-minded leaders in an election. However, when explaining why governments adopt or fail to adopt reformist policies, they emphasize the agency of local leaders, putting aside discussion of the role of civil society.

2.5.4. Pluralist Approach

Unlike social conflict, elite competition, and elite leadership theories, pluralist theory rests on the notion that power is broadly disbursed among interest groups within society (Hirst 2005; Pepinsky 2013). Some scholars have applied this approach to the Indonesian context (Antlov 2003; Antlov, Brinkerhoff & Repp 2010; Tans 2012; Aspinall 2013a). They have suggested that a wider array of players is potentially influential in local politics and decision-making including, importantly for the purposes of this dissertation, progressive civil society activists and organisations.

Antlov (2003) and Antlov, Brinkerhoff and Repp (2010) for instance, indicate that civil society networks have influenced local policy-making through various forms of activism, including street demonstrations, citizen forum, lobbying, citizen monitoring, and exposure of corrupt government practices. They underline that the impact of these networks vis-à-vis good governance has been constrained by a lack of receptiveness to change on the part of local elites and a lack political skill and weak consolidation among civil society groups (Antlov, Brinkerhoff & Repp 2010; Aspinall 2013a). They, nevertheless, argue that things have changed significantly since the end of the New Order. Antlov, (2003, pp. 26-27), for example, finds that

grassroots activism has made village-level policy-making more responsive to local demands, as it has provided political incentives for local elites to respond to these demands.

Similarly, Aspinall (2013a) has argued that, post-Suharto, local politics is no longer exclusively the domain of predatory elites nurtured under the New Order regime, even though their penetration of the political system is undeniably still high. Like elite competition theorists, Aspinall (2013a, p.108) argues that:

One of the defining features of the post-Suharto order is elite competition, with a highly varied array of bureaucrats, businesspeople, brokers, and others constantly rising to the surface of district, provincial, and national politics, forever remaking their political alliances as they shoulder each other aside in the competition for positions of political authority and control over resources.

Aspinall also asserts that even though civil society has been deeply fragmented in the post-Suharto era, it has had influence over local-level policy-making through two avenues: 'fragmented activism' and 'electoral populism.' (Aspinall 2013a, p. 103). The former has included mobilization in the form of protests by individuals or small groups of activists outside political institutions to demand reforms. It has also involved an increase in the number of activists who enter formal political institutions such as mainstream political parties and government institutions as a way of promoting change and influencing policy. With regards to electoral populism, Aspinall argues that political competition has given voters opportunities to select candidates with pro-lower-class policy agendas and programs. Thus, elections at the national and local levels have created incentives for political elites

to be more responsive to public demands and adopt more pro-poor public policy orientations (Aspinall 2013a, p. 108).

The main contribution of the pluralist approach is the fact that it offers a broader view of local politics by moving beyond a central concern with elites and leadership. It shows that societal groups have not been absent from policy-making processes, as the social conflict, elite competition, and elite leadership approaches imply. It suggests that successful reform is possible when there is strong civil society engagement to influence policies (Antlov, Brinkerhoff & Repp 2010, p. 421; Aspinall 2013a, p. 103) or when more civil society figures directly occupy political institutions (Aspinall 2013a, p. 108).

However, these scholars have arguably underestimated the political effects of civil society activism, at least in parts of Indonesia with extensive, politically compact, and well-organised civil societies. They have tended to see civil society activism as flourishing alongside continued rule by predatory elites rather than constraining, challenging and potentially overthrowing this rule.

Tans (2012) is exceptional when he demonstrates how societal mobilization has constrained predatory networks in local elections in some localities in North Sumatera. He found that civil society and social mobilization is as strong a political modality as mafia networks and party machines when it comes to local elections (Tans 2012, p. 15). There is a case in Serdang Bedagai district where a local candidate, with support from well-consolidated social mobilisation, won an election against other candidates who had support from the local mafia and party machines (Tans 2012, pp. 47-50). He also provides evidence on how particular modes of coalition-building in the election process affected local government performance which in the case of Serdang Bedagai societal coalition provides pressure to the

elected politician to pursue various pro lower class developmental programs. However, he fails to count how such mobilised societal group further their roles in the policy reform process in the post election.

Apparently, most pluralists have limited their analysis of the role of progressive civil society forces in local politics to non-governmental organisations. They have given relatively little attention to other actors such as local media and university intellectuals. Nor have they investigated inside the state apparatus to consider the role of local public officials

2.5.5. This Dissertation's Approach

This dissertation agrees with pluralist theorists such as Antlov, Brinkerhoff, and Repp (2010), Tans (2012) and Aspinall (2013) that civil society has not been silent in shaping the local political landscape. In this sense, it substantiates the pluralist approach. However, it combines pluralist analysis with the insights of social conflict, elite competition and elite leadership approaches. It especially aims to clarify the respective roles of local elites, local leaders, and broader progressive forces, understanding the latter as including not only local NGOs but also university academics and the media. Its key argument is that the existence or non-existence of progressive civil society forces at the local level is important in determining the extent to which predatory elites are powerful and influential in shaping governance outcomes. It proposes that the greater the influence of progressive forces, the lower the influence of predatory elites and populist elites and vice versa. The dissertation also considers the role of reformist leaders and local bureaucrats, which, together with progressive civil society forces, contribute to the creation of a supportive political landscape and better local policy-making processes.

This thesis, therefore, offers a mixed hypothesis as follows. First, democratic decentralization has resulted in complex political configurations at the local level, in which an array of local actors is involved, each of whom has distinct interests, policy agendas, and degrees of access to the policy-making process. Local politics centres on exchanges and conflicts between and across these actors. Second, the extent to which good governance prevails at the local level depends on whether progressive forces are able to constrain and acquire power vis-a-vis predatory groups in directing local politics. Accordingly, a city/district with vibrant and well-consolidated progressive forces has more chance of achieving good governance.

The two case study sites examined in the dissertation, Surabaya and Bogor City, provide evidence supporting the above hypothesis. In Surabaya, where vibrant progressive actors were well connected and able to constrain local predatory elites, it was possible for a reformist leader to come to power and reform-minded bureaucrats to promote good governance, as exemplified by the case of public procurement reform. Conversely, in Bogor City, the absence of progressive civil society forces in the local political sphere has made it possible for the old elites to steer democratic decentralisation for their own benefit. The rise of a reformist leader in the absence of support from other progressive actors has not made a significant difference in terms of improving local governance.

2.6. Conclusion

Democratic decentralisation is widely asserted to promote good governance, as it allows for greater inclusion of various public groups in policy-making, better resource allocation and control at the local level, improved capacity among local authorities, and more efficient and less corrupt governance. In implementation,

however, democratic decentralization has recorded mixed outcomes depending on the given local context, especially the prevalence of local elite capture.

In the Indonesian context, the fall of the Suharto regime in the late 1990s and the rise of the Era Reformasi (Reform Era) starting in 1998 led to the restoration of democracy to the country's political and social life characterised by public political participation, freedom of the press, and direct presidential and legislative elections under a multi-party system. It also led to decentralization in which enormous administrative, fiscal and political of autonomy was transferred to local governments.

Political economy analyses of post- New Order local politics have suggested that democratic decentralisation has enabled local elites to determine the outcome of democratic decentralisation. However, these analyses have missed the big picture, as they have been too focused on the predatory elite's behaviour as well as that of populist leadership and given insufficient emphasis to the diverse actors beyond these elements.

This dissertation offers a more nuanced view of the dynamics of local politics by incorporating progressive actors from civil society into the analysis as well as reformist elements in the bureaucracy. It combines the social conflict, elite competition, elite leadership, and pluralism perspectives. By combining these approaches, it argues that democratic decentralization has provided a battleground for a diverse array of local actors, including progressive civil societies, not just elite actors. It is the interactions, interest exchanges and conflicts between this diverse array of actors, each of which has had different levels of access to power and leverage over policy-making that have constrained and offered opportunities for good governance.

CHAPTER 3

THE POLITICAL ECONOMY OF PUBLIC PROCUREMENT REFORM AND DEMOCRATIC DECENTRALISATION

3.1. Introduction

This chapter provides an overview of procurement reform in Indonesia. As noted earlier in the dissertation, procurement has been one of the most important areas of reform at both national and local levels since the fall of the New Order. This chapter explains that following the implementation of democratic decentralization in 1999, the Indonesian government has embarked on efforts to ensure that Indonesian procurement procedures comply with international standards, particularly with regards to good governance and the competitiveness of public procurement. However, there is no substantial evidence that the implementation of procurement reform has resulted in more democratic procurement practices. Rather, the process of democratic decentralization has provided a political environment whereby the public procurement budget has become vulnerable to capture by predatory elites for their private interests, a process involving local politicians, local leaders, bureaucrats and business actors.

This chapter discusses the conceptual narrative of public procurement and its importance in good local governance. It also outlines, in chronological order, the development of procurement policies during and since the New Order era, especially the extensive reforms following the fall of the New Order and the implementation of democratic decentralization. The following discussion focuses

on narrating the findings from the literature on the current remaining challenges, despite the extensive introduction of change over the last 15 years.

Importantly, this chapter demonstrates some insights into understanding the politics of public procurement at the local level following democratic decentralization. It argues that democratic decentralization has preserved the old habits of procurement practices including corrupt and collusive patterns of project distribution involving all actors related to public projects. The chapter also indicates that the fragmented elite and widening political competition impose increasing financial pressure on local political actors and increase the risk of corruption and manipulation by elite private interests. Consequently, predatory coalitions are dominating the local environment of procurement reform, which potentially affects the effectiveness of reform implementation.

3.2. The Importance of Public Procurement Reform

Public procurement is an important aspect of a country's development. It encompasses the largest portion of public expenditure, covering by one estimate as much as 14% -20% of global GRDP (Yulianto & Oeyoen 2011, p. 8). Public procurement has become the most vulnerable government activity, as it provides multiple chances to both business and public officials to take personal advantage through corrupt and collusive practices. Globally, according to Yulianto and Oeyoen (2011, p. 8), the World Bank estimates that corruption in procurement increases the market value of public goods and services by 20%, while Transparency International projects that corruption in procurement wastes 10%-25% of all project costs. In the Indonesian context, government procurement accounts for 40% of the total national budget. It has been estimated that IDR 825.8

trillion of the IDR 2,039 trillion state budget was executed in 2015 through the public procurement process (KPK 2015, p. 6).

Public procurement is a central pillar for improving good governance in public institutions. It is a process whereby government entities acquire goods and services using public funds from the market place. It encompasses processes such as preparing project documents, publicizing project descriptions, inviting bidders, selecting winners, and awarding contracts. Government procurement differs from those in private sector. According to Wittig (19980, in Odhiambo and Kamau (2003, p.10):

Public procurement must be transacted with other considerations in mind, besides the economy. These considerations include accountability, non-discrimination among potential suppliers and respect for international obligations. For these reasons, public procurement is subjected in all countries to enacted regulations, in order to protect the public interests. It is worth noting that unlike private procurement, public procurement is a business process within a political system and has therefore significant consideration of integrity, accountability, national interest and effectiveness.

Thus, the implications of public procurement implementation depend on how good governance principles are applied. Defective procurement practices will result in high costs for public spending, accompanied by fraud, project delays and increased prevalence of public funds resulting in poor public goods and infrastructure that impact on the quality of service delivery. According to the World Bank (2001), good procurement practices embody principles or values that are universally applied: e.g. maximizing economic growth and efficiency, promoting competition

and participation of suppliers and contractors, fair and equitable treatment of all participants, and transparent procedures that eradicate opportunities for corruption and collusive practices (The World Bank 2001, p. 3).

Reforms aimed at creating well-functioning procurement mechanisms have become of global concern. Since public procurement contains both economic and political aspects, the trend for global procurement reforms also addresses these two concerns: maximizing value for money and resolving issues about any lack of accountability and transparency, corruption and fraud. In most developed countries, procurement reforms take place within set frameworks to increase value for money through the advancement of effective bidding methods, technology, and strategies (Hunja 2013, p.14). They also attempt to meet international obligations such as the World Trade Organization's Agreement on Government Procurement or procurement agreements such as the European Union Procurement Directives or the North America Free Trade Agreement (Agaba & Shipman 2007, p. 373).

In developing countries, however, orientation towards procurement reforms is designed to establish efficient bidding systems to improve accountability, efficiency, competitiveness, openness and transparency. In these countries, improvements usually include the establishment of clear legal frameworks, transparency and law enforcement mechanisms, combined with institutional reform and professional human resources provisions (Agaba & Shipman 2007; Hunja 2013). Hunja (2013, p. 16) states that:

‘while many countries have attempted to implement fundamental changes to procurement systems, there isn't much evidence of these efforts achieving fully-fledged, fundamental reforms. Most post-colonial states, for example, have maintained procurement systems

that largely resemble pre-independence regimes. Where attempts have been made to bring about significant changes, these have essentially amounted to marginal tinkering with some of the rules while leaving the general framework intact’.

Until recently, the ways in which procurement reforms in developing countries have resulted in good governance of government projects and good acquisition have been, and continue to be, difficult to confirm. Hunja (2013, p. 17) contends that measuring such impacts is difficult to carry out in developing countries. In fact, many of them are still struggling with fundamental changes, such as managing conflicts of interest, establishing sound regulatory frameworks, and dealing with the lack of capacity of public officials.

3.3. Public Procurement Reform in Indonesia

3.3.1. Public Procurement Policy during the New Order Era

In the early period of the New Order Era (1965-1998), there were no specific regulations to provide guidelines on how public procurement should be carried out. Guidelines on procurement regulation were integrated into the annual regulations regarding *Anggaran Pendapatan dan Belanja Negara – APBN* (the national state budget). Hence, the regulations were applied only to the implementation of the state budget. Formal directives on procurement were first introduced in *Keputusan Presiden – Keppres* (Presidential Decision) No. 11/1974 on the Implementation of the State Budget. This was followed by 11 modifications before the issuance of *Keppres No. 17/2000* in 2000 (Komisi Pemberantasan Korupsi (KPK) 2015b, pp.

27-28).⁷ A significant breakthrough occurred in 1984 with the issuance of *Keppres* 29/1984 on the implementation of State Revenue and Expenditure, which introduced various measures focused on cost-effective purchasing, bidding, and contract provision procedures. The regulation presented four methods for selecting service providers and contractors, which included open bidding, selective bidding, direct appointments, and direct purchasing, all of which were applied according to the size and the characteristics of the projects involved (KPK 2015, p. 29).

From the above *Keppreses*, it is evident that the primary concerns of the procurement regulations were not only transparency and efficacy in public procurement, but also other objectives, such as the promotion of domestic products, and prioritisation of small, local enterprises, especially for small projects. The *Keppres*, for example, put aside the principles of market competition in the case of local economic distribution, by protecting local enterprises. The rule covered the obligation to use local products and services to promote the domestic economy and to give privileges to small businesses for specific projects, to protect weaker groups and local bidders (WB, 2001, pp. 17-19). Since 1994, the updated versions of *Keppres* No. 29/1984 (*Keppres* No. 16/1994, *Keppres* No. 24/1995, *Keppres* No. 6/1999, *Keppres* No. 17/2000) incorporated more detailed measurements of transparency principles. These regulations encompassed procedures for pre-qualification, registration and certification of bidders and, importantly, a requirement for wider advertisement of the projects through the media (World Bank 2001, p. 41).

⁷ *Keppres* No. 17/1974, *Keppres* No. 7/1975, *Keppres* No. 14/1976, *Keppres* No. 12/1977, *Keppres* No. 14/1979, *Keppres* No. 14A/1980, *Keppres* No. 18/1981, *Keppres* No. 29/1984, *Keppres* No. 16/1994, *Keppres* No. 24/1995, and *Keppres*, No. 6/1999 (KPK 2015).

Nevertheless, in their implementation, these regulatory frameworks appear to have been dysfunctional. The World Bank (2001, p.1) criticised Indonesian procurement practice in the period as it ‘does not function well. It was not market driven, was prone to misuse and abuse, and reduced value for money for public funds’. Long-observed regulatory issues and procurement implementation deficiencies during the New Order period persisted. The prevailing issues included a multiplicity and overlapping of regulations with a lack of clarity and assurance of transparent mechanisms and competition, the absence of a single authorised procurement policy-making body, poor compliance with the rules and procedures, the lack of an oversight mechanism, lack of public officials’ capacity and integrity, and a weak certification system for service providers. Importantly, conflict of interest issues impeded procurement practices, leading to widespread corruption and collusion practices involving the fraudulent behaviour of the public officials and contractors, and uneconomic packaging based on the lobbying processes of interested groups (The World Bank 2001, pp. 16-17).

The literature suggests that since the New Order, public procurement has been the object of contested interests (Buehler 2012; Hick 2012; Aspinall 2009; Mietzner 2011; Aspinall 2013b). The patterns of corruption in public procurement followed the logic of broad patterns of power relations in the New Order era, where the collusive networks closed to a narrow circle of patronage alliances within the Suharto regime (Buehler 2012, p. 5; Aspinall 2013b, p. 30). According to Buehler (2012, pp. 5 -7), most players from the procurement market came from the main pillars of the Suharto patronage system, which allowed retired military personnel, in particular, to obtain political positions as a reward for their loyalty. Such regime loyalists then had the directive power to decide who had access to partake in

government projects. With its centralistic approach, the New Order regime could control public procurement through its tendering body called 'Team 10', which existed at all levels of government. The team consisted of high level bureaucrats and ministries to monitor and control bid implementation at all levels, especially for national budget funded or ear-marked projects, which accounted for most of the relevant government programs.

There were also systemic mechanisms, through various regulations, to protect the narrow circle of the New Order alliances for government projects. They included corporatism of business associations⁸ and the setting up of entry barrier measurements to prevent certain groups of businesses from taking part in public procurement processes. For example, service providers had to be members of the Indonesian Chamber of Commerce (*Kamar Dagang Indonesia*-KADIN). They also had to subscribe to one of the three sectoral associations: the Indonesian Consultant Association (INKINDO), the Indonesian National Construction Association (*Gabungan Pelaksana Konstruksi Nasional Indonesia* – GAPENSI), and the Association of Supplier Associations (*Asosiasi Rekanan Dagang Indonesia* – ARDIN). These four associations were notorious as a club for the New Order's business allies, who worked in collaboration with bureaucrats to manage the distribution of available government projects to members of the associations and to distribute kickbacks from this distribution to government officials in return (Hicks 2012, p 5). In short, in the period of the New Order regime, procurement businesses relied on political patronage rather than their professional expertise to participate

⁸ Corporatism, according to Schmitter, 1974, is 'a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within the respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support' (Schmitter, 1974 in Dick and Mulholland 2014, p. 5).

in government projects, had to follow the rules of the game provided by oligarchs to serve their centralised system of patronage, and gave privileges to very small groups of Suharto's loyalists and allies.

3.3.2. Procurement Reform in the Era Reformasi (Reform Era)

Following the fall of the New Order in 1998, procurement practices in Indonesia have undergone significant regulatory and institutional reform. In 2000, the Indonesian government embarked on efforts to transform its procurement frameworks and practices to comply with international standards. The government introduced a regulation that specifically regulates the bidding procedure through *Keppres* No. 18/2000 on Government Procurement Guidelines, which governs various aspects of the procurement code of conduct, to be implemented by government line departments at national government level and by agencies at local level (KPK 2015).

The *Keppres* adopted various principles from the previous ordinances, with more thorough clarification of the responsibilities of and the division of labour between project managers and procurement committees, along with the qualifications required. It also introduced ethical guidelines covering the detailed obligations and prohibitions of parties involved in the bidding process (i.e. project managers, procurement officials and service providers/contractors) (Hick 2012, p. 6). The *Keppres* also provided technical guidelines on procurement procedures, including the obligation to conduct project advertisement and open selection processes for more open market competition, in accordance with the World Trade Organisation (WTO) agreement that was ratified in 1974. Specifically for the latter, the regulation abolished the obligation to reserve privileges for certain types of projects

for weaker and/or local businesses. However, the *Keppres* still gave priority to small businesses for small (for projects up to IDR. 1 billion/ US \$130,000) and medium (from above IDR 1 billion/\$130,000 – IDR 10 billion/ US\$1,130,000) projects (The World Bank 2001, p.19).⁹ Importantly, the regulation also abolished the requirement for Indonesian Chamber of Commerce memberships for service providers and delegated the company certification processes from the government to sectoral business associations. The latter encouraged the establishment of various sectoral business associations to implement the business certification function (Hick 2012, p.7).

A further improvement occurred with the introduction of *Keppres* No. 80 /2003. This regulation was specifically designed to achieve the implementation of good governance principles such as accountability, transparency, openness and competitiveness in public procurement (OECD 2007, p. 5). Along with its seven subsequent revisions, updates and modifications, the regulation covered most aspects of public procurement frameworks, including scopes, methods, procurement organisations, and detailed step by step procedures from planning to implementation, including how dispute resolution should be carried out in detail (OECD 2007, p. 16). The KPK (2015b) also notes that the regulation outlined a progressive policy agenda for improving human resources and the institutional streamlining needed for effective bidding processes, such as procurement official certification, and the establishment of particular bodies at national level, whose main function was to ensure the mainstream creation of procurement policies, procedures, standard documents and to oversee compliance by all government

⁹ Modified to 2016 exchange rate US \$1 = IDR 13,000.

agencies and service providers. Another important element of the regulation was the obligation for service providers and contractors to obtain professional and expertise certifications prior to participating in the bidding process. For example, for public works projects, contractors are obliged to obtain certification from business associations, which were established under the supervision of the Construction Service Industry Board (*Lembaga Pelayanan Jasa Konstruksi – LPJK*).¹⁰

Early introduction of the use of electronic tendering also appeared in the regulation, even though it was not explained in detail and was not an obligatory policy (KPK 2015). Based on the regulation, all projects from IDR 50 million (USD \$5,750) and above had to be procured through an open bidding mechanism, carried out by procurement committees, composed of certified officials.

In 2005, as part of the implementation of *Keppres* No. 80/2003, the government established the Center for Public Procurement Policy Reform Taskforces (*Pusat Pengembangan Kebijakan Pengadaan Barang/Jasa Publik, PPKPBJ*) under the National Planning and Development Bureau (*Badan Perencanaan dan Pembangunan Nasional – Bappenas*) (KPK 2015, p. 8). This institution has been reinforced further since 2007, with the establishment of *Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah – LKPP* (the National Procurement Policy Agency -NPPA) under the Presidential Decree No. 106/2007. Its primary tasks are strengthening procurement institutions, formulating national strategic procurement

¹⁰ LPJK is an industry, professional and business association which represents public participation in ensuring the capability of service providers, especially in construction related projects. It was established in 2000, as mandated by Law No. 18/1999 on the construction service. Its main function related to procurement, to accredit business associations and business professions that have the authority to issue professional and expertise certification for service providers and contractors (LPJK 2017).

reforms, developing tools to facilitate effective bidding processes and establishing mechanisms to oversee the implementation of public procurement. Following its establishment, the NPPA initiated various programs and policies with the aim of improving procurement practices. It took over the task of the PPKPBJP in providing training, accreditation and technical assistance, and introducing a set of regulatory and institutional reforms.

In 2007, the NPPA established a centralised IT based application called the SPSE – *System Pengadaan Secara Electronic* (the Electronic Procurement System) to facilitate contractor selection processes through an electronic system. The system aims to simplify procedures, standardize procurement documents, widen service providers' access to government projects, and improve transparency as well as be a monitoring system. The electronic procurement system also changes the nature of government to deal with business interactions for procurement by using the internet for all steps of the procurement process (Yulianto & Oeyoen 2011; Sack et al. 2014). Prior to 2012, however, the use of SPSE was not compulsory. Despite this, the NPPA rolled out the adoption of the system through a massive campaign, training, and facilitating process, to national line ministries and local governments to promote the new mechanism (Sack et al. 2014).

At the same time, the NPPA also launched the framework for the governments' procurement organisation through policies and the introduction of the *Unit Layanan Pengadaan* – ULP or the Procurement Service Unit – PSU. The basic idea behind the PSU is to centralize the bidding committees across the different units in the government institutions into one organisation for better coordination, control and monitoring. Through the PSU, procurement organisations in the line ministries and local governments become more streamlined. Rather than having scattered ad hoc

committees for individual projects in different units (Figure 6) the PSU acts as a taskforce to procure all available projects implemented in different units or agencies (Figure 7). It is expected that the new organisational arrangement will improve public procurement practices in at least three ways. Firstly, it enhances accountability by cutting off the direct relationship between the project manager (the owner of the project) and the bidding participants during the selection process, which was often vulnerable to conflicts of interest. Secondly, it increases the efficient use of certified staff distributions. It mainly deals with the fact that accredited officials used to be in limited supply. Finally, it enables better coordination and monitoring of all projects within different units of line ministries or different agencies of local governments (Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (LKPP) 2013).

Figure 6: Conventional procurement committee

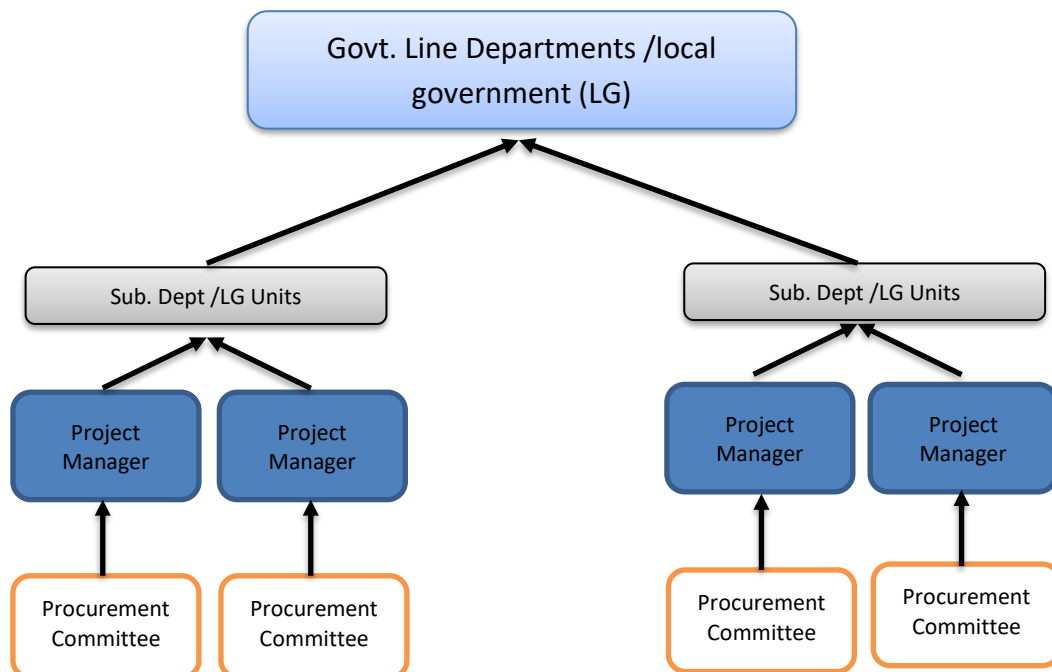
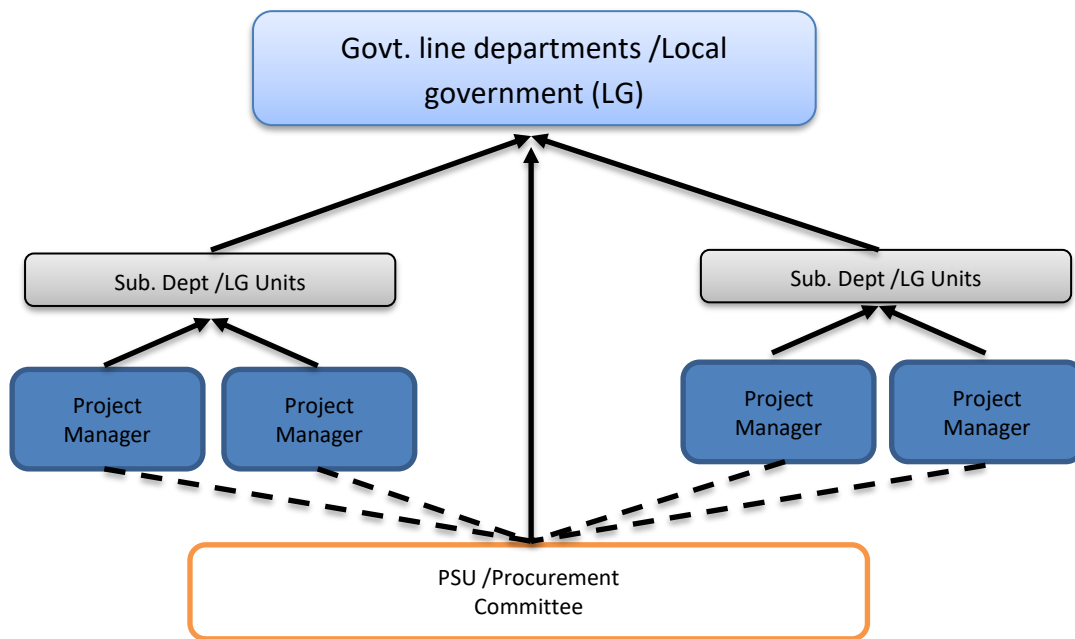


Figure 7: Integrated procurement committee through the PSU



The government further enhanced the legal and institutional frameworks on public procurement through the issuance of *Peraturan Presiden – Perpres* (Presidential Regulation) No. 54/2010 and its four subsequent revisions and adaptations up to 2015.¹¹ The *Perpres* broadens the scope of public procurement not only to the state but also to include foreign donors and international assistance. The *Perpres* also restructures the administration of the service providers' selection. The *Perpres* mandates the enforcement of the implementation of electronic procurement using the nationally established SPSE and the establishment of the PSU. With the new arrangement, the regulation divides the related actors within the government into three main elements which are relatively independent of each other. The first is to provide budget authorities (project owners or project managers) with the task of planning their projects that require a bidding process, to award contracts and

¹¹ *Perpres* No. 35/2011, *Perpres* No. 70/2012, *Perpres* No. 172/2014, and *Perpres* No. 4/2015.

monitor contract implementation. The second element is the selection committee, coordinated under the PSU which main functions are to carry out all the processes of individual project bidding up to the selection of the winning bidders. The third element is a project results receiving committee that receives and evaluates the results of the contracted projects (LKPP 2013).

With regards to the e-procurement system, the NPPA also uses e-procurement to integrate all the data into a nationwide electronic monitoring mechanism for the projects implemented through the LPSE. The system also allows the NPPA to record the profiles of service providers and their procurement activities in the system, including those who are blacklisted, to be able to cross reference their track records.¹² The NPPA has also introduced a national e-catalogue system by providing lists of goods procured by the NPPA for any government institutions to obtain goods through e-purchase without going through the bidding process (i.e. enabling direct purchasing) (Arfani 2016).

The new regulation also simplifies the assortment method. It increases the value limit of direct contracting (sole source) from IDR 50 million (USD \$ 6,250) to IDR 100 million (USD 13,000) and introduces simple bidding processes for any project under IDR 200 million (US\$23,000).¹³ The regulation also enforces open bidding for all projects above IDR 200 million (US\$23,000).¹⁴ The standard remains for

¹² Interviews with Ikak G Patriasmo (the Deputy of Legal Disputes and ex Director for E-Procurement Implementation at NPPA), Jakarta, 8 July 2014 and Nanang Mairofiq (Monitoring and Evaluation, and E-procurement Development Staff at NPPA), Jakarta, 14 August 2014.

¹³ Compared with open bidding, simple bidding is conducted within a shorter timeframe, with narrower coverage of publication. The evaluations of technical and financial proposals are implemented simultaneously within a more flexible time frame (Yulianto & Oyen 2011). The process can be implemented outside the e-procurement system and PSU, given the flexibility of the project managers and their committee that forms for the specific purpose of the project to select bidders (Interview with Hayie Muhammad, Indonesian Procurement Watch (IPW), 25 June 2014).

¹⁴ The exception applies to emergency responses, military related products and services.

consultancy projects above IDR 50 million (USD \$6,250) which need to be undertaken through an open bidding process (Yulianto & Oeyoen 2011, p. 16). The regulation also allows for the implementation of multi-year contracts and projects (*Perpres No. 70/2012*), and that the initiation of the procurement process could precede the issuance of national or local revenue and expenditure budget annual regulations, with the condition that the project has been agreed in the budgeting and the policy formulation process (*Perpres No. 5/ 2015*).

Other important aspects of the changes are the strengthening of ethics, transparency and anti-corruption measurements. The regulation clarifies the moral conduct of the officials, abolishes bid security deposits for particular projects, and enforces the publication of the projects' estimated price and the release of all procurement plans in the early days of financial years. The *Prepres* also requires all actors related to bidding (on both the government's and the provider's sides) to sign integrity pacts as part of the procurement process (Yulianto & Oeyoen 2011, p.16; KPK 2015, p. 18)). Advancement also occurs with respect to the complaint handling mechanisms, where the regulation clarifies that all parties have a right to express their written objection to any violation of procedures, inadequate assessment of technical specifications or the misconduct of the procurement authorities after the list of potential winners is publicized. All objections must be reviewed by the PSU, who have an obligation to respond within five days. Such complaint handling is also available through the electronic system as an integral part of the e-procurement menu (Sack et al. 2014, p.5).

Beside the above regulatory and institutional frameworks, public procurement reform in the country also reciprocates other regulatory reform frameworks, especially public financial management, and anti-corruption policies. On the public

financial management regulations, there are: Law No. 17/2003 on the State Finances, Law No.1/2004 on the State Treasury and Law No. 15/2004 on the State Audit. These rules have transformed the government budgeting process and financial management so that they comply with international standards of modern public financial management, especially financial audit mechanisms (Organisation for Economic Co-operation and Development (OECD) 2007, p. 4). Public financial management has been enhanced further through these developments, especially with the establishment of the country's supreme audit institution, *Badan Pengawas Keuangan* (BPK) in 2006. It acts as an external body to review the executive financial management systems and to report their audit results to the parliament at national, provincial and local levels (Yulianto & Oeyoen 2011, p. 20). Since 2001, the government's financial management system is also subject to internal audit from the *Badan Pemeriksa Keuangan dan Pembangunan* or BPKP (the Internal Financial and Development Audit Bureau), which was established through Presidential Decree No. 103/2001 to carry out regular internal audits of national government institutions. At the provincial and local government levels, such a function is undertaken by the Inspectorate Bureau (OECD 2007, p.17).

With regards to the corruption eradication policies, there are anti-corruption laws (Law No. 31/1999 and Law No. 20/2001 on Anti-Corruption, and Law No. 28/1999 Clean and Free from Corruption, Collusion and Nepotism of Governance). All those laws clearly regulate matters related to illegal transactions, bribery and embezzlement. The regulations also fortify implementation through the establishment of the *Komisi Pemberantasan Korupsi* - KPK (the Corruption Eradication Commission) in 2003 through Law No. 30/2002, with special tasks to investigate corruption and collusion practices. Law no. 28/1999 also gives the

public the right to seek information and reports of any potential conduct related to corrupt practices and convey their reports to the law enforcement agencies, including the KPK. To reinforce implementation, through Law No. 46/2009 on the Special Court for Corruption Cases, the government also commands the existing courts to establish a specified taskforce to deal with corruption cases (Yulianto & Oeyoen 2011, p. 21-22).

Importantly, the government issued Law No 14/2008 on public information transparency. It mandates all government entities to disclose government information publically and enforces the establishment of Public Information units at all level of government. Another regulation which also fosters the transparency of procurement implementation is Law No. 25/2009 on Public Services. The law regulates the interactions between the government and the public and the government's responsibilities in ensuring the implementation of sound governance principles (participation, professionalism, transparency, and accountability) and the achievement of a minimum standard in public service delivery provision (Yulianto & Oeyoen 2011, p.22).

From the above-mentioned overview, since 2000, Indonesia's government has been progressing well in its efforts to establish a procurement framework for good public procurement practices, which also emphasizes the need to eradicate corrupt practices. In the view of the Asian Development Bank (ADB) (2016, p. 1), through the various regulatory and institutional reforms, Indonesia has shown substantial progress, with the risk of corruption decreasing from 'very high' in 2001 to 'medium' in 2015. The ADB (2016, p.2) concludes that:

- 'i) The procurement legal framework has been anchored to the highest law and regulation in the country;
- (ii) There are national standard

bidding documents (SBDs) available in the country, which adopt basic principles of the best international practice. There may be room for improvement, especially for supporting procurement of large contracts that are subject to international competition; (iii) the country's procurement professional certification and training program is in place. Although this program needs to be enhanced, it is able to at least ensure that those staff meeting certain qualifications are involved in procurement decision making and planning; (iv) The transparency of the procurement process is in place. The mandatory use of an e-procurement system and the opportunity for procurement is widely notified in the government's website with free access, and bidders may easily access them for participating; (v) There is a standard procedure for complaint handling and sanctioning system, which is quite effective in reducing the risks of a non-qualified bidder being awarded a contract, or some other irregularities; and (vi) Procurement advisory function and oversight has been practiced by LKPP, and it advocates the compliance of procurement procedures for an audit proceeding'.

Some issues, however, remain. Corrupt practices persist in government procurement projects and their implementation, and the capacity of government institutions for managing procurement remains weak. The current operational regulations also scatter in various forms and are issued by different institutions, leading to unclear interpretation, especially with the absence of regulation on the status of the law that supposedly provides a strong guideline and enforcement mechanism for its implementation (ADB 2016).

3.4. The Political Economy of Public Procurement at the Local Level

Democratic decentralisation has resulted in the devolution of substantial power and resources from the central government to 34 provinces and around 508 local districts, which can now exercise greater authority in managing public service deliveries. As a consequence of the decentralization policy, the national government transfers 30% of its national budget to provinces and districts/cities/municipalities (Buehler 2012, p. 1). Under the decentralisation policy, local governments have the authority to manage local public budget spending, including the procurement of goods, services, and public works. From the total amount of the budget, around 40% of the entire local budget is for procured projects (Yulianto & Oeyoen 2011, p. 12). In 2015, procurement accounted for IDR 405 trillion (USD \$ 30 billion) of the total 1.101 trillion (USD \$ 82 billion)¹⁵ provincial and local government budget (KPK 2015). It is expected that the decentralised public funds will be spent through the available, transparent, competitive, open and accountable processes to ensure maximum value and the greatest level of benefit in terms of local development. The World Bank (2001) claimed in the early stages of decentralization that ‘if managed well, decentralization can achieve substantial efficiency gains because decisions will be taken at a level of government that has better information and is more accountable to the public’ (The World Bank, 2001, p. 27).

However, despite broad regulatory and institutional reforms, there is a view that democratic decentralization and the procurement reforms did not lead to good governance at local level. Corruption at the local level related to public procurement

¹⁵ 2015 annual average IDR currency rate against USD was \$ 1 = IDR 1,3385.57268 (X-Rates 2017)

is still the main issue with implementation of the new systems (Kurniawan 2012; The Asia Foundation 2012; Transparency International Indonesia (TII) 2012; KPK 2015; ADB 2016).

The Asia Foundation (2012) found that there is no significant evidence of a reduction in the corruption and an expansion in the level of competition or better value for money in districts or municipalities. Meanwhile TII estimates that US\$ 4 billion in losses every year were due to corrupt practices in public procurement (Yulianto & Oeyoen 2011, p. 14). Public procurement accounted for 80% of the total number of complaints related to corruption in 2011 (*Kredibel* 2011, p 12), and the capacity and integrity of government officials and political interference impeded revitalised procurement practices, leading to widespread corruption and collusion practices (KPK 2015). The limited capacity of local officials to deal with the complexity of procurement processes and monitor project implementation also contributed to the continuation of the collusive system. Officials often failed to prepare project documents effectively and even asked potential contractors to assist them with distributing kickbacks to parties of interest (B-Trust, 2007). Indonesian Procurement Watch also confirms this to be the situation after conducting a survey of 792 contractors, showing that 92% of providers have used bribery to win government projects (Indonesia Procurement Watch 2009). Van Klinken and Aspinall (2010, p.18) estimate that the value of corruption in each project could amount to 20%-35% which is then distributed to various state officials involved at different levels and positions, from planning to project implementation. Project budget mark ups and cutting the product quality have become common practice to recoup the corrupt additional payments (Van Klinken & Aspinall 2010, p.149).

There is also a view that officials and local legislative members often intentionally allocate projects to be implemented by contractors who have a relationship with them (Rahman 2012; Van Klinken & Aspinall 2010; KPK 2015). According to KPK (2015b), in 2015 alone, there were 142 fraud cases related to service provider selection under examination by the KPK, involving politicians, high ranking officials and business actors. The Ministry of Home Affairs in Indonesia reported in 2011 that 17 out of 33 governors and 138 out of 497 regents/mayors were involved in corruption cases, mostly due to abuse of procurement related regulations (Kurniawan 2012, p.1). Two informants from the NPPA reveal that, in many cases, despite various regulatory and institutional reforms, the local governments could still manipulate the system to continue collusive and corrupt interests in various ways.¹⁶

There are also indications that, at local level, local governments are reluctant to follow the direction of the reforms, which are designed to strengthen the good governance of public financial management (Patunru & Erman 2013; the Asia Foundation 2012). Sack et al. (2014), for example, found that the introduction of e-procurement did not encourage local governments to maximise the use of the system. On average, only IDR 42 billion of local government budgets were electronically tendered in each district that had already implemented e-procurement in 2011, or only 11% of the total districts' procurement budgets. There is also a trend to decrease procurement expenditure at a local level in many districts, where

¹⁶ Interviews with Ikak G Patriasmo, 8 July 2014 and Nanang Mairofiq, 14 August 2014.

65% of the regions dropped their procurement budgets from 50% of total expenditure in 2007 to 41% in 2011 (Sack et al. 2014, p. 13-15)¹⁷.

Evidently the failure of procurement reform to promote good governance at the local level is one of the key problems that impedes the implementation of democratic decentralization, as discussed in the previous chapter, and it highlights the prevalence of elite capture. In the post New Order era, the literature suggests that elite capture has persisted and, indeed, is even more deeply entrenched into society. Van Klinken and Aspinall (2010), Buehler (2012), Dick and Mulholland (2016), and Mietzner (2011) all suggest that linking patronage between politicians and business with bureaucracy continues to breed corruption, negatively affecting government projects. Such a patronage system has even been extended, given the increasing numbers of actors partaking in local politics, their fragmentation and the widening rivalry amongst the elites that that used to be tightly controlled by authoritarian rule (Aspinall 2013b, p. 29-30).

There are also suggestions that the fragmentation and heightening of electoral competition has made public procurement prone to elite capture, involving various actors from the elite players, local leaders, politicians, business sectors and bureaucrats at all levels (Van Klinken & Aspinall 2010; Mietzner 2011; Buehler, 2012). According to Mietzner (2010), the introduction of direct elections since 2004 has raised the financial campaign budgets significantly. A local leadership election requires more extensive political resources and campaign finances now, compared with the previous mechanism, which was through local parliamentary voting. Since

¹⁷ Despite the national trend, local government such Surabaya City has made exceptional progress in reducing corrupt practices and in maximizing the uses of e-procurement (see Chapter 5 on Surabaya Case Study)

the local election involves high costs in terms of financial investments, a mayoral/regent candidate needs large financial support from their business channels and political allies to win. In this context, local businesses often act as the campaign's financiers. As a result, campaign financing cultivates a patronage relationship between the contractors and local politicians. The elected politician then seeks to refund their political investment and, importantly to their sponsors, invests in the competition for procurement governance (Mietzner 2010, pp 128-133). He also indicates that in many cases, the elected officials fall into debt following the election and so their impulse is to capitalise their policy into cash quickly, uncontrollably and regularly (Mietzner (2010, p. 133).

Parliamentary members have also sought to achieve their predatory interests in government projects. Sack et al. (2014, p. 27) and Van Klinken & Aspinall (2010, p. 153) indicate that they have often captured government projects through their contractor businesses, since many of them have contractor backgrounds referring to the cases of Lamongan District and Aceh respectively. Van Klinken and Aspinall (2010, p. 153) assert that the local leader in Aceh had to award projects to the contractors preferred by parliamentary members to buy their approval for making regulatory decisions or for support in local head's accountability report meetings. Significantly, according to Buehler (2012, p. 19), for the legislative members, their given budgetary authority enables them to exercise their political power to either negotiate a project's conditions and its budget, or alter the program and budget to meet their own preferences. They also can constrain the public officials within the bureaucracy by blocking the executive budget draft if the draft does not accommodate their interests.

Dick and Mulholland (2016) show that the penetration of elite capture of public procurement is also encouraged by the local budgetary system. The local budget, which tends to be limited and rigidly regulated, limits the ability of local government officials to deal with their day to day issues, especially when it comes to local politics. Such chronic problems have pressured local government to top up their budgets through collecting slush funds to finance the complexity of the state office operations, which are, in many cases, unbudgeted. As a result, manipulating government projects is common practice to recoup the unbudgeted for expenses. Commonly, such informal incomes are almost required to provide the political disbursements known as *Dana Taktis* (the tactical budget) to manage local politics, especially in the atmosphere of increasing political competition following democratic decentralisation (Dick & Mulholland 2016, p. 47).

Significantly, the introduction of democratic decentralisation also increases competition among local bidders. While the policy strengthens the business community's rules for the tendering process, it also results in the flourishing of business associations, leading to increasing fragmentation of and competition amongst contractors, service providers and their organizations (Hick 2012, p. 7-8). There is also a growing number of new businesses which compete for local government projects following democratic decentralisation, but most of them are small entities, with weak capacity, financially, technically and professionally, especially in the contractor business (Larasati & Watanabe 2009). Within this dynamic, whilst procurement reforms promise opportunities to new players, they also constrain their ability to compete in an established marketplace. Consequently, businesses, especially the contractors, are one of the main groups instigating collusive and predatory behaviours, given their role in local politics and their

patronage relationships with local politicians. By participating in government projects, businesses prefer to rely on the rent-seeking mechanism. Potential bidders may have to support local government officials or politicians financially to ensure tender approval, including by becoming the campaign team of any local elections (Mietzner 2010, p.32; Klinken & Aspinall 2010, p. 141), however, the contractors undertake these practices so as to avoid competition with those who have better capacity for winning projects in a truly open system (B-Trust, 2007).

Meanwhile, civic society engagement at local level in procurement policy is weak. At national level, there are active NGOs that advocate for procurement related reforms, such as the Indonesian Procurement Watch (IPW), Indonesian Corruption Watch (ICW), Transparency International Indonesia (TII), PATTIRO and the Bandung Trust Advisory Groups (B-Trust). They also work at both national and local levels. However, in most districts, civil society involvement in monitoring the public procurement process and implementation is limited, and, if it does exist, lacks the capacity, information and analytical skills to deal with the complexity of procurement issues.¹⁸ The local political environment also contributes to the limited role civil society has to prevail in public procurement issues. Rochman and Achwan (2016, p. 168) point out that local politics also has an established patronage relationship between the government and civil society, including the local NGOs. The dependency of the local NGOs on the local budget is high and the distribution of assistance funds to NGOs has traditionally been conducted through poor budgeting mechanisms. In many cases, the NGOs also work to support their

¹⁸ Interviews with Reza Samawi (Transparency International, Jakarta, 25 August 2014), Hayie Muhammad (Indonesian Procurement Watch), Jakarta 15 August 2014, Agung P Permane (Indonesian Corruption Watch or ICW), Jakarta, 19 August 2014, Mochamad Iqbal, (B-Trust), Jakarta, 25 August 2014).

politicians, bureaucrats and networks of officials to access financial support (Rochman & Achwan 2016, p. 168) including from the contractors (Mietzener 2010, p. 132). Interviews with national NGOs working on anti-corruption issues and procurement reform reveal the undemocratic relationships between local NGOs. The idealistic NGO is rare at the local level, despite the booming voice of those who claim the importance of the role of NGOs in overcoming corruption and improving good governance. Many NGOs have identified corruption issues and reported them to local prosecutors or through the media. Undeniably, in many cases, these charges have been successful and caused many corrupt bureaucrats and officials to be prosecuted due to the corruption laws. However, many NGOs also conducted such activities to increase their bargaining power in accessing local government funds or to source funds from local, serving politicians to intimidate their political opponents.¹⁹

3.5. Conclusion

Following the fall of the New Order's authoritarian government, since 2000 the Indonesian government has embarked on a program to ensure that Indonesian procurement procedures comply with international standards, particularly with regards to accountability, transparency, openness and competitiveness of public procurement.

As a consequence of democratic decentralisation, local government has full authority to manage the procurement of goods, services and public works.

¹⁹ Interviews with Agung P. Permane, Jakarta, 19 August 2014, Mochamad Iqbal, B-Trust, Jakarta, 25 August 2014), Yuna Farhan (Former General Secretary of the Indonesian Forum for Budget Transparency or FITRA), Adelaide, 2 July 2017, and Danang Widoyoko (Former Executive Director of ICW) 2 July 2017.

However, rather than resulting in better governance in public procurement, it can be argued that this has actually extended the ability of local elites to capture local government projects. Local government projects have become a market for groups of local elites, involving local politicians, bureaucrats and local contractors. Politically speaking, procurement reform at the local level has been impeded by immense volumes of elite capture, leading to a failure of good governance implementation in procurement practices.

Given the political and economic dynamics surrounding the implementation of democratic decentralisation and local procurement reforms, good governance is hard to expect, unless there is a massive change in the local political structure to limit the predatory elites from capturing local government projects. The two city-based case studies in this dissertation, Surabaya (Chapter 5) and Bogor City (Chapter 7) discuss the empirical findings about how the outcomes of public procurement reforms are closely related to the political structure in both cases. In Surabaya, wide-ranging pro-democratic activists have crafted changes to the local political structures and have allowed reform-minded leaders and bureaucrats to roll out procurement reforms with deeper and more substantial outcomes. Conversely, in Bogor City, local political in-fighting has resulted in the continuation of power for New Order-era elites, together with new political and business actors aiming to capture local projects for themselves. As a result, in Bogor City, the institutional reforms have been no more than artificial reforms, designed to sustain corrupt and collusive practices.

CHAPTER 4

THE POLITICAL ECONOMY OF GOVERNANCE REFORMS: CASE STUDY FROM SURABAYA

4.1. Introduction

This chapter provides a broad overview of Surabaya, its development, and the way this has been shaped by political and economic factors, focusing in particular on its experience with governance reform. It argues that the city has experienced significant progress vis-a-vis governance reform as a result of pivotal changes in its political economy brought about by the fall of the New Order. Most important in this respect has been civil society's ability to challenge the political dominance of predatory New Order-era elites by achieving regime changes in the early democratic transition in 2002, pressuring the local leadership and becoming involved in various development programs. This, in turn, created a context conducive to the emergence of reform-minded political and bureaucratic leaders committed to popular demands, further enhancing the trend towards reform.

The chapter provides an overview of the city's history, geography, demography, administrative structures, economic and social development, civil society and governance. The main part of this chapter is an the exploration of the way in which Surabaya's political economy has evolved since the fall of the New Order and the implications for governance reform. It argues that Surabaya's political economy has progressed through four periods, each characterised by a distinctive political constellation and different outcomes regarding governance reform. The first period saw the continued political domination of elements that were nurtured under the New Order, resulting in a political environment unconducive to governance reform.

Strong contestation of this legacy by civil society groups promoting *Agenda Reformasi* (the Reform Agenda) saw the appointment of Bambang DH, a civil society activist, as mayor in 2002, an event that marked the beginning of the second period. During this period, progressive actors from civil society, including university academics, NGO activists and the local media, exercised greater influence over local policy-making. This trend towards reform was slowed, however, during Bambang DH's second term in office (the third period) during which he became increasingly reliant on the support of local predatory elites and had reduced control over the city parliament. The 2010 mayoral election marked the beginning of the fourth period. During this time, a reform-minded bureaucrat, Risma (Tri Rismahartini), was elected mayor on a platform that emphasised clean and responsive local administration, with the backing of civil society forces. With a reformist mayor in office and progressive networks having increased opportunities to promote better governance, the result was local government advancement in delivering public services and performing more transparent and accountable governance.

4.2. The City of Surabaya: An Overview

4.2.1. A Brief History of the City

Surabaya has an important place in Indonesian history. Its origins lie in the establishment and growth of the Majapahit kingdom. Founded in the 13th century, Majapahit was one of the greatest and most powerful empires in the history of Indonesia and Southeast Asia. Its territorial empire was a key precedent for Indonesia's current political boundaries (Ricklefs 2008, p.18). In 1293, forces under the command of Raden Wijaya, the founder of Majapahit, defeated the

invading army of Kublai Khan, the Emperor of China, and repelled it from Java in a battle at Ujung Galuh, the location now known as Surabaya. In Javanese mythology, this battle has been characterised as an heroic battle of the Javanese people against the Mongolian Army, leading to the renaming of the place as Surabaya: *sura ing baya* means 'bravery in facing danger'. The city also uses the date of the battle, 31 May, as the city's anniversary date (Marijan 2008, p. 88).

As the Majapahit kingdom grew, Surabaya became a centre for trade, and an international entry point for people from various regions, including Chinese as well as local traders. Surabaya's population grew due to this economic expansion, with settlements along the Brantas expanding into the hinterland (Dick 2002, pp. 38-39). Toward the end of the 15th century, the city grew as autonomous cities developed following the waning of Majapahit Empire. In this period the city thrived as an internationally connected cosmopolitan merchant city. The city, however, experienced turbulence in the period encompassing the 17th and 18th centuries, with the increasing influence of the Sultanate of Mataram (centred in Central Java), which had captured all of the island of Java, except for the Dutch settlement of Batavia (Jakarta) and the Sultanate of Banten, with support from the Dutch East India Company (VOC) (Dick 2002, pp. 39-40).

In 1700s, the Mataram Empire allowed the Dutch East India Company (VOC) to occupy Surabaya in compensation for helping the Mataram soldiers to quell various rebellions in various territories. This signalled the expansion of the company in the Eastern part of Java. Following that, Surabaya became one of the most important commercial and military defences in Eastern Java for the VOC (Dick 2002, p. 40). The expansion of the company during this period further reinforced the

development of the township as a centre of defence and economic activity and, in particular, a port used to connect to other cities in East Asia, which then facilitated the export of agricultural products from the surrounding rural regions along the Brantas River, as well as from suburban areas connected by the Kalimas River (Dick 2002, p. 47).

The next phase of Surabaya's evolution took place in a more direct form of Dutch colonial rule. In 1743, the Dutch moved the position of the Dutch government administration in Semarang (Central Java) to Surabaya, bringing the town/city directly under its control. The Dutch promoted Surabaya's role as a centre for business, trade, industry and administration (Basundoro 2012). In 1817, the Dutch enhanced the status of the city by designating it as a *Kota Residen* (a Dutch administrative residency for a bigger city that supervises surrounding smaller cities/districts). This made it a capital city with authority over surrounding areas such as Gresik, Sidoarjo, Mojokerto and Jombang (Basundoro 2012). From 1910-1920, the Dutch also constructed a modern port called Tanjung Perak to facilitate trade and industrial development, providing an extra boost to the city's development and in particular its ability to compete with other port-based cities in Southeast Asia (Dick 2002, p. 47).

With regards to its governmental status, on 1 April 1906, following the implementation of the Dutch policy on decentralisation introduced in 1903, the Dutch government authorized the city of Surabaya to become a *gemeente* (a city administration) with a certain level of autonomy in managing government functions, including raising local revenues. It then strengthened the city's autonomy further by issuing a *Stadsgemeente Ordinance* on October 10, 1926, published in Government Gazette No. 365. This regulation enabled Surabaya to be a

stadsgemeente (an autonomous city) with its own mayor, executive, and legislative body, to run and finance the city, including establishing its own regulations (Basundoro 2012).

In the period of Japanese colonialization of Indonesia (1942-1945), the city government and its administrative functions were retained despite the use of Japanese terms for all governmental structures in this period. The Japanese also continued to support Surabaya's status as an economic centre especially with regards to its growing sugar, steel, textile and shipyard industries. There was also a steep growth in the city's population during Japanese rule from around 450,000 people in 1940 to 618,000 inhabitants in 1945 (Dick 2002, p. 96). In 1945, as the consequence of the Japanese defeat in World War II, the Dutch managed to take back Indonesia as one of its colonies. The recolonisation which was supported by the British army triggered civil revolution which reached a peak on November 1945. The pro-Indonesian independence armies in collaboration with civilian militia from *Pemuda Surabaya* or *arek-arek suroboyo* (both meaning *youth of Surabaya*) fought against both the British and the Dutch allied forces. The war was the heaviest battle against the Dutch during the Indonesian National Revolution. It displayed the strength of Indonesian resistance to Dutch colonialisation and galvanized Indonesian and international support for the cause of independence. In recognition of Surabaya's contribution to the struggle for independence, the city was subsequently awarded the title of *Kota Pahlawan* (City of Heroes), and 10 November was designated 'Heroes Day' (McMillan 2005, p. 55).

The war resulted in massive destruction to the city's infrastructure and colossal migration out of the city (Dick 2002, pp. 85-86). Coupled with political instability

due to continued Dutch and Indonesia conflict during the struggle for Independence from 1945-1949, the new Indonesian government did not function well in managing the city, resulting in decreasing city life and economic activities (Dick 2002, pp. 86-92).

Following the country's independence which was officially settled in 1949, the newly established Indonesian government granted Surabaya Capital City status through *Law No. 12/1950 on the establishment of East Java Province*. This law stipulated that the city would remain the capital of East Java province and host the provincial government administration. In the same year, through Law No. 16/1950 on the establishment of *Major City Regions within the Province of East Java, Central Java, West Java, and the Special Region of Yogyakarta*, the city was granted status as an autonomous city, meaning that it had its own administration, under the subordination of the East Java provincial government (Basundoro 2012).

Since then, and especially after 1952, the city retained centrality regarding its governmental status and was a centre of the economy of the region. The city has benefited from its status as the capital city of West Java, the economic centre of the eastern part the country with the availability of well established infrastructure inherited from the Dutch. By 1960s and especially during the New Order Era 1965-1998, Surabaya evolved as one of the country's main centres of economic growth after Jakarta by increasing investments in the industry, trade, maritime and services (especially education) sectors. It is the fastest growing metropolitan area in Indonesia, as a consequence of rapid urbanization and economic growth (Dick 2002). McMichael (1997) called Surabaya a 'Jewel in East Java's Economic Crown' when describing the rapid growth in infrastructure and economic activities in the city (McMichael 1998 p. 3).

4.2.2. Geography, Demography, and Administrative Structure

Surabaya lies on a 326.36 square kilometres area of mostly coastal and lowland terrain at an altitude varying from 3 to 10 metres above sea level. Its average temperature ranges from 22.5 to 33.6 Celcius. It is located along the northern shore of the eastern side of Java at the mouth of the Kalimas river and the edge of the Madura Strait. It shares boundaries with six surrounding regencies: Lamongan to the northwest, Gresik to the west, Bangkalan to the Northeast, Sidoarjo and Monokerto to the south and Jombang to the southwest. The Surabaya Central Bureau of Statistics (2015) estimates that the number of households in Surabaya reached 775,599 with an average of 3.65 people per household. In terms of ethnicity, the Javanese dominate the population (83.68%) with the Madurese being the next most populous (7.5%). Other ethnicities include Malay, Chinese, India, Arab, and European, together with other local Indonesian ethnic groups such as Balinese, Batakesse, Bugis, Manadonesse, Dayakese, and Ambonese, contributing to the city's multi-ethnic and multi-cultural pluralism (Badan Pusat Statistik (BPS) Kota Surabaya 2015).

Administratively, as noted earlier, Surabaya holds two statuses: as an autonomous city and as the capital city of East Java Province. The city is led by a mayor and deputy mayor under the supervision of a local legislative body, consisting of 50 local representatives. All mayors, deputy mayors, and congressional members are directly elected.²⁰ The city is divided into 31 *kecamatan* (sub-districts) and 154 *kelurahan* (villages/suburbs) which are run entirely by the ranks of civil servants in

²⁰ Prior to the implementation of Law No. 32/2004 on Local Administration under Local Autonomy, the mayor and deputy mayor were elected by the legislatives members.

the city government (BPS Kota Surabaya 2015). Surabaya and its neighboring districts (excluding Jombang) comprise an extended metropolitan area commonly known as *Gerbangkertasusila* (a shortened form for Gresik, Bangkalan, Mojokerto, Surabaya, Sidoarjo, and Lamongan). It also hosts the provincial East Java government, local branches of national government and non-government institutions, international organization offices, and foreign embassy consulate offices (Kota Surabaya 2016).

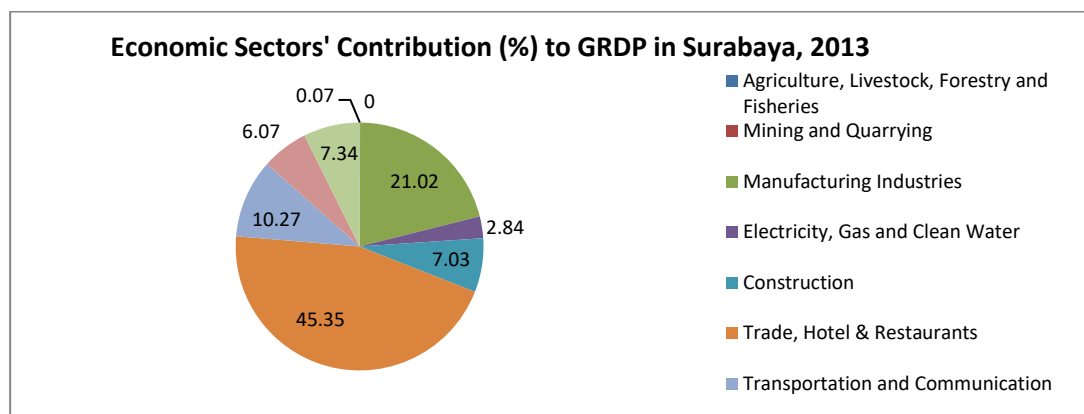
4.2.3. Economic and Social Development

Surabaya is the centre of business, commerce, industry, education, government administration, and many other social and political activities in East Java. It has become a major hub for national and multinational businesses that have expanded their activities into East Java or the eastern parts of Indonesia. The city is highly accessible and well connected to other places regionally and internationally. Its transport infrastructure includes a major airport, Juanda International Airport; the second busiest seaport in the country, Tanjung Perak Port; and well-developed local, regional and national roads (including toll roads), railways networks and public transport. It has a rapidly growing stock of apartments, condominiums, hotels, malls, trade centres, and other commercial and industrial facilities (Kota Surabaya 2016). Until 2010, 333 modern malls and shopping centres (including medium to giant trade centers) were established in the city, with the number growing each year, including 184 state-owned traditional central markets (Kompas 2010). In 2014, the existing 324 manufacturing industries, 40 hospitals and 81 higher education institutions (academies, institutes and universities) had also added to the growing economy of the city and its significant role as a centre for health and

education in the region (BPS Kota Surabaya 2015). The latter includes leading national universities such as the 10 November Institute of Technology (ITS) and the University of Airlangga (Unair) (Kota Surabaya 2016).

In 2013, Surabaya's GDP reached IDR 305,689.5 billion (USD \$22.9 billion), roughly one-fifth of Jakarta's (IDR 1,546,876.5 billion or USD \$115.6 billion)²¹, but significantly higher than, for example, the city of Medan, the 3rd biggest city (Kementrian Dalam Negeri, 2015) which had a GDP around IDR 131,604.6 billion (BPS Sumatera Utara 2015). The largest economic sectors were trade, hotels, and restaurants which accounted for 45.35% of total GDP. The next biggest sectors were manufacturing and industry (21.02% of GDP) and transportation and communication (10.27%) (Figure 8). Surabaya is the largest contributor to East Java's economy. Between 2009 and 2013, for example, it accounted for around 26% of provincial GRDP (Figure 9).

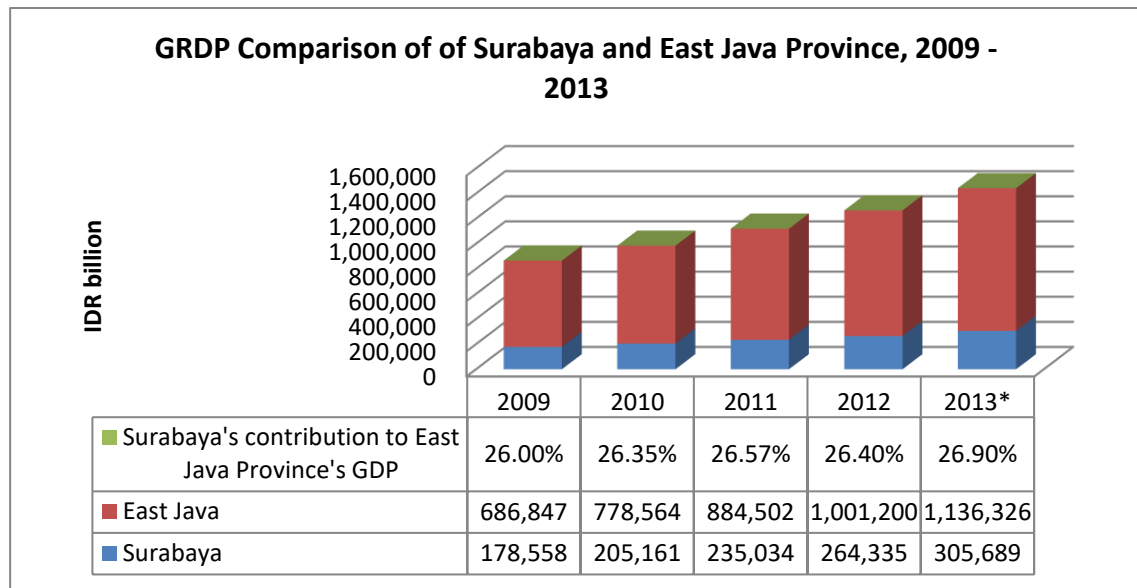
Figure 8: Economic sectors' contribution to GRDP in Surabaya



Source: BPS Kota Surabaya (2015).

²¹ The 2015 annual average IDR currency rate against USD was \$ 1 = IDR 1,3385.57268 (X-Rates 2017),

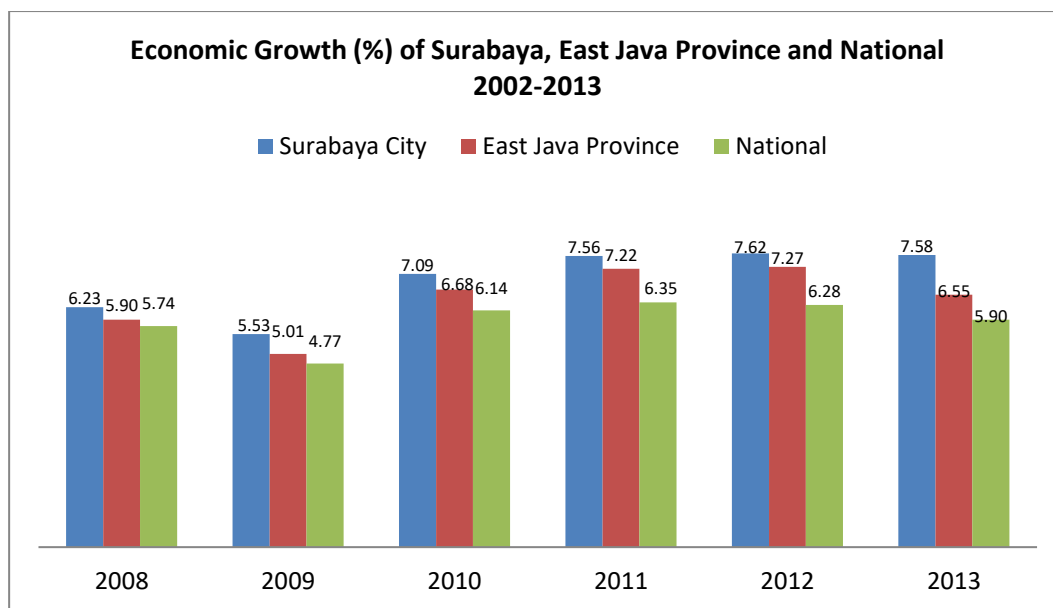
Figure 9: Comparison of GRDP in Surabaya and East Java Province, 2009-2013



Sources: BPS (2015), Provinsi Jawa Timur (2015) and BPS Kota Surabaya (2014).

The city is also a good performer in terms of economic growth. In recent years, its economy has grown at a faster rate than the national and provincial economies (Figure 10). For instance, between 2009 and 2013, Surabaya's economic performance exceeded the national growth rate by 1.19% per annum on average and provincial growth by 0.46% per annum on average. In 2013, the city achieved an annual growth level of 7.58% while the national and provincial economies experienced a noticeable drop to 5.9% and 6.55% growth per annum respectively. The improvement suggests that Surabaya has a more stable economic environment than the overall economic situation of East Java province and the country in general.

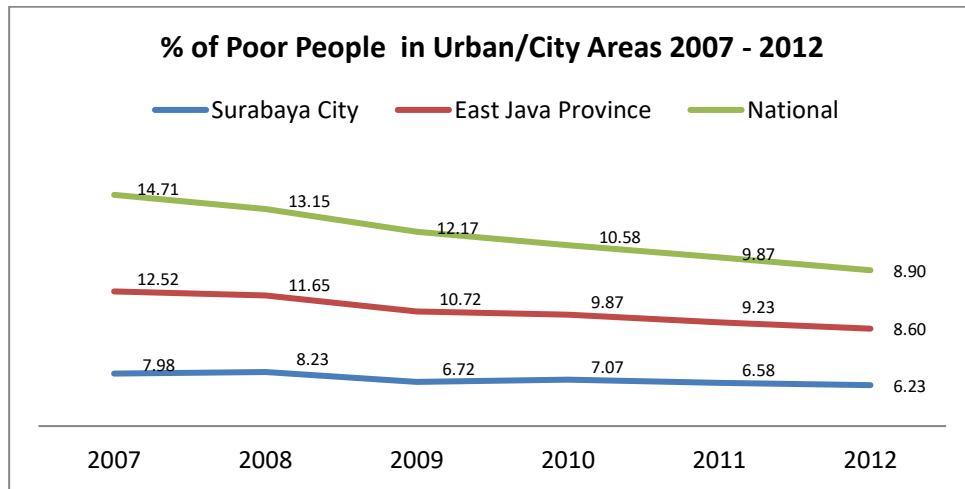
Figure 10: Surabaya economic growth, 2002-2013



Sources: BPS (2015), Provinsi Jawa Timur (2015) and BPS Kota Surabaya (2014).

Surabaya has also performed well in reducing poverty and promoting human development. The poverty rate in Surabaya decreased from 9.44% in 2003 to 5.97% in 2013 (BPS Kota Surabaya 2015). At the same time, its poverty rate has been consistently lower than the average for urban areas in East Java province and the nation as a whole. In 2007 for example, the poverty rate in Surabaya was 7.98% while in urban areas in East Java and Indonesia as a whole it was 12.52% and 14.71% respectively. Even though the gap was narrower, the city's poverty rate decreased to 6.23%, which was noticeably lower than the provincial and national averages (Figure 11).

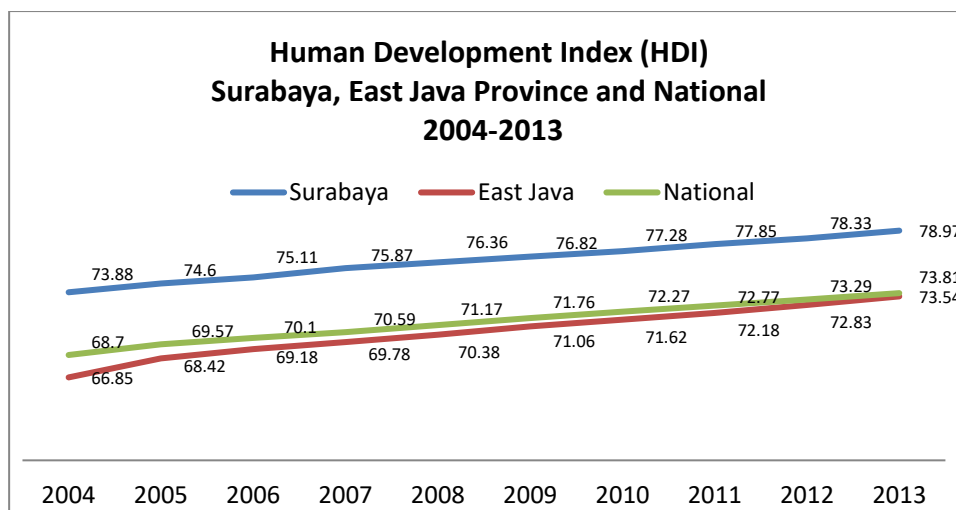
Figure 11: Percentage of poor people in Surabaya, 2007-2012



Sources: BPS Propinsi Jawa Timur (2015), BPS Kota Surabaya (2014) and BPS (2015).

Surabaya has also achieved sound progression in its score on the human development index (HDI) by achieving significant improvements in recent years (Figure 12). Again, the city's performance has been better than the national and regional levels. During the period of 2004 -2013, it increased steadily above the national and provincial average. In 2013, for instance, Surabaya's HDI reached 78.97 while the provincial and country values were below 74.

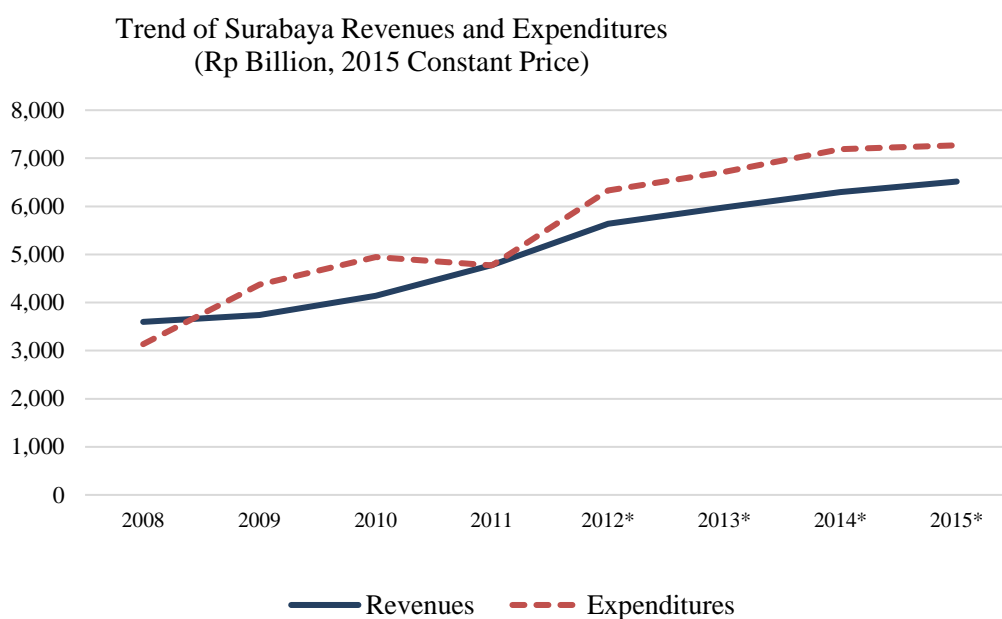
Figure 12: Trend of Human Development Index (HDI) in Surabaya



Sources: BPS (2015), Provinsi Jawa Timur (2015) and BPS Kota Surabaya (2014).

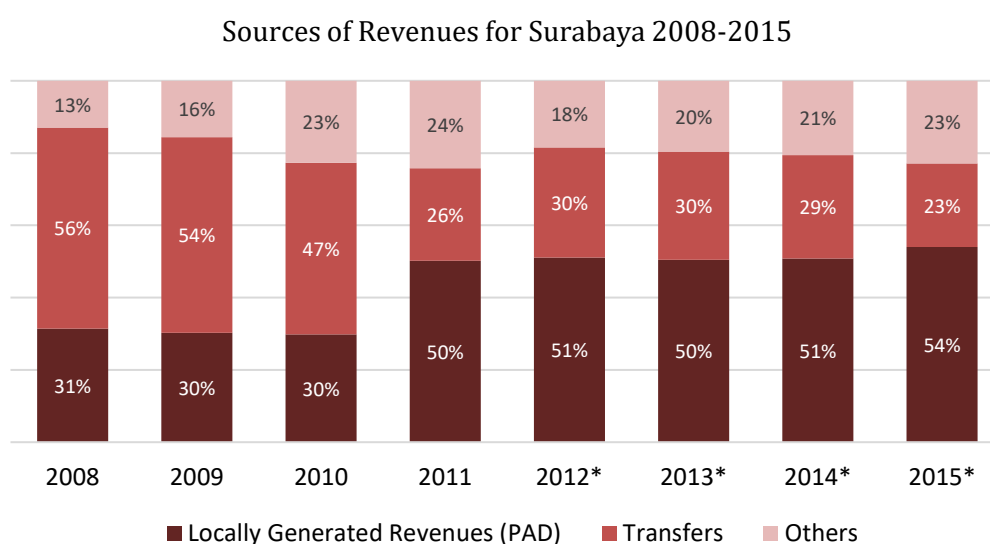
Finally, the city has become increasingly independent in terms of its budget revenue. The local government budget has grown steadily in the last eight years, despite a slight drop in expenditure in 2011. It was IDR 3.2 trillion in 2008 and rose to IDR 7.2 trillion in 2015 (Figure 12). One reason for this growth was strong growth in locally generated revenue (PAD), which has accounted for at least 50% of total revenues since 2011. The other main source of income for the local government has been financial transfers from the national government, but their proportion has steadily declined from 65% in 2008 to 23% in 2015. Other income includes grants from national, provincial or other sources, and income from emergency funds. This source of income seems to have been a significant contributor to the city's budget, with a tendency towards a steady increase over the period from 2008 to 2011, before it experienced a notable drop in 2012. The positive trend has been in recovery since 2013 (Figure 13).

Figure 13: Trend of revenues and expenditures for Surabaya



Source: Rahman (2015).

Figure 14: Sources of revenues for Surabaya



Source: Rahman (2015).

4.2.4. Civil Society

Surabaya is known for having a vibrant civil society, growing in number, type, orientation, focus and strategies. Given the fact that Surabaya is the capital of East Java, the city is home to national and provincial level NGOs as well as ones that focus on the city level. There is no hard data to confirm the exact number of civil society organizations that are currently active in Surabaya, but local informants believe that there are hundreds of non-government organizations in the city. They are active in various sectors and hail from different institutional backgrounds including students, researchers, professionals, local communities, universities, religious groups, professional associations, ethnic groups and many others. They also work on different issues such as education, the environment, community development, business development, human rights, and governance issues.²²

Civil society is undeniably influential in the urban development and democratisation of Surabaya. In the urban development context, civil society (community based organisations, NGOs, and the universities) engagement was one of the widely recognised factors for the success of urban development activities such as the Kampung (Settlement) Improvement Program since the 1960s (Dick 2002; Santosa 2000; Das 2015), community-based waste management (Abe 2011 and APEKSI 2015), and the green and clean program (Dick 2002, Das 2015, Bunnell et al. 2013, and Diliiani and Susanti 2015). Another example of robust civic engagement is the existence of The City Chamber (*Dewan Kota*). Formally established in 2003 and consisting of around 160 professional associations, the

²² Such vibrant civil society life was confirmed by informants in Surabaya City from both the government and non-government sources during field work in Surabaya City from October to November 2014.

chamber has been active in the various urban issues associated with vulnerable citizens, such as the riverbank settlement improvement program, waste management and slum settlement improvements (Lussier & Fish 2012, p 77).

With regards to democratisation, NGOs' robust activism in the city was part of the nation-wide protests against Suharto in 1998 (Lee 2009). In the early period of democratic decentralisation, various progressive activists, intellectuals, and professionals consolidated their positions in order to establish the City Chamber (*Dewan Kota*) and engage in political activism in response to the return of military power and the inheritance of the New Order mayor in 2000. Together the University Rectors Forum, the Local Chambers of Commerce, *Wahana Lingkungan Hidup – Walhi* (the Environmental Watch), and other civil society organizations succeeded in deposing Sunarto Sumoprawiryo, a former military official, as mayor in 2002 and helped their activist ally, Bambang DH, succeed him (Marijan 2008, 95). In 2010, an NGO activist, Fitrajaya Purnama, ran independently for the mayoral election as a non-party nominee (Komisi Pemilihan Umum Daerah [KPUD] Kota Surabaya 2010). From the end of 2010 to 2011, a large civil society coalition named *Gerakan Rakyat Surabaya* (the Surabaya Citizen Movement) ran a series of massive protests to defend the city mayor, Risma Trihartini, from being impeached by the local parliament. The latter was supported by most local political party factions in the local legislative body, including the mayor's own political party.²³

The dynamic role of civil society has been fortified by the growth of the local and national media in the city. Most, if not all, existing media at the national level (including TV stations, newspapers, and online publications) are easily accessible

²³ Interview with Fitrajaya Purnama (an NGO activist who participated in the 2010 mayoral election), Surabaya City, 1 November 2014.

in Surabaya. Some popular national newspapers such as *Kompas*, *Republika*, *Koran Tempo*, *The Jakarta Post*, *Koran Sindo*, and *Media Indonesia* publish Surabaya editions, providing dedicated coverage of East Java affairs. Most importantly, the city is enriched by well-established and influential local media, the most important of which is *Jawa Pos*. The media group behind the *Jawa Pos* is one of the oldest and the second biggest media group in the country and encompasses the most popular local TV station in Surabaya, JTV, and the *Jawa Pos* News Network (JPNN), a branch of the group that operates 40 local newspapers throughout the country (Ida 2011).²⁴ *Jawa Pos* shows its support for regional autonomy, for example, through the establishment of the *Jawa Pos* Institute for Pro-Otonomi (JPIP). JPIP conducts research on good local governance and presents annual awards for widespread innovative policy and programs, as well as conducting campaigns to promote local good governance reforms (JPIP 2016). Other local newspapers include the *Surabaya Post*, *Memorandum*, *Radar Surabaya*, and *Harian Surya*, to name but a few. These are also popular and influential in facilitating information, knowledge and opinion exchanges at the local level. Furthermore, there are local radio stations that broadcast news and talk shows

²⁴ *Jawa Pos* was established in 1949. The CEO of *Jawa Pos* (1983-2009), Dahlan Iskan, is well known as a media tycoon who built his journalistic career during the New Order period. Beginning his journalism career in local newspapers in Samarinda (South Borneo), he moved to Surabaya City and continued his journalism career as the head of the East Java Bureau of *Tempo* (the biggest national media group of the period) in early 1976 (Merdeka.com, 2012). In 1982, *Tempo* was banned by New Order after publishing issues critical of the regime. Dahlan was then recruited by the *Jawa Pos* which was established in 1949, but was experiencing freefall. Dahlan came, rebuilt *Jawa Pos*, and successfully made it the second biggest media group in the country by the late 1980s. He established the nationwide *Jawa Pos* News Networks in 1987. By 2012 the group encompassed 12 local television stations and 133 newspapers in different localities. (Merdeka.com 2016, and Remotivi 2015). Dahlan is also known as being active in promoting democratization, especially by helping to establish subsidiary media for newly established parties in the post New Order period such as *Harian Abadi* for PBB (Crescent and Star Party), *Amanat* for PAN (National Mandate Party), *Duta Masyarakat* for PKB (National Awakening Party), *Demokrat* for the Democrat party and *Merdeka* for the main opposition party during the New Order, PDIP (Indonesian Democratic Party of Struggle) (Remotivi 2015).

about the city such as Suara Surabaya, Sonora, Delta Surabaya, the local arm of Radio Republik Indonesia, Mercury FM, and SCFM together with approximately thirty other radio stations. *Suara Surabaya* was established in 1983. It is the biggest and most popular media broadcasting company with a key focus on daily public reporting on city issues. Its programs include airing news, discussion, and talkback programs concerning day-to-day Surabayan local issues and situations, including traffic, crime, and dangerous issues of concern to its audience. One of its popular programs is '*Kelana Kota*' (exploring the city) which occupies the most time on the radio program. The program allows the public to report any emerging issues or situations affecting them, directly connects the radio channel to respected local authorities, and asks for their responses and explanations directly in live discussions (Marijan 2008, p. 94 ; Kompas.com 2010).

Importantly, beyond their role in delivering information to the public, local media in Surabaya has been pivotal in local democratisation, including providing direct political support to candidates running in mayoral elections. Their support was highly significant in Bambang DH's victory in 2004 and Risma Trihartini's victory in 2010. Finally, the fact that Surabaya is home to many universities also makes a vibrant contribution to civil society in the city. Academicians in Surabaya engage in public discussion and debate related to the daily life of Surabaya including governance issues. They actively respond to public issues through publishing their academic analysis in newspapers, talk show appearances, public seminars, even direct involvement in various government programs.²⁵

²⁵ Interviews with Agus Sonhaji (the head of Local Development Planning Agency – *Bappeda*, Surabaya City), Surabaya City, 19 November 2014, Eric Cahyadi (the head of Public Work Agency), Surabaya City, 31 October 2014, and Ahmad Munier (Indonesia Journalist Association), Surabaya City, 1 November 2014.

4.2.5. Governance

Surabaya has developed a strong reputation for undertaking governance reform during the post-New Order period. Since 2002, media, government, and donor reports and academic studies have pointed to numerous governance innovations that have helped to improve social and economic conditions in the city (see, for example, Abe 2011; Asosiasi Pemerintah Kota Seluruh Indonesia (APEKSI) 2015; Diliiani and Susanti 2015, Bunnell et al. 2013). The city has received no less than 180 awards nationally and internationally for various reforms related to urban management and the improvement of basic services such as health, education, and sanitation. At the national level, Surabaya regularly wins the most prestigious presidential award for city cleanliness and environmental sustainability, the *Adipura Kencana*. Other national awards that Surabaya has won include the Indonesian Green Region Award (IGRA) (IGRA 2011 and 2012) from *Swa* magazine (the leading national magazine on business issues), the Environmentally Sustainable City (ESC) Award (2012), the Service Innovation in E-Procurement award (2012) from the National Procurement Policy Agency, the Anticorruption Initiatives award (2012) from the National Anti-Corruption Bureau, the Public Infrastructure award for city road network management (2011) from the Ministry of Infrastructure, and the *Wahana Tata Nugraha* award for public transportation management (2009) from the Ministry of Transportation, to mention only a few. Surabaya has also received international awards such as the Indonesian Digital Society Award (IDSA) (2013) from The Infectious Diseases Society of America (IDSA), Best City in Asia from City Net in 2012, the ASEAN Sustainable City Award (2012), the 2013 Asian Township Award from the United Nations, and The Future City award from the European Business Assembly (EBA) in 2014. The

mayor was also nominated as the Most Inspiring Woman in 2013 by Forbes Magazine and Mayor of the Month in February 2014 by the City Mayors Foundation in the UK (Pemerintah Daerah Kota Surabaya 2015; Kota Surabaya 2016; Budiraharso 2014).

Surabaya is widely considered to be one of the best performers among Indonesian cities in terms of combatting corruption. The Indonesian Corruption Eradication Commission (KPK) (2013, p. 95) gave Surabaya the sixth highest score among 60 cities/districts surveyed in its 2012 Public Service Integrity Index. Similarly, TII placed Surabaya as the second best among 11 cities surveyed in its 2014 Corruption Perception Index assessment (Thohary 2015). Surabaya has become a centre for best practice in governance and a regular comparative study destination for other districts and central government institutions seeking to improve the quality of governance in their areas (Bunnell et al. 2013)

4.3. The Political Economy Landscape of Good Governance in Surabaya under Democratic Decentralisation

4.3.1. Sunarto Sumoprawiryo period.

During the New Order period, Golkar (the New Order's electoral vehicle) dominated the election results and most of the mayors in the period were from military backgrounds. The local election in 1997 (the latest election under New Order) showed the continuous domination of New Order in the city. Golkar gained 50.5% of the vote followed by PPP, the United Development Party (an Islamic based party), with 43.61%. PDI (the Indonesian Democratic Party), the New Order's main opposition, attained only 5.89% of the vote (Marijan 2008, pp. 93-

95). Mayor Sunarto Sumoprawiryo (Sunarto), who has a military background, became the mayor of Surabaya from 1994-1999 and was later re-elected in 2000. During the period, Surabaya was widely described as an ‘unmanaged city’ because severe urban problems remained unsolved and, in some cases, became worse. Frequent flooding in the wet season, a poor quality drainage system, poor waste management, untidy public spaces, a disorderly spatial landscape, and a muddled transportation system were all part of the city’s residents’ daily lives. Unruly street vendors were rampant, taking over the roadsides, pavements, and public spaces. Combined with the uncontrolled construction of billboards along pavements, this created a chaotic view of the place. The city also had many slum areas with inadequate sanitation and poor access to clean water, and many city riverbanks were tenanted by illegal semi-permanent housing and informal business activities. Unmanaged waste from households and industries also swamped city waterfronts causing them to become highly polluted (Dick 2002; Marijan 2008).

At the same time, a culture of corruption pervaded government administration from the lowest level (i.e. the *kelurahan* or village/suburb) to the highest level (i.e. the city), especially with regards to various citizenship documents (such as the citizen identification card, birth certificates etc.) and business-related permits (Ashadi 2012, pp. 5-6). Bambang DH, the city’s mayor from 2002-2009, stated in an interview that the government apparatus tended to be unresponsive, unprofessional, and lack discipline. Public officials were often not in their offices during business hours, when their service was needed. Reward and punishment for the government apparatus were unclear, and the civil servant selection, promotion, and

appointments process was based on cronyism, collusion, rent-seeking, and ‘like and dislike’.²⁶

The fall of the New Order and transition towards democratic decentralisation that followed failed to promote an immediate change of local leadership and new bureaucratic structure and culture despite the emergence of new political actors. The first legislative general election in the post-New Order period in June 1999 saw *Golkar* lose its dominant position (Table 1). It only gained 3 of the 40 seats in the local legislative body (DPRD) that were available in the election. Together with the five seats dedicated to the military, this meant that New Order-era forces only controlled 8 out of 45 seats in the DPRD. The New Order opposition party, PDI, (which later changed its name to PDIP, Indonesian Democratic Party of Struggle) won the election, securing 22 seats. Five other newly established parties attained 14 seats between them. Thus, together, the newly established parties accounted for 36 out of the 45 DPRD members. This new set of politicians thus had the numbers to block Sunarto from retaining his position as mayor (Marijan 2008, p. 95). This domination was also fortified by the appointment of an influential PDIP member, Basuki, as Head of the DPRD.

²⁶ Interview with Bambang DH, Surabaya City, 16 November 2014.

Table 1: The party seats in the DPRD of Surabaya, 1999-2004

	Name of Parties	Number of Seats
1	Golkar (Party of the Functional Groups)	3
2	PPP (United Development Party)	1
3	PDIP (Indonesian Democratic Party of Struggle)	22
4	Military	5
5	PKB (National Awakening Party)	7
6	PAN (National Mandate Party)	3
7	PKS (Prosperous Justice Party)	1
8	PBB (Crescent and Star party)	1
9	PBTI (Unity and Diversity party)	2
	Total Surabaya DPRD members in Surabaya 1999-2004	45

Source: Marijan (2008, p. 96).

However, despite the domination of newly established parties in the *Dewan Perwakilan Rakyat Daerah – DPRD* (the regional house of representatives), Sunarto Sumoprawiryo was able to extend his tenure as mayor.²⁷ In 1999, the local parliament granted him a one-year extension in response to the national political uncertainty surrounding the implementation of the 1999 election.²⁸ Sunarto's term

²⁷ Sunarto Sumoprawiryo sat as the Surabaya City mayor from 1994-1999, but his position was extended to 2000, in response to the political crisis in 1999, interview with Rosdiansyah (Jawa Pos Institute of pro-Otonomi - JPIP), Surabaya City, 14 October 2014.

²⁸ One feature of the democratic transition was the implementation of 1999 election 3 years earlier than its actual schedule in 2002. Consequently, the task period of the existing parliament members

ended prior to the implementation of the 1999 general election, and there was growing pressure that the local parliament members elected in the 1997 election should wait for the results of the extraordinary election in 1999 to allow the new DPRD members to elect the new mayor.²⁹ Hence, they opted to grant him a short, one-year, extension.

He then secured re-election as mayor through a legislative election held in June 2000. His campaign for re-election was supported not only by the *Golkar* and military fractions of the DPRD but also the PKB, PAN, and PBB, the national party officers and leaders of which were known to be strong opponents of the New Order. He also benefited from the fact that the PDIP failed to successfully promote its candidate for mayor, Sutikno, the head of the local party office. Sutikno was ruled ineligible by the Indonesian Electoral Commission due to his record of being an ex-prisoner and the fact that he had falsified his High School Certificate. In the end, Sunarto was also able to secure the support of the PDIP by nominating Bambang Dwi Hartono (Bambang DH), a young PDIP figure with an activist background, for Deputy Mayor (Marijan 2008, p. 94). It is also reported that money politics was involved in the lobbying process.³⁰

Sunarto's re-election saw a continuation of the dysfunctional governance that had characterised the New Order period. Sunarto Sumoprawiryo employed rent-seeking mechanisms to secure the support of DPRD members for the mutual benefit of both.

resulting from the 1997 election at all levels were shortened in accordance with the results of the 1999 general elections.

²⁹ Interview with Rosdiansyah, Surabaya City, 14 October 2014.

³⁰ The mayor reportedly engaged in money politics in the election process by bribing 7 political parties to secure votes in the DPRD (United Kingdom Open Information Community Forum 2000).

This became apparent, for example, when it was revealed in 2002 he had used government funds from the budget of the regional secretary to finance his parliamentary alliances (Marijan 2008, pp. 94-95). In 2003, three key individuals within Sunarto's administration, M. Yasin, the local secretary; Basuki, the head of the city legislature; and Ali Burhan, the deputy head of the local legislature, were all sentenced to 2 years in prison (Suara Merdeka 2003). Overall, during this period, Surabaya suffered from the common problems of legislative and executive relations in Indonesia. Clientelism was maintained through a variety of instruments. Examples include the executive granting compensation to members of parliament to approve the mayor's annual accountability report and the executive allocating non-budgeted funds for the benefit of the legislative members (Aribowo 2008, p. 8).

The re-election of Sunarto and his inability to resolve urban issues with regards to infrastructure and public services triggered massive popular opposition to Sunarto's rule. For civil society, Sunarto's re-election constituted a betrayal of the *reformasi* agenda by local politicians and political parties. Civil society perceived Sunarto's regime as a continuation of the New Order. Civil society responded to the re-election of Sunarto by launching a series of mass demonstrations and protests that became an almost daily occurrence, indicating the depth of popular opposition to Sunarto's rule and the ability of the city's citizenry and civil society to mobilise for collective action. According to one source, in 2001-2002, there were 440 street protest events in response to the re-election of Sunarto (Gatra 2003). Local media played a pivotal role by echoing the concerns of civil society movements and discussing issues surrounding their demands. Local popular radio stations such as Suara Surabaya, SCFM, Mercury FM, and Salvatore FM aired intensive talkback

programs, mobilizing wider public participation to take part in pushing political reform in Surabaya (Marijan 2008, p. 94). The local arm of the Legal Aid Foundation (LBH) published a report entitled the 'The ten sins of Sunarto Sumoprawiryo' which detailed his corruption scandals and the public campaign against his continued tenure as mayor (Panji 2000).

The political crisis came to a head in October 2001 when the city's main landfill site, Keputih Landfill in East Surabaya, was no longer able to keep pace with the 5,405 m³ of solid waste produced in the city each day. The residents of Keputih carried out a series of chaotic protests, demanded the landfill be relocated to another site, and ended up blocking and sealing access to the landfill. The city's waste consequently became scattered along the roadsides and on city corners, especially in residential areas. In the midst of this crisis, Sunarto left the city to undergo medical treatment in Australia without delegating his authority to Bambang as Deputy Mayor (Liputan6.com 2002).

This incident provided an opportunity for civil society to further its campaign to unseat the mayor. Civil society networks organized mass protests and public forums to respond to the political crisis. They also built networks with reform-minded people within the bureaucracy through the Deputy Mayor, Bambang DH, who, as noted earlier, was a prominent pro-democracy activist with a strong commitment to a reform agenda.³¹ At the same time, the relationship between Bambang DH and Sunarto had deteriorated due to the lack of authority given to Bambang as his deputy (Ashadi 2012, p. 11). As the protests escalated, Sunarto even lost the support of most of the DPRD. At an assembly meeting on 15 January 2002, the local

³¹ Interview with Early Rahmawati, (*Pupuk Surabaya*), Surabaya City, 28 October 2014.

legislature impeached Sunarto and mandated that the deputy mayor, Bambang DH, take over as mayor. In the assembly meeting, of the 45 members of parliament present, 31 congressional members supported the change in leadership, 2 decided to abstain and 12 were against it. Expectedly, those who opposed the change in leadership were mainly from the PKB (Sunarto's main supporters in the 2000 mayoral election) and PDIP, most notably, Basuki, the head of the DPRD, even though he voted to abstain. (Liputan6.com 2002; Tempo 2003). By contrast, the resistance from sections of the PDIP reflected the fact that the party split into two rival groups, one aligned with Basuki and the other aligned with Armudji, another senior party figure. Whilst Basuki's group backed Sunarto, Armudji's supported Bambang DH.

4.3.2. Bambang DH's First Period

The change in leadership from Sunarto, a former military figure with strong ties to the New Order, to Bambang DH, an NGO activist with strong support from civil society, raised hopes in many circles that Surabaya would proceed smoothly towards implementation of the *reformasi* agenda. However, this did not happen during the early stages of Bambang DH's administration. Although Bambang DH had strong support from civil society, he had little support within the bureaucracy and inherited a corrupt bureaucratic system from the previous regime ³² (See also Ashadi 2012, pp. 27-33). Within the government, the principal patron of anti-reform forces was M. Yasin, the Regional Secretary. Yasin was one of Sunarto's chief collaborators, and he had worked to alienate Bambang and his supporters within the bureaucracy when the latter was Deputy Mayor. As Regional Secretary,

³² Interview with Bambang DH, Surabaya City, 16 November 2014.

he was directly responsible for managing the city's civil service. He once transferred more than 1000 staff to other positions in the bureaucracy without consulting Bambang as deputy mayor. It is suspected that the transfers were aimed at building a bureaucratic structure that supported Sunarto. M. Yasin excluded bureaucrats who were not among his allies from various strategic positions. He also played a crucial role in building the political links between the executive, on the one hand and politicians in the local parliament, on the other (Hariyanto 2001).³³

At the same time, Bambang's support within the DPRD was fragile despite the fact that the PDIP held a clear majority of parliamentary seats. This was because, as noted earlier, the PDIP split into two rival camps, one aligned with Basuki (the head of DPRD) and the other Armudji (the head of the PDIP faction). The result was internecine warfare. In 2000, the PDIP national head office cancelled Basuki's membership of the PDIP due to his support for Sunarto. However, it was unable to depose him as the head of the city parliament since there was no recall mechanism allowed by the regulations during that period. It is rumored that Basuki tried to regain his position in the PDIP and that he manoeuvred to take over as mayor, deepening the political conflict.³⁴

The above context hindered Bambang's efforts to bring about change during the early part of his administration. Bambang moved to take control of the bureaucracy by replacing M. Yasin as a regional secretary in February 2002. He appointed Alisjahbana, an ex-Head of the Planning and Development Bureau whom Yasin had expelled from his position some years earlier, forcing him to relocate to the city

³³ Hariyanto is a local political analysis that report various issues related to the event through his personal website: <https://slamethariyanto.wordpress.com/tag/m-yasin/>.

³⁴ Interview with Rosdiansyah, Surabaya City, 24 October 2014.

of Batu. Most DPRD members rejected Bambang's proposal to replace M. Yasin. But Bambang eventually prevailed after getting approval from the Provincial Government, justifying his position by claiming that the appointment of Alisjahbana had an appropriate legal basis. The provincial government's approval put political pressure on the DPRD and gave them no choice except to approve the appointment of Alisjahbana. Bambang's decision to replace M. Yasin provoked a strong political reaction from the city parliament. One month after Yasin's replacement, Basuki persuaded the majority of DPRD members to reject Bambang's accountability report and vote to impeach Bambang DH (Ashadi 2012, pp. 17-23).

In this case, civil society once again mobilised in support of Bambang DH. The Surabaya Citizen Forum (FWS) played a particularly important role. The FWS consisted of no fewer than 30 organisations representing NGOs, citizens, academics and professional groups. At the same time, discussion networks formed incorporating the *Dewan Kota* (City Council), the Legal Aid Foundation (Lembaga Bantuan Hukum or LBH), the Rectors' Forum, *Yayasan Nol Sampah* (Zero Rubbish Foundation), Indonesian Chamber of Commerce (Kamar Dagang Indonesia or KADIN), the Surabaya Intellectuals Forum, and many other civil society groups. The forum protested the DPRD's political decisions and campaigned for a public boycott of the next legislative general election. The political crisis attracted provincial and national government attention, especially the Ministry of Home Affairs (MoHA), leading to the establishment of the investigative team involving both a provincial government team and a number of local independent academics. According to the existing law, despite the full rights of the DPRD over the mayoral election and supervision, MoHA has the authority to review whether or not their decision follows the law and guidance before accepting the DPRD's decision. The

investigation recommended that the impeachment process had a lack of legal basis. Therefore MoHA issued an instruction for the Surabaya DPRD to call off its efforts to replace Bambang DH (Ashadi 2012, pp. 17-23; 28-29).

Bambang's victory over the DPRD in this matter was a key turning point in the struggle for governance reform in Surabaya. It illustrated the power of civil society to mobilise and promote change effectively in the face of strong elite resistance. It also enhanced Bambang DH's popularity within the local populace while undermining public trust in the DPRD, political parties and politicians more generally, especially those with links to the New Order. While the political crisis thus benefited Bambang DH enormously, it also put pressure on him to bring about change in Surabaya. In fact, in making complaints to the parliament as part of their efforts to dislodge Sunarto, civil society also expressed disappointment in Bambang because he had not yet delivered any solutions to the city's problems, especially with regards to continued corrupt practices in the bureaucracy. This combination of enhanced political power for Bambang DH and the increased civil society pressure to bring about change arguably became the primary political driver of governance reform in Surabaya.

Following the political crisis, Bambang DH and his new local secretary, Alisjahbana, started to exercise much greater control over the bureaucracy. They rotated staff in various agencies that were vital to addressing problems such as waste management, flooding, city infrastructure, spatial planning, and corruption and unprofessional behaviour within the bureaucracy. The affected agencies included City Cleanliness and Landscaping, Transportation, Tax and Revenue, the civil service rangers agency (*Satuan Polisi Pamong Praja* or Satpol PP), Settlement and Spatial Planning, and the Regional Secretary's Office. These agencies were

often referred to as *Tempat Basah* (wet places), indicating that they had significant budget allocations, were tasked with collecting local revenues and overseeing basic public services, and played an important role in local policy and decision-making and implementation. According to Bambang DH, these departments had been deeply penetrated by the previous regime's tentacles, and those staff transferring into them encountered strong resistance from anti-reform elements within the city government.³⁵ For instance, in the period, a group of civil servants affected by the mayor's rotation of staff reported the mayor to the State Administration Court (PTUN), a court that has authority over the public service and state administration matters, for abusing his authority and violating procedures related to staff rotation, promotion, and placement. But, the court rejected their protest, finding that the staff rotation was fully under the mayor's authority (Ashadi 2012, pp. 28-38).

Besides carrying out a staff rotation, Bambang DH also revitalized the City Supervisory Agency (*Badan Pengawas Daerah-Bawasda*), a public officials oversight bureau that was frozen by the Sunarto administration. In 2003, he ordered the agency to investigate civil servant disciplinary conduct closely. This included ordering *Bawasda* to carry out intense searches and inspections in malls and other places outside city offices to make sure that all public officials were at work during working hours. The city government also intensified training and professional development to increase public officials' professional skills and change their mindsets. For example, in 2003, Bambang sent 100 of his officials to various well-established private companies to take training and internship programs (Ashadi 2012, p.35).

³⁵ Interviews with Bambang DH, (the city mayor 2002-2009), Surabaya City, 16 November 2014 and with Saleh Mukaddar (Senior politician of PDIP), Surabaya City, 6 November 2014.

The overall effect of these changes was to lay the groundwork for various subsequent governance innovations. Starting in 2003, the city government implemented ‘quick wins’ to address the most publicly complained about problems. These included the introduction of modernized waste management systems and massive revitalization and improvement of the drainage system to anticipate floods. The government also started controlling and evicting street vendors and slum dwellers who had illegally taken over public areas and public facilities and initiated a 30% green open space policy. This policy entailed the provision of enough open public spaces to protect and recover the city’s environmental condition, as well as to improve the overall city landscape. The enactment of the policy included repealing business permits for illegally occupied public spaces such as streets, river sides, city parks and pedestrian pavements. One extraordinary action it took was to cancel business operation permits for and order the eviction of 14 petrol stations that had been permitted by the previous regime to operate on city land. The petrol stations then were converted to city gardens and open public spaces. Bambang also started regulating billboard construction because the sector had become unruly under previous regimes. The government executed this reform by enforcing billboard taxation policies, ensuring the registration of all billboards, forcing billboard owners to pay taxes, and carefully policing unlawful billboards. Importantly, within this period, procurement reform was introduced. This later became the city’s innovation flagship about good governance reform (Ashadi 2012, p. 47).

4.3.3. Bambang DH’s Second Period

Another wave of political events in 2004 and 2005 fashioned a new political constellation in Surabaya that further shaped the progression of governance reform

in the city. The 2004 legislative election led to a significant reduction in the PDIP's presence in the DPRD: from 22 seats out of 45 to only 13—although it still won the largest number of seats. Its closest rival, the PKB, won 11 seats while the remaining seats were shared relatively equally across the six other parties (Table 2).

Table 2: The party seats in the DPRD of Surabaya, 2004-2009

Name of Parties	Number of Seats
Golkar (Party of the Functional Groups)	4
PDIP (Indonesian Democratic Party of Struggle)	13
PKB (National Awakening Party)	11
PAN (National Mandate Party)	5
PKS (Prosperous Justice Party)	3
PD (Democrat Party)	5
PDS (Prosperous Peace Party)	4
Total	45

Source: KPUD Kota Surabaya (2004).

Despite the PDIP's relatively poor showing, however, Bambang managed to win re-election as mayor, which in the period was implemented through direct election in accordance with the newly introduced Law No 23/2004 on regional autonomy. He relied on the PDIP alone to promote his candidature, as the 13 seats in the parliament won by the party were sufficient to promote a mayoral candidate without building a coalition with other parties to support his campaign. With Arif Afandi, a senior journalist and one of directors of the *Jawa Pos* with no political party affiliation, as his running mate (the latter was standing for the position of deputy mayor), Bambang won 51.34 percent of the valid votes, defeating candidates from

the PKB (20.73%), a PAN-Democrat Party coalition (18.67%), and a Golkar-PDS coalition (9.26%) (Ashadi 2012, p. 63).

Bambang's success in winning re-election reflected his personal popularity among the electorate. Bambang built a close relationship with the public by carrying out informal visits at a grassroots level and widening public access to him. A *Jawa Pos* journalist who was appointed to report his daily activities claimed that Bambang had forged a close relationship with ordinary citizens through daily visits at the grassroots level and being responsive to issues raised from his visits. His popularity also reflected his ability to address important development issues in the city during his first period in office and the fact that he had secured greater control over and support within the PDIP party political machinery. However, other factors were also at work. Bambang DH also secured the support of Dahlan Iskan, the owner of the *Jawa Pos* Group (which, as noted earlier, is one of the biggest media companies in Indonesia). In fact, Arif Afandi, Bambang's candidate for Deputy Mayor, was a senior director for *Jawa Pos* before running for deputy mayor. Bambang DH also gained the backing of key sections of the local business community. For instance, according to a well-informed source, the biggest advertising company in Surabaya, PT Warna-Warni, which stood to benefit from Bambang's billboard policies, were reported to fund Bambang's campaign. This company could expand its monopoly on the billboard business in Surabaya during Bambang's administration. The informant also believed that real estate businesses such as *Pakuwon Jati* and *Citraland* provided funding to Bambang's campaign,³⁶ although he also said that they maintained supportive relations with other candidates. Finally,

³⁶ Confidential interview, Surabaya City, November 2014.

Bambang was well supported by the local Indonesian Chamber of Commerce (KADIN), and highly popular Surabaya-based soccer club, *Persebaya*, reflecting the fact that the PDIP's senior figures, and the most important campaign team members, were heading these two entities. The Secretary of the PDIP, Jamhadi, was the head of KADIN, and the Deputy of PDIP, Saleh Muqaddar, were the executive directors of the football club (Media Nusantara 2011).

Bambang's reelection enabled the continuation of the development agenda that he had started in the first period. Bambang continued his program of bureaucratic professionalisation. Alongside incremental rotation, he also introduced large-scale programs of professional improvement for staff which incorporated reward and punishment mechanisms. Staff whose performance was deemed good were rewarded with chances for career promotion, while punishment was meted out to officers who failed to demonstrate the required level of professionalism. No fewer than 200 public officials were demoted in the seven year period of Bambang's administration (Ashadi 2012, p. 37). He further improved basic infrastructure, especially in the areas of waste management, sanitation, and road networks. He approved the construction of safe pedestrian paths, especially in city centers, and the establishment of new public spaces such as city gardens and urban forest developments. He provided for better sanitation and clean water services to urban slum areas. He introduced programs to improve public services in the health and education sectors and make them available for free. Free education was implemented not only for nine years but also up to twelve years for vocational education. Finally, in the financial management sector, his government advanced e-procurement reform by introducing the Government Resource Management System (GRMS). This expanded the use of internet-based financial and program

management from the planning process through to monitoring process, although it was not fully implemented until 2010³⁷.

These reforms were facilitated by some political-economic factors. First, Bambang's personal popularity within the electorate provided him with the political capital required to pursue bold development programs. Second, his bureaucratic reforms shifted the balance of power within the bureaucracy away from predatory elements and towards reform-minded ones. Some informants believe that Bambang's program of staff rotation, promotion, and skills development cultivated the formation of well-functioning bureaucratic structures by giving a chance for dedicated and reform-minded bureaucrats to take the initiative and promote a reform agenda.³⁸ Most important in this respect were Sukanto Hadi, the regional secretary (he replaced Alisjahbana in October 2003), who continued the bureaucratic professionalization agenda; Kadri Kusuma, the head of the Local Regulation Enforcement Department, who led the street vendor control program; and Tri Rismahartini, the head of City Cleanliness and Landscaping. The latter successfully drove the city administration's 'Green and Clean' program which entailed community-based waste management and modernization and the development of innovative public parks (Diliani and Susanti 2015). She was also centrally involved in the implementation of the GRMS, which had emerged as a result of the initiative of a group of bureaucrats under the regional secretary's office.³⁹

³⁷ Interviews with Agus Sonhaji, Surabaya City, 19 November 2014 and Bambang DH, Surabaya City, 16 November 2014

³⁸ Interviews, Surabaya City, October – November 2014

³⁹ Interviews with Agus, Surabaya City, 19 November 2014 and Eric Cahyadi, Surabaya City, 31 October 2014.

Third, Bambang was able to maintain the support of civil society by involving CSOs in many of his development policies and their implementation, especially ones related to the issues of slum area living conditions, illegal settlements, street vendor control, and waste management. For instance, the city government employed participatory approaches in dealing with chronic city waste problems in slum areas. Similarly, the Green and Clean program involved grassroots communities at the neighborhood level working in collaboration with local media (e.g. *Jawa Pos*, *Radar Surabaya*, and Jawa Pos TV), businesses (e.g. Unilever through its CSR program), and universities (e.g. Surabaya University, UBAYA). The program was also executed in close collaboration with local NGOs such as *Bangun Pertiwi* (Developing Nation), *Sahabat Lingkungan* (Friends of the Environment), *Yayasan Mitra Alam Indonesia* (Indonesian Partners for Nature), *Tunas Hijau* (Green Embryo), *Bina Lingkungan* (Environmental Improvement), *Yayasan Tata Kelola Indonesia* (the Indonesia Governance Foundation), *Tirta Buana* (Earth and Water), and *Bina Mandiri* (Independent Assistance). This collaboration has facilitated multi-stakeholder engagement from planning to implementation, something that has been claimed to be the primary factor for the success of the city in resolving various problems in the slums especially concerning waste management and overall cleanliness (APEKSI 2015).

Such collaboration between the government and CSOs did not result in the co-option of the latter. There were cases where Bambang's policies and programs created conflict with these organizations. For instance, Bunnell (2013) notes that Bambang's approach to developing malls and plazas, cleaning the streets, and greening the city resulted in conflict with grassroots activists because it entailed forceful evictions of illegal settlers and street vendors and marginalization of the

poor. Taylor (2015) also reports that there was particular tension between the two about the slum area eviction program along the bank of Wonokromo River, locally known as *Strenkali*. Beginning in 2002, Bambang implemented a policy known as ‘river normalization’ to evict settlements that had long occupied the area. Bambang enforced a series of eviction activities despite the riverbank community proposing an alternative community-based scheme to improve the riverbank’s condition. Bambang’s approach resulted in continued conflict between the city government and the riverbank settlers and local activists organized into the Paguyuban Warga Stren Kali (PWS) (Strenkali Dwellers Association). The latter supported the settlers (Taylor 2015, pp 629-630).

Bambang also helped to ensure a close relationship with civil society by working closely with local universities and the media. The Green and Clean program, as mentioned earlier, represents this kind of relationship. In another case, the 10 November Institute of Technology (ITS) became one of the government’s main partners, working especially closely with it about good governance and urban development issues. Bambang also forged a close relationship with the local media that went beyond his alliance with the *Jawa Pos*. For instance, he established Information Centres within key government agencies to facilitate data requests and provide workspaces for journalists.⁴⁰ Some local media informants said that Bambang formally allocated around IDR 300,000 (USD 23) monthly support to registered journalists working with the centre. While this policy could reflect Bambang’s concerns with the chronic issue of underpaid journalists that affects their professionalism and integrity, it also indicates his intention to control the

⁴⁰ Interviews with Kukuh (Tempo Surabaya), Surabaya City, 23 November 2014 and Nur Wahid, Sholahudin and Indrayani Dewi (*Jawa Pos*), Surabaya City, 18 November 2014 and Yusak (*Suara Surabaya*), Surabaya City, 17 November 2014.

media.⁴¹ Overall, however, most informants from the media sector claim that the mainstream local media in Surabaya was relatively effective in maintaining their objectivity, criticism and professionalism in their media coverage of events.

Although public support, civil society engagement, and the presence of reform-minded bureaucrats facilitated governance reform during Bambang DH's second period in office, they were not sufficient to ensure that reform outcomes prevailed in all cases. This is because local elites could penetrate his administration, preventing Bambang DH from being fully committed to good governance. According to an informant, Bambang DH gave informal authority to two PDIP figures, Saleh Muqaddar, the head of PDIP, and Jamhadi, the Secretary of PDIP. Saleh Muqaddar was especially influential behind the scenes, sometimes being referred to as the 'Night Mayor', a term that denoted his agential centrality to link politicians' interests, especially PDIP party interests, with Bambang's policies and decisions. Bambang close relationships with Jamhadi who was also the head of the local branch of the Indonesian Chamber of Commerce (KADIN) potentially impeded his administration's ability to promote governance reform since the latter ran a construction company: CV Bumi Raya. It was owned by a PDIP senior local and national political figure, Sutjipto Soejono. Another frequently mentioned issue was Bambang's support of PT Warna-Warni, one of his campaign supporters, who was a crucial supporter of Bambang DH's re-election campaign.⁴² By 2011, it controlled 11 of the 15 most strategic giant billboard sites in the city centre (Surabaya Pagi 2011). A media report indicated that of the 2,000 billboards existing

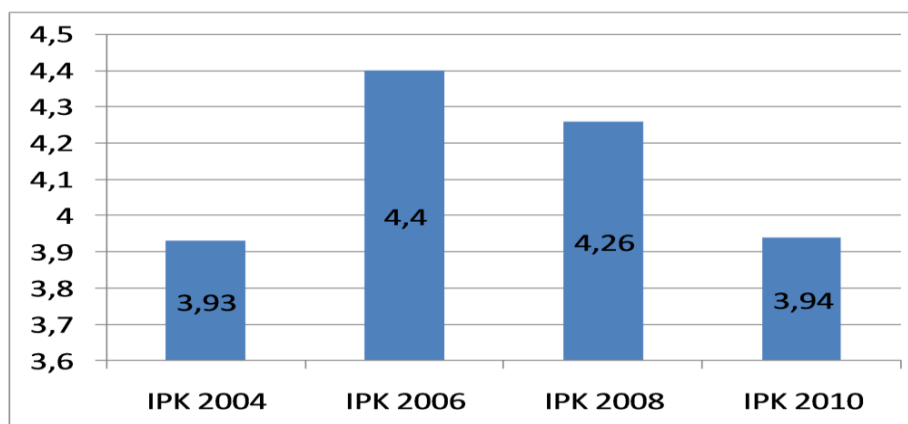
⁴¹ Interviews, Surabaya City, October and November 2014.

⁴² Interview, Surabaya City, October 2014.

in the city, about half of them had no permits, indicating the rampant abuse of billboard permit policy in Bambang's administration (Surabaya Post 2010).

An NGO activist asserted that even Bambang's relationship with Jawa Pos was tainted by its economic interests. Under Bambang's government, Dahlan Iskan was granted permission to establish a big plaza in a strategic location despite questions from civil society, since the location of the building was against construction permits regulations. In this context, Transparency International Indonesia (TII) (TII 2004; TII 2006; Simanjuntak 2008; Simanjuntak, Digdowiseiso, & Saputro 2010) found that the city's performance in its Corruption Perception Index (CPI)⁴³ experienced a decline: from 3.92 in 2004 and 4.4 in 2006 to 4.26 in 2008 and 3.94 in 2010 (Figure 15). This CPI indicates widespread corruption in business licensing and permit issuance.⁴⁴ In 2010, Surabaya was ranked third lowest among the 50 cities surveyed.

Figure 15: Transparency International - Indonesia (TII) Corruption Perception Index in Surabaya, 2004-2010



⁴³ The surveys were based on business perceptions of corrupt practices in business permit issuance and licensing. A lower CPI index indicates less trustworthy and functioning public institutions (TII 2010).

⁴⁴ The surveys were based on the business perception on corrupt practices in business permits and licensing (TII 2010).

Sources: TII (2004), TII (2006), Simanjuntak (2008), and Simanjuntak, Digdowiseiso, and Saputro (2010).

Finally, according to a number of informants including politicians, media representatives and government officials interviewed in the field, Bambang was known to have an ‘accommodative approach’ to managing his relationship with the DPRD. Bambang was pragmatic. He perceived that approaches to DPRD members were unavoidable in the given local political context. This kind of the relationship sustained clientelistic relations between the executive and legislative members. For instance, according to an anonymous informant within the city government, the executive often had to provide financial ‘commissions’ to DPRD members to secure their support for local regulation-making or to accommodate parliamentary members’ interests in government projects.⁴⁵ In 2007, there was widespread public criticism of Bambang DH for failing to address the imposition of illegal fees and bribery in school selection and admission processes through media reports. Some figures from the political parties (not including the PDIP and PKB which were Bambang’s main base of support within the DPRD) responded to these criticisms by using their interpolation right (that is, their right to question the executive’s policy) to call for an investigation of the mayor’s involvement in this issue (Surabayapagi 2009). However, Bambang seems to have managed the issue with the parliament given the fact there was no further follow-up on the interpolation rights. In 2009, Bambang also approved an illegal request from the DPRD to allocate Rp 750 million from the local budget to fund additional allowances for DPRD members, something prohibited by the existing financial laws on budget

⁴⁵ Confidential interview, Surabaya City, October 2014.

allocation. This case led to corruption allegations against the head of the Legislature for the period 2004-2009, the regional secretary, the city administrative assistant, and the head of finance in the regional secretary's office (Tempo 2013).

4.3.4. Tri Rismahartini Period

The parliamentary election in 2009 and the mayoral election in 2010 created a new political landscape in the city. The results of the parliamentary election changed the distribution of political power in the DPRD, which in this period consisted of 50 seats.⁴⁶ The PDIP experienced a further decrease in popularity, winning only eight out of 50 seats (16%) compared with 13 out of 45 (29%) in the previous election. The decline of the PDIP was matched by a corresponding rise in the fortunes of the Democrat Party, the electoral vehicle of then President Susilo Bambang Yudhoyono. The Democrat Party won 16 seats (32%) in 2009, compared with only five in 2004. The PKB, the party that was the closest challenger to the PDIP in 2004, won only five seats in the DPRD. This result meant that the PKB went from being a significant presence in parliament to a minor party, now lumped together with other seven parties that won five or fewer seats in the local parliament (Table 3).

⁴⁶ Based on Law No. 32/2004 on regional autonomy, the number of DPRD in a big city like Surabaya City is 50 members instead of the 45 members under previous regulations. The 5 seats that were dedicated to the military were also abolished, allowing all the parliamentary members to represent parties that participated and gained votes through the direct election.

Table 3: The party seats in the DPRD of Surabaya, 2009-2013

No	Name of Parties	Number of seats
1	<i>Golkar</i> (Party of the Functional Groups)	5
2	PPP (United Development Party)	1
3	PDIP (Indonesian Democratic Party of Struggle)	8
4	PKB (National Awakening Party)	5
5	PAN (National Mandate Party)	2
6	PKS (Prosperous Justice Party)	5
7	Democratic Party (<i>Partai Demokrat</i>)	16
8	<i>Gerindra</i> (Great Indonesia Movement Party)	3
9	PDS	4
10	PKNU	1
	Total	50

Source: KPUD Kota Surabaya (2009).

This shift in the popularity of the parties turned the Democrat Party into a key contender in the 2010 mayoral election. It appointed Bambang's deputy, Arif Afandi,⁴⁷ as its candidate for the mayoral election while the PDIP nominated Tri Rismaharini, popularly known as Risma. Risma shared her ticket with Bambang DH, the latter now standing for deputy. Risma Trihartini and Bambang DH won the

⁴⁷ A year prior to the mayoral election, Arief Afandi made a political manoeuvre by joining the Democrat party. This political decision disappointed the PDIP, broke down the political relationship between the PDIP and Arif Afandi and sparked high political tension between the two parties (Interview with Rosdiansyah (*JPIP*), Surabaya City, 24 October 2014).

mayoral election in June 2010. In a closely fought contest, they defeated Arif-Afandi and Adis Kadir who were backed by the Democrat Party and Golkar respectively by a margin of 38.26% to 35.38%.

One of the important modalities of Risma's leadership in the first place is the wide support from progressive actors in the election. Risma's nomination was the result of political manoeuvring by influential intellectuals and media actors in Surabaya, associated with the *Jawa Pos* and the most popular local radio station, *Suara Surabaya* (the Voice of Surabaya) and Enciety, an urban research centre run by a group of ITS-linked notable intellectuals. *Jawa Pos* (Dahlan Iskan) decided to back Risma Trihartini instead of supporting Arif Afandi, even though he was *Jawa Pos*' senior editor, and was *Jawa Pos*' 'representation' in the 2005 mayoral election. Risma Trihartini was seen as a potential figure to sustain the progression of the change and development program in the city, unlike Arief Afandi, who did not make a significant contribution to any part of the reform agenda during his time as deputy mayor.⁴⁸ For *Suara Surabaya*, Risma was an important figure behind the various success programs in Surabaya.⁴⁹ Risma had established a close relationship with the radio station since 2002 by acting as the most active government official to respond to issues raised by the public through the radio station (*Suara Surabaya* 2008). With regards to Enciety, beyond its concerns about urban development, Enciety's support was highly connected to the closeness of Risma as one of its alumni, along with the long period of collaboration between local governments and

⁴⁸ Interviews with Rosdiansyah, Surabaya City, 25 November 2014 and Fitrajaya Purnama, Surabaya City, 12 November 2014.

⁴⁹ Ibid.

the institutes since 2002, especially with the various programs led by Risma (Anisah 2015, pp. 75-76).

Risma is also known to have had support from many community-based associations, including the traditional market traders' association, the stall vendors' association as well as the GRS (the Surabayan citizens' movement) under the mobilization of a prominent local figure, H. Mochamad Mochtar (Mat Mochtar) who is also the leader for Surabaya-Madura Youth United. Risma also owed her nomination to the support of key individuals within the PDIP, most notably Bambang DH. According to well-informed sources, Bambang DH contributed most of the financial resources needed in the election process, drawing on both the political party machine and support from his personal network of politicians, business owners and bureaucrats. Risma's financial contribution was reported as being very limited, amounting to only about Rp 75 million of the total of more than Rp 40 billion needed for the election campaign.

Risma has a reputation for being a clean and reform-minded bureaucrat who can initiate and effectively implement innovative measures. She initiated the city's procurement reforms (examined in the next chapter) when she was head of the program development section of the regional secretary's office from 2002 to 2004. In her position as the head of the city's cleaning and landscaping department (2005-2008), she drove the formulation and implementation of some of Bambang's most successful programs, including participatory household based waste management, the green and clean program, and the slum areas improvement program. She was also the main actor behind the creation of many urban forests and creative and thematic parks, one of the Surabaya government's flagship endeavours. Importantly, most of the informants in the field, including Risma's political

opponents, agree that she is a clean mayor who leads a simple life, exercises a 'motherly' type of leadership, and has a high concern for ordinary people's welfare, especially that of the poor.⁵⁰

Thus, in this context, Risma's leadership was subject to two conflicting imperatives: maintaining her commitment as a reformist leader and support of the popular progressive actors, on the one hand, and satisfying her party and Bambang DH's alliance of interests, on the other. Risma's lack of experience in political life and her technocratic way of thinking added to her potential dilemma, especially when political reality did not fit with her idealistic ambitions. Risma's support from civil society networks, ITS, reformist elements within the bureaucracy, and the media boosted her confidence to take on vested interests in her administration. Specifically in building her relationships with the wider civil society network, following her election as mayor, she enhanced her connection to Surabaya's civil society organisations by appointing Fitrajaya, an influential NGO leader who ran as an independent candidate in the mayoral election with great support from NGO networks, as an expert member in her informal think tank.⁵¹

In fact, Risma's leadership was characterised by frequent confrontations with members of the local legislature. The tension occurred not only in formal circumstances but also through the local media. This situation stemmed from disagreements over policy issues and the distribution of resources and positions. Shortly after her inauguration on 28 September 2010, according to one of Risma's expert team members, Risma declined a PDIP proposal to promote 362 PDIP bureaucrats aligned with the PDIP into more senior positions (including ones who

⁵⁰ Interviews, Surabaya City, October – November 2014.

⁵¹ Ibid.

had contributed to the party's/Risma's election campaign) which would give the party significant control over the bureaucracy. This contributed to an early breakdown in Risma's relationship with the PDIP and Bambang DH. Risma also confronted all members of the DPRD by rejecting a national and provincial plan to build an Inner-City Toll Road in Surabaya.⁵² Risma argued that the project would cause social and environmental problems while doing little to resolve the city's traffic congestion problems. Civil society supported Risma's stance, conducting several protests and demonstrations to oppose the toll road project and holding public debates through ITS networks.⁵³ Risma also refused to accept IDR 8 billion offered to her by the contractor in exchange for continuing the project (Tempo.co 2014). Eventually, the Ministry of Infrastructure decided to postpone the plan (Hakim 2014, p. 117).

The relationship between Risma and local politicians totally broke down in December 2010 when she issued a mayoral regulation to increase local billboard taxes by around 400% for large scale billboards. The policy aimed to limit the number of billboards and their location. Unsurprisingly, given the role of billboard companies in funding political parties and politicians in Surabaya, the DPRD and the billboard companies rejected the policy. The DPRD used their 'Questioning Right', that is, their right to examine the executive policies' and actions, leading to a move to impeach the mayor because she had violated the mayoral regulation procedures, by issuing a local tax policy without the DPRD's approval. Interestingly, the PDIP was the primary initiator of the impeachment move,

⁵² The local legislatures, through various negotiations involving various parties at national, provincial and local level, including the implementing contractors, had agreed to the project's implementation (Confidential interview with a civil society activist Surabaya City, November 2014).

⁵³ Interview with Fitrajaya Purnama, Surabaya City, 1 November 2014.

indicating the degree of hostility that had emerged between her and her own party. The PDIP was supported by all factions in the DPRD, except the PKS, which saw that Risma's case did not meet the requirements to proceed with the impeachment and considered public rejection of the DPRD's impeachment plan (Hakim 2014; Budiharso 2014). According to a survey in January 2011, the PKS concluded that 77% of the public were against the DPRD impeachment movement, with only 10% supporting it and 13% not providing an opinion (Hakim 2014, p. 155).

The impeachment provoked a strong reaction from civil society. Fitrajaya's civil society and NGO networks, Mat Mochtar's grassroots networks of the GRS, and local intellectuals, especially from the ITS network, mobilized massive opposition to the impeachment through a 'Save Risma' campaign carried out via the local media, including social media. This campaign gained regional and national exposure, pressuring national political leaders to respond to the political crisis that had generated it.⁵⁴ Eventually, they acted. In February 2011, the National Board of the Democrat Party instructed the local Democrat party to withdraw their support for the mayor's impeachment and dismissed the head of the local branch of the Democrat Party. National leaders from other parties also took the same action, except *Golkar* which left the decision to its local party office. The result was the cancellation of the impeachment process (Hakim 2014, pp 161-163).

Over the next four years, Risma gradually reorganized the bureaucracy to strengthen her control over it. She cleansed various strategic government departments of political interests that hindered the city administration's accountability to the public. These included the Regional Development Planning

⁵⁴ Interview with Fitrajaya Purnama, Surabaya City, 1 November 2014

Bureau (*Bappeda*) and the Settlement and Spatial Planning Department, both of which were prone to predatory elite influences. The first deals with government budget allocations and spatial planning policies, while the latter regulates land use and building and construction activities, including issuing business location and construction permits (such as billboard construction permits). For these two departments, the mayor appointed two officials who were leading members of the team that carried out the procurement reform and were crucial to advancing these reforms: Agus Sonhaji and Eris Chayadi. She appointed Sonhaji as the head of the Local Development Planning Bureau and Chayadi as the head of the Settlement and Spatial Planning Department. In many cases, she also preferred to appoint young, energetic civil servants to senior positions as part of this reorganization, with the result that by 2014, 70% of heads of department in Surabaya were officials aged between 38 and 45-years. Many of these people had worked with her in various positions before her election as mayor. In this respect, Risma apparently took advantage of bureaucratic reforms initiated by the previous administration, making young, professional, dedicated officials available at the middle management level.⁵⁵

Under Risma's rule, the city government carried out various physical infrastructure projects. However, it is important to note that many of these projects were a continuation, expansion (e.g. in quantity, coverage, quality and intensiveness), and realization of projects started or planned under the previous administration. These projects included expanding the citizen-centered green and clean programs, widening *Kampung* (slum area) improvement programs, and extending the

⁵⁵ Interview with Agus Sonhaji, Surabaya City, 19 November 2014 and Eric Cahyadi, Surabaya City, 31 October 2014.

coverage of household based waste management. Risma's administration also built new public facilities such as pedestrian walkways/footpaths and public parks and continued to develop the city's infrastructure for handling flood problems. It also expanded the coverage of free basic education services for poor people and introduced a range of measures aimed at improving the quality of education and services. In the education sector, for example, she extended free education from 9 to 12 years old for public schools. The scheme also covered students from poor families studying at private schools. In terms of health programs, in accordance with the implementation of national free basic services schemes, Risma enhanced the scheme (through a local free health service program) by covering all those who were not covered by the national scheme. She also enhanced the capacity of *Puskesmas* (public health centres) from only providing basic health care services to offering advanced treatments including inpatient treatment and operations, to serve as intermediate level hospitals. She also introduced IT systems to provide easy access for appointments and registrations (Kota Surabaya 2016).

Risma's administration also introduced reforms aimed at reducing corruption and improving transparency. For example, in 2011, it established an electronically-based business licensing system called the Surabaya Single Window. This system took over the role of various government agencies that had issued business licenses manually and individually. The system managed the submission of license applications, verification of documents, assessment of applications, and the issuance of licenses; all electronically. Importantly, the decision-making process and the procedures for issuing permits and licenses became both standardized and synchronized with various technical measurements to ensure that they complied with existing regulations, and reduced the scope for personal interests to interfere

with business permits and licence issuing. Most interactions between applicants and public officials are conducted online rather than face-to-face, limiting the potential for bribery and corruption and, in particular, for ‘mediators’ (*calo*) to be involved in the process.⁵⁶

Risma’s administration also removed many illegal billboards and forced the relocation of those with permits but occupying public spaces (such as pedestrian or government land assets) to private land. In 2012, for example, it took action against 13,483 billboards, demolishing many of them. This number increased to 16,925 and 19,989 in 2013 and 2014 respectively (Detik.com 2015). Finally, Risma’s administration took on local mafia interests by shutting down the biggest a red-light district in South East Asia, Dolly Street. Dolly Street was controlled by drug dealers and human trafficking mafias with strong back-up from various political elites including the military. Risma’s move to close Dolly Street encountered massive resistance from human rights activists, DPRD members (especially PDIP member) and also from those benefitting from associated businesses, especially female traffickers and drug dealers. However, as the support from civil society and media was high enough, the city prevailed, finally banned prostitution and its associated business activities in the location in June 2014 (Hakim 2014; Budiharso 2014).

These measures earned Surabaya a reputation for best practice in governance and, in particular, in the fight against corruption. The KPK (2015a), for example, considers Surabaya as one of the most progressive cities in this battle, giving the city the second highest score in its 2013 Public Service Integrity Index (which was based on a survey of 60 cities/districts). Similarly, Transparency International

⁵⁶ Ibid.

Indonesia (TII) (in Thohary 2015) placed Surabaya second among the 11 cities surveyed in its 2014 Corruption Perception Index.

However, in interviews, some informants expressed doubt that Risma has been entirely free from the interests of the elite. One civil society representative argued that the government was powerless in dealing with the local business mafia, especially in relation to the control of land assets and real estate development.⁵⁷ One example is the city government's policy in relation to the protection of the East Surabaya Conservation Area. Since 2007, Surabaya has designated the East Surabaya Coastal Area as a conservation area that must be protected from business activities. But the government has not enforced the law against many real estate developers that have occupied this area (Pribadi 2013). There is also a pattern that suggests that the city government has no clear measures for determining the protected mangrove areas, given the fact that the coastal range limit in the areas occupied by big real estate mafias is closer to the coast than in areas occupied by ordinary citizens.⁵⁸

4.4. Conclusion

Overall, democratic decentralisation in Surabaya produced a realignment in the distribution of power and a reshaping of the local political structure. Rather than a simple story of predatory elite capture, the local political economy landscape in the city was characterised by the active engagement of civil society, media, intellectuals, and the wider public. Their resilience, active engagement in public issues and direct local political events placed strong pressure on local elites to

⁵⁷ Interview, Surabaya City, November 2014.

⁵⁸ Ibid.

pursue governance reforms. The emergence of reformist political leaders was undeniably pivotal in the affairs of Surabaya. But such leaders prevailed due to the strong involvement of civil society through providing pressure, support, as well as political back-up in the political turbulence resulting from implementation of the reform agenda.

The early days of democratic decentralization in the city saw figures with their origins in the New Order such as Sunarto Sumoprawiryo maintain control over the local state apparatus by capturing new political vehicles (such as political parties) that emerged in the post-New Order period, thereby sustaining the New Order's influence in local governance. However, well-organised and cohesive civil society forces propelled the reform process by confronting Sunarto and his allies and promoting the appointment of a new mayor with a civil society background, Bambang DH. The election of Bambang DH with strong support from civil society enabled changes to bureaucratic structures and cultures. The rise of pro-reform bureaucrats resulted from bureaucratic structural changes and reinforced further the progression of good governance in the city.

Local predatory elites continued to struggle for power and interest in a never-ending contest. In the case Bambang DH's second period, the local leadership was able to continue his development agenda, including governance reform, with support from the public, including civil society and pro-reform bureaucrats. However, his links to predatory business elites and local politicians limited his capacity to reform the sectors contested by local predatory elites. The further advancement of governance reforms in Surabaya following the rise of Tri Rismahartini (Risma) also provides evidence of the continued contest for power. But, as opposed to Bambang DH, Risma's impartiality from local predatory elites, wider civil society support, and

substantial consolidation of progressive bureaucrats, formed a strong alliance to confront the local predatory elites.

Thus, in the case of Surabaya, democratic decentralisation has created a more democratic political structure with the immense engagement of wider actors in the political scene, especially pro-democratic actors from civil society organisations, academics, the media and the wider public. Importantly, besides helping good local leadership to perform, their existence also encouraged reform-minded actors within the bureaucracy to roll out various reforms from within. Later, those bureaucrats became one of the key factors for the city in initiating, implementing and sustaining various reform agendas.

The next chapter on the political economy of procurement reform in Surabaya provides empirical evidence to explain further how the political structure in Surabaya allowed progressive actors to rise from within the bureaucracy and together with their networks with other progressive forces (intellectuals and the media) challenge local predatory actors' ability to impede reform outcomes.

CHAPTER 5

THE POLITICAL ECONOMY OF PUBLIC PROCUREMENT REFORM: CASE STUDY FROM SURABAYA

5.1. Introduction

This chapter presents findings from Surabaya concerning its procurement reform trajectories, its effects on good governance, and the way political economy factors underpinned the outcome. Surabaya has had considerable success in carrying out public procurement reform. Through various initiatives, many of which were locally-determined rather than the result of national directions, the Surabaya government has boosted its effectiveness in managing bidding processes, strengthening budget efficiency, and making the tendering process more genuinely competitive. This chapter also provides evidence that the reforms have led to much cleaner practices in tendering processes, reducing corruption and collusion.

It is argued in this chapter that this outcome reflects the nature of the city's political economy in the post-New Order period, as described in the previous chapter. In particular, it reflects the weakening of predatory elements nurtured under the New Order in the face of a challenge from a strong progressive actors coalition comprising reform-minded leaders, civil society activists, reform-minded bureaucrats, and supportive academic institutions and a resulting shift in control over the state apparatus. This shift in the balance of power and control over the state apparatus served to create an 'enabling political economy landscape' for public procurement reform and, in particular, increase scope for reform minded leaders and bureaucrats to initiate and implement reform.

5.2. Public Procurement Reform in Surabaya

Surabaya has become known as a pioneer in public procurement reform, particularly in the establishment of electronic procurement, procurement service units, and governance resource management (GRMS) (Komisi Pemberantasan Korupsi (KPK) 2007; KPK 2011; B-Trust 2008; Badan Perencanaan Pembangunan Nasional (Bappenas) 2012). The Surabaya government initiated procurement reform in 2003 through a so-called '*Lelang Bersama*' or simultaneous bidding mechanism. Before this time, public procurement in the city was characterised by widespread collusion between government officials and service providers. Only a limited number of service providers were awarded procurement contracts, usually ones with strong political or personal connections to senior officials and the mayor⁵⁹ (see also Ashadi 2012, p. 57). Agus Sonhaji, the head of the Local Development Planning Agency (*Bappeda*) and the former head of Program Development Unit who had directly contributed to procurement reform since its inception, emphasized that beside the collusive nature of procurement processes, there were also no clear assessments of the qualifications of service providers who implemented projects, resulting in poor quality projects, especially in infrastructure, with an increasing level of incidents of easily damaged roads and government buildings. This situation led to inefficient use of the local budget.⁶⁰

Sunarto's administration did little, if anything, to address these problems, even after the fall of Suharto. However, following Bambang DH's ascension to power in 2002,

⁵⁹ Interviews with Eric Cahyadi (the head of the Public Work Agency), Surabaya City, 31 October 2014, Saleh Mukaddar (A senior politician of PDIP), Surabaya City, 6 November 2014, Bambang DH, (the city mayor 2002-2009), Surabaya City, 16 November 2014 and Agus Sonhaji (the head of the Local Development Planning Agency – *Bappeda*, Surabaya City), Surabaya City, 19 November 2014.

⁶⁰ Interview with Agus Sonhaji, Surabaya City, 19 November 2014.

the city government's stance changed. Bambang DH intended to reform public procurement processes to create more open, transparent and competitive mechanisms; improve the quality of implementation of projects and ensure more efficient use of local budget resources. One of his first moves was to ensure that all qualified service providers could compete for government procurement contracts. To this end, in 2003, the Program Development Unit in the Regional Secretary's Office established a website called www.lelangserentak.com. This openly announced tenders for around 400 infrastructure projects and invited all qualified service providers to participate in the bidding process. At this time, there were no government regulations explicitly requiring the use of electronic systems in public procurement. By establishing this new system, the city government drew on Presidential Decree No. 18/2000 on Public Procurement Guidelines. This required the enforcement of openness in government procurement processes, which could include the use of print and electronic media in project announcements. The regulation, however, did not clarify further how the use of electronic media should be carried out. Put simply, the city government innovatively interpreted this regulation to provide the required legal basis for the development of a new public procurement system.⁶¹

Through the website, all prospective service providers were required to submit their company profiles and qualification documents, together with a letter of interest as part of an initial verification process. According to Agus Sonhaji, service providers responded enthusiastically to this opportunity. As many as 3000 companies passed the initial verification process.⁶² Following this, the government gathered all the

⁶¹ Ibid.

⁶² Ibid.

verified service providers in a huge venue that functioned as a market place and allowed them to bid openly for all 400 available projects. The results were impressive. The city government recorded an average budget saving of about 10% per project and secured better planning for project execution and better coordination for project implementation as well. The KPK determined that all projects were performed within the timeframe in 2003 (KPK 2007, pp 44-47). The city government also, of course, gained a better list of qualified registered service providers than it had had previously because of the new procurement system.

In 2004, the city government took the process of reform further by establishing the Surabaya E-procurement System (SePS), which operated through the portal address, www.surabaya-eproc.or.id. SePS expanded the use of electronic, web-based mechanisms to cover not only tender announcements and service provider registration but also project document provision, proposal application, project *aanwijzing* (project clarification and the question and answer process), bidding document verification, and communication of the results of selection processes. In the same year, through Mayoral Regulation No. 50/2004 on Guidelines for the Implementation of Electronic Public Procurement, the city government started procuring goods and services through SePS not only for infrastructure projects but also for consultancy and good provisions. All goods and services with a value of IDR 50 million or above had to be purchased through SePS.⁶³ In that period, based on Presidential Decree No. 80/2003, all government projects above 50 million had to be carried out through the bidding process.

⁶³ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

As a mark of the city government's commitment to the reforms, it provided sufficient funding to finance the new procurement system and deployed a special task force to carry out the reform agenda. The latter consisted of 12 young, highly dedicated officials. The team was institutionalized as the Surabaya e-Procurement System (SePS) Secretariat (hereafter *the Secretariat*) and placed under the direction of the head of the Development Program Section (DPS) in the Regional Secretary's Office. Included in the team were four specialist IT professionals on secondment from 10 November Institute of Technology (ITS), one of the country's leading technology-focused universities. The Secretariat's tasks were to develop the system and transfer knowledge about the technical use of the scheme to all related stakeholders within the government especially service providers. In its early years, the Secretariat's activities included conducting intensive training and dissemination activities; providing technical assistance to all stakeholders such as internal government unit staff and service providers; and promoting the use of the system. The Secretariat established a help desk, a training centre, and computer hubs with internet access to accelerate adoption of the system. To extend the system's coverage, it cooperated with local internet kiosks to widen public access to the network (B-Trust 2008).

In subsequent years, the Secretariat carried out various improvement and adaptation measures to enhance the new procurement system. In 2005, for example, the e-procurement system included a one-time registration policy for service providers to eliminate the need for businesses to register separately for different projects. The same year, the system protected all certified service providers with PKI (public key infrastructure) to personalize their access to the system (KPK 2007, p. 32). In 2005, the city government gained ISO certification in Quality Management Systems (ISO

9001:2000) for SePS, signaling that its control management processes were in line with international standards. In the following year, the Secretariat also integrated an evaluation process into SePS that was previously conducted as a paper document-based assessment (KPK 2007, p. 27). This adaptation meant that all documentation was now administered electronically, creating a paperless process with minimum contact between service providers and officials. In 2007, the system was further improved by certification with ISO 27001: 2005, the Information Security Management System (KPK 2007, p. 27). In the same year, SePS was upgraded with the installation of an e-delivery system. This enabled the electronic administration of all parts of the contracting process, eliminating complications in the manual contracting process that had led to negotiations for kick backs between government officials and the service providers. Around this time, an e-sourcing application was integrated into the system to gather as much information as possible from manufacturers and primary distributors about the price of various items to help the procurement committee formulate project budgets efficiently, based on market price standards (B_Trust 2008).

In 2008, the city government established a *Unit Layanan Pengadaan-ULP* (Procurement Service Unit-PSU). This unit integrated all procurement committees from different local government agencies (*dinas*) into one institution for better coordination, creating a more efficient arrangement of available procurement-accredited officials. Prior to the PSU's establishment, despite the use of SePS, all procurement was carried out independently by the respective project owner (i.e. the relevant government agencies). It is important to note that despite e-procurement, most work related to procurement processing was carried out by procurement committees within government agencies. This work included the

preparation of project documents, estimation of purchase prices, verification of providers' eligibility and bidding documents, facilitation of the question and answer processes between the committee and potential service providers, preparation of contracts, and complaint handling. At the same time, procurement processing was an additional responsibility for agency staff appointed to agency procurement committees. This organisation of responsibilities led to delay and poor performance in procurement despite the use of e-procurement. There was also a question mark over the independence of agency procurement committees because of the potential for committee members' supervisors or agency heads to intervene in selection processes or other types of collusive practices (Badan Perencanaan Pembangunan Nasional (Bappenas) 2012, B-Trust 2008).

The establishment of Surabaya's PSU had occurred before the central government made such units mandatory in 2012. It was also conceived as a more institutionalised entity than the units provided for in national regulations. The latter only mandated the creation of non-structural and ad hoc task forces. By contrast, the PSU in Surabaya was a permanent and structural institution. It functioned not only to implement bidding processes but also as a centre for the formulation of local procurement policy. The fact it was a structural organization meant that it could employ a permanent coordinator, secretary, and staff members, including experts, to provide support to agency procurement committees and, in particular, help them deal with the complex documentation and analytical procedures that often impeded these committees' performance (Bappenas 2012).

Another important reform measure introduced by the Surabaya government related to project budget pricing. Since 2010, under the coordination of the Program Development Unit, the city has implemented extensive annual direct market price

surveys to standardize pricing for line items used in project budgets. Two informants were highly involved in the process: Agus Sonhaji and Eric Cahyadi. They claim that in the case of Surabaya, all unit prices in Surabaya have been standardized and inputted into an integrated IT system. This has reduced the potential for marking-up prices in project budgets. In most cases, rather than using store prices, unit prices have been set based on producers'/manufacturers' or major distributors' standards, ensuring the lowest cost is used.⁶⁴

In 2008, the Program Development Unit merged the e-procurement system into the Government Resource Management System (GRMS). The GRMS used electronic technology to address a wide range of financial management issues including budgeting, project planning, procurement, project delivery, project control, and project implementation performance. It entailed the integration of six electronic systems: namely, e-budgeting, e-project planning, e-delivery, e-control, e-performance, e-payment and e-procurement. This GRMS had been gradually implemented since 2008 with full implementation from 2010. In 2012, along with the implementation of *Peraturan Presiden – Perpres* (Presidential Regulation) No. 54/2010 on Public Procurement Guidelines, which mandates the use of the national electronic procurement system (SPSe) by 2012, the Surabayan government integrated its e-procurement system into the centralized national system (Fanida & Niswah 2015).

⁶⁴ Interviews with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

5.3. Outcomes of the Reform

5.3.1. *The Use of E-procurement*

One of the initiators of e-procurement within the bureaucracy, Agus Sonhaji, claimed that the city of Surabaya had used the electronic procurement system to procure all projects since 2006. This included both projects that must be procured through open tender selection under national regulations (generally those worth IDR 300 million or above) and those that need to be applied for through the simple selection process (under IDR 300 million). The city government has also enforced a policy of consolidating small projects into bigger projects both to eliminate the complexity of procedures and to ensure better standardization of implementation for projects with similar characteristics.⁶⁵

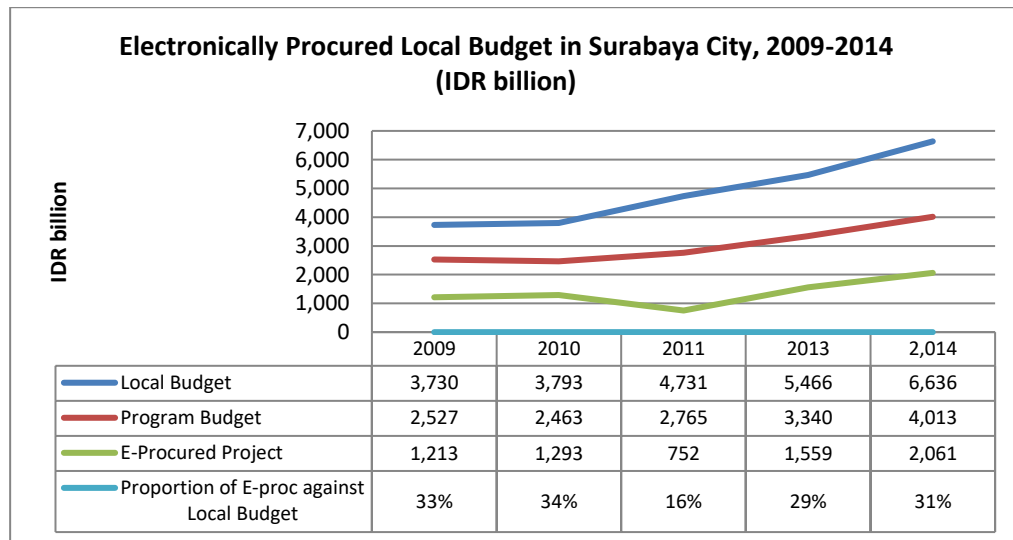
Local government data confirms that total government spending through e-procurement (Figure 16) and the average value of each project (Figure 17) both increased significantly between 2009 and 2014. During this period, the total city government budget and its budget for programs, that is, the total budget fund for all government program activities,⁶⁶ increased from 3,737 billion to 6,626 billion, and from 2,527 billion to 4,013 billion, respectively. At the same time, the value of spending through e-procurement increased significantly. In 2009, IDR 1,213 billion was spent through e-procurement with a slight increase in 2010 before a sharp decrease in 2011. The budget value then jumped significantly, accounting for IDR 1,559 billion and IDR 2,061 billion in 2014 and 2015, respectively. Interestingly, the city also maintains a relatively high proportion of the e-procurement budget

⁶⁵ Ibid.

⁶⁶ Beyond the provision of goods and services, the program budget included grants, subsidies, self-implemented programs, routine administration and activities expenses.

against its local budget at the steady proportion except in 2011. This mirrors the city government commitment to sustain its policy in maximizing the use of e-procurement. . In 2009, 33% of the program budget was e-procured, whereas in 2010 it was 34%.

Figure 16: Budget allocation of electronically procured projects, 2009-2014



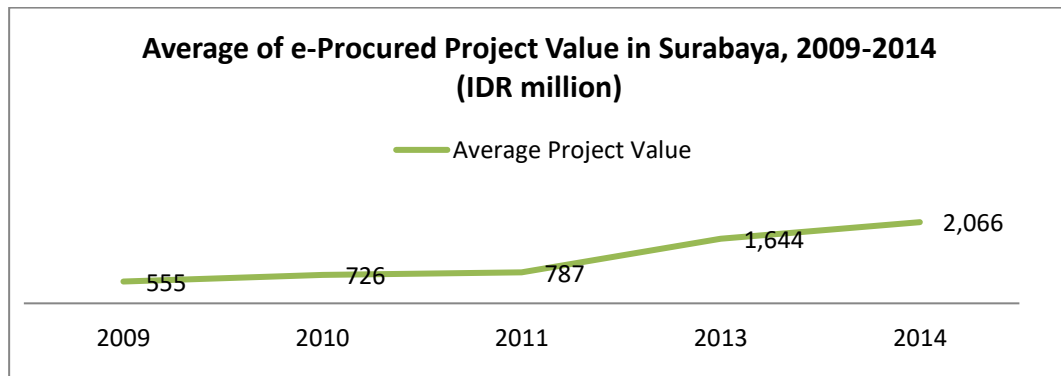
Source: Analysis of local government procurement primary data obtained from the SePS Secretariat (Kota Surabaya 2014).

Fuhere was a marked dip in 2011 to only 16% before recovering to reach 29% and 31% in 2013 and 2014, respectively. It is nevertheless evident that e-procurement accounted for an increasing amount of trade between 2009 and 2014 (apart from the 2011 downward blip) and its proportion against the total local budget was significantly higher than the average of 11% (of the procurement budget) across districts/cities of Indonesia that implemented e-procurement (Sack et al. 2014, p.11), as noted earlier in Chapter 3.

Regarding the project value, the average value of each project jumped from IDR 555 million in 2009 to more than IDR 2 billion in 2013. This increasing average

budget value indicates that the city government has tried to avoid the common practice of breaking down programs into smaller projects, one of the primary sources of budget inefficiency.

Figure 17: Average e-procured project value in Surabaya



Source: Analysis of local government procurement primary data obtained from the SePS Secretariat (Kota Surabaya 2014).

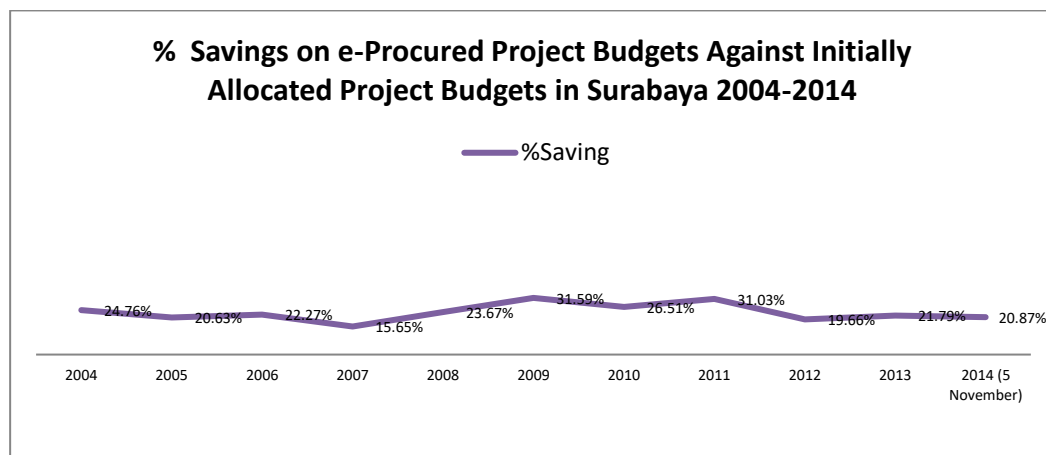
5.3.2. Budget Efficiency and Market Competitiveness

In 2007, the *Komisi Pemberantasan Korupsi* (KPK) (the National Commission for Corruption Eradication) (2007) found that public procurement reforms in Surabaya saved 80% of the administration cost as result of better coordination, the elimination of print media based project announcements, and the reduced use of stationary and communication costs due to web base and paperless process. The KPK (2007) and B_Trust (2008)⁶⁷ reported that the reforms also reduced the average amount of time it took to complete procurement processes, that is, the amount of time from the preparation stage to the selection of the winner, from 36-45 days to about 20 days.

⁶⁷ A national NGO based in Bandung with a focus on advocating procurement reform since 2007 (interview with Mochamad Ikbal, (Program Manager of B-Trust), Jakarta, 25 August 2014).

The most significant saving, however, has come from attaining competitive prices for the projects. In the period between 2004-2014, the eProcurement system enabled government efficiency (budget savings due to lower prices than were allocated to budgets for projects) at an average saving of 23.5%. The system helped achieve 24.76% project budget efficiency in its first year of implementation (Figure 18).

Figure 18: Saving from e-procured projects in Surabaya



Source: Analysis of local government procurement primary data obtained from the SePS Secretariat (Kota Surabaya 2014).

The trend for significant savings continued for the next decade, mostly at above 20%, except in 2007 when the city only saved 15.65% from the e-procured budget. This budget efficiency is one of the principal signs that procurement reform has made a difference, considering that before the reforms, the planned budget was usually very close to the procured project funds.

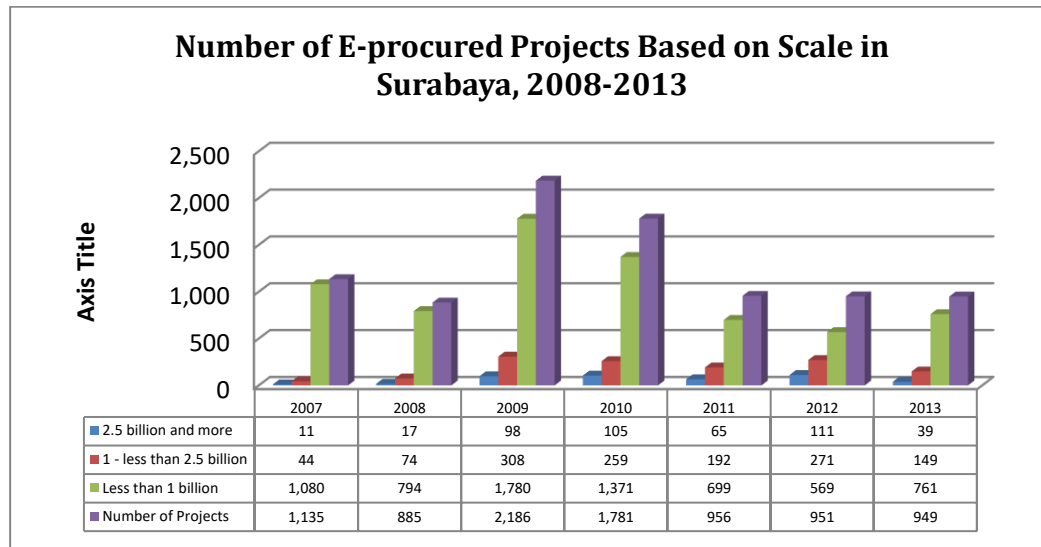
Public procurement reform also appears to have made the procurement business in the city more competitive. In interviews, several stakeholders from the business sector said that they thought the electronic procurement system had made it easier for all businesses to compete for and potentially participate in government projects.

This opening of access and competition reduced the scope for unfair selection stemming from collusive relationships between bureaucrats and service providers. Informants from small business entities also felt that their opportunities to participate directly in and win bids for government projects had improved as the procurement process was now more open and accessible.⁶⁸

There was a perception early in the reform period that e-procurement reform would put pressure on local contractors and service providers, as it would make it possible for bigger contractors from outside the city to compete against them. However, according to Agus Sonhaji, the head of the Local Development Planning Agency (*Bappeda*) and one of the leading figures in the reform team, initial assessments of procurement reform suggest that the opposite is the case. He claimed that 85% of tendered projects were won by local businesses, of which 90% in 2004 and 95% in 2005 were small businesses. This suggests that local businesses in Surabaya were able to compete effectively. In part, this is because most government projects procured through the new system were small scale activities of little interest to big national players. Data on the project value of government projects in Surabaya for 2008-2013 confirms that the vast majority of such projects were valued at less than Rp1 billion which accounted for 1,080 out of 1,135 projects in 2007 and 761 out of 949 projects in 2013. This is a market segment in which small scale businesses are typically the key players (Figure 19).

⁶⁸ Interviews, Surabaya City, November 2014.

Figure 19: Number of e-procured projects based on scale in Surabaya



Source: Analysis of local government procurement primary data obtained from the SePS Secretariat (Kota Surabaya 2014).

5.3.3. Better Planning of Project Implementation

One result of procurement reform in Surabaya has been earlier and more even project procurement throughout the fiscal year. In 2013 and 2014, for example, more than 90% of planned projects were contracted in the first three quarters of the relevant fiscal period with 26% and 29% of the total contracted in the first quarter alone. The expected consequence of this more timely procurement is to extend the project implementation period by avoiding a need to rush into finishing off the contracting processes.

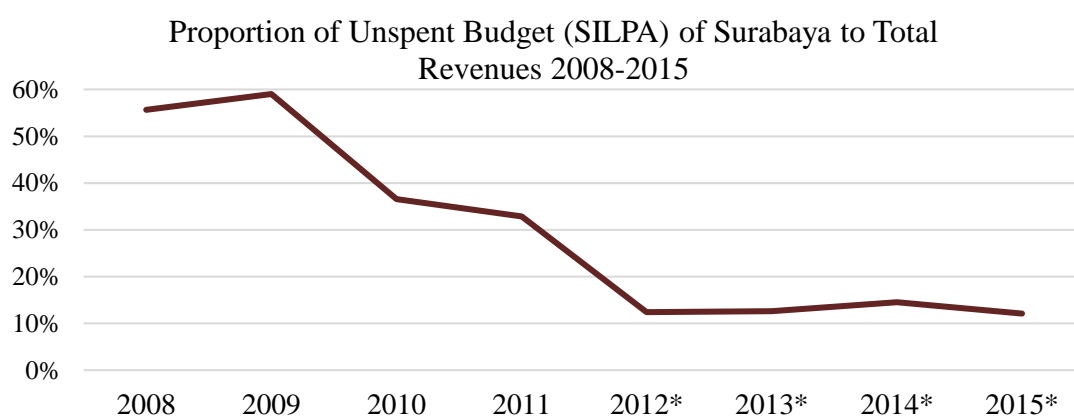
Table 4: Quarterly distribution of project contract issuance in Surabaya, 2013-2014

Project Distribution	2013		2014	
First Quarter	238	26%	292	29%
Second Quarter	436	48%	379	38%
Third Quarter	181	20%	253	25%
Fourth Quarter	56	6%	74	7%
Total	911	100%	998	100%

Source: Indonesian Corruption Watch (2014).

Better time management also improved government performance in spending its budget. The administration of idle budgets has been getting better in line with the continued improvement of e-procurement in Surabaya, especially since the advancement of the e-procurement program to GRMS that commenced in 2011. As can be seen from Figure 20, the proportion of unspent funds to total budget revenues decreased sharply between 2009 and 2015 (Rahman 2015).

Figure 20: Proportion of unspent budget of Surabaya



Source: Rahman (2015).

5.3.4. Increasing Transparency, Accountability and Openness to Public

Monitoring Practices

E-procurement in Surabaya has made much data related to procurement publically available (KPK 2007, p. 40). From direct observation of the system, the data available in the current e-procurement portal includes basic information about each project, such as the location and value of the project, the implementation period, the name of the service provider delivering the project, their individual offer price, and the reasons for them winning the project. Throughout the system, the profiles of contractors/vendors are also readily available, including blacklisted business entities. All information about the price range standard of each detailed component (materials and labour) used to evaluate the project price is also available through the system. The system also allows service providers who directly participated in past bidding processes and stakeholders in the government to access more detailed data using their identification access codes. Most importantly all data and their step by step processes were recorded throughout the system, the government making it available for the authoritative investigators to conduct an audit.

In theory, the openness and accessibility of procurement-related information can help the public to monitor government projects from the bidding stage to implementation in the field. Eric Cahyadi, who was the director of the SePS secretariat from 2004 to 2009, claimed that since the initiation of procurement reform, civil society monitoring has increased, pointing to growing criticism and opinion published in the local media. However, civil society groups do not appear to have fully capitalised on the opportunity to use e-procurement data as a basis for government project monitoring. In fact, the number of civil society organizations concerned with direct monitoring of the local government budget is very limited,

despite the fact that many local civil society organisations are concerned with corruption issues.⁶⁹ An informant from a local NGO speculated that the absence of civil society organisations from monitoring project procurement processes reflects their limited understanding of and skills to deal with the complicated procedures and regulations surrounding the contracting process.⁷⁰ The media in Surabaya plays an important role in reporting and publishing information on government project implementation, including cases of suspected corruption. However, they have made little use of e-procurement data and information in their reports. In most cases, media reports of corruption cases are sourced from local government and other organizations' reports or media releases, and from individual informants' statements or opinions.⁷¹

5.3.5. Reduction of Corrupt Practices

One of the expected outcomes from procurement reform is reduced corruption in procurement processes. In the case of Surabaya, its advanced reforms established prevention measures against corruption in provider selection (KPK 2007, KPK 2011). KPK (2007, pp. 42-8) asserted that the openness, competitiveness, and transparency of the procurement process reduced the practice of selecting pre-arranged winners, based on collusion and favoritism. The system also made the selection process recordable, auditable and verifiable, hence providing a great disincentive for related stakeholders to breach the rules. In 2011, a supplementary assessment by the KPK confirmed the potential effectiveness of the Surabaya procurement reforms in eradicating corruption by listing the city's e-procurement

⁶⁹ Interview with Eric Cahyadi, Surabaya City, 31 October 2014.

⁷⁰ Interview, Surabaya City, November 2014

⁷¹ Ibid.

following the implementation of GRMS as the best anti-corruption effort in 11 surveyed local governments. The KPK argued that GRMS ensured consistency of financial management from the planning and budgeting stage to the application and evaluation stage (KPK 2011, p. 20). Acknowledgement of this also comes from *Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah* or LKPP (the National Procurement Policy Agency – NPPA) through the Best Service Innovation in E-Procurement report (Surabayapagi 2012).

During fieldwork in Surabaya, I encountered further evidence that procurement reform had led to reduced corruption. Stakeholders from service providers reported that, in general, procurement reform had opened up wider access to participation in bidding, without building clientelistic mechanisms. In comparison with procurement practices in other cities and districts, they believe that procurement tools in Surabaya were much better with regards to corruption, transparency and openness. According to them, in many other regions that have also implemented e-procurement systems, most projects could only be accessed through clientelistic mechanisms involving bureaucrats or local politicians and in which business associations controlled by the mafia were a crucial component. Informants from contractors and service providers also estimate that, in the period of the field study, at least 80% of projects were openly procured without the occurrence of fraudulent transactions.⁷²

However, there are signs that unfair selection and favoritism are still occurring in Surabaya despite the reforms. According to some informants from NGO, politicians, media, business, unfair selection mainly arises in various projects contested by

⁷² Interviews with anonymous informants, Surabaya City, November 2014.

service providers who have patronage links to corrupt bureaucrats who have survived within the system, or are closely connected to organized crime.⁷³

Technically, according to the same informants, there is a hole in the e-procurement system that opens up scope for unfair selection. Within the system, the selection of bid winners depends on the procurement committees in the PSU. Even though Surabaya's system applies the principle of awarding contracts to the lowest bidder, the principle does not always apply. The result depends on the committee's assessment of the proposal and bidders' qualifications. The lowest bidder could fail for other reasons made up by the committee. Particularly in cases where organised criminals intend to bid on projects, the committees can influence who bids in the first place by ordering and threatening other service providers not to participate, or asking them withdraw their proposals and interest before the final decision on the winning contractors has been made.⁷⁴ Thus, despite the significant improvement in the procurement policies and their outcomes to the procurement practices, there is still ongoing influence from local elites and organised criminals to sabotage or circumvent reform. Their level of influence however has been decreasing in accordance with the political economy dynamic that has shaped the reform policies as discussed in the following section.

⁷³ Interviews with anonymous informants, Surabaya City, October - November 2014.

⁷⁴ Ibid.

5.4. The Political Economy of Procurement Reform in Surabaya

5.4.1. Bambang DH's First Period as Mayor (2002-2009)

The procurement reform in Surabaya is highly connected to the city's political trajectory following implementation of democratic decentralisation. Procurement reform was initiated in 2003, or during the early years of Bambang DH's administration. As explained in the previous chapter, Bambang took up the mayoral position with support from strong progressive forces especially civil society networks that confronted and forced the previous mayor out. While the toppling of Sunarto produced a new political configuration in the city, it also posed pressure on the new mayor to bring about changes in his administration.

In the early period of his leadership, Bambang DH was under public pressure to show that he was committed to promoting good governance in the city in particular to combating corruption within the bureaucracy. The corruption surrounding procurement was well known, resulting in negative public perceptions about the state administration. One sign of public cynicism about the government was that the KMS, the acronym for *Kota Madya Surabaya* or Surabaya Office was often said to stand for *Kumpulan Maling Surabaya* or Surabaya Thieves City. As one source noted, 'public trust in the local administration was decreasing. Being a public servant at that time was shameful and disgraceful. Many officials felt embarrassed to wear their formal uniforms outside of the office, due to public cynicism against them'.⁷⁵ In addition there were also strong public demands for better public infrastructure. The mayor had to resolve the emerging urban issues of concern to

⁷⁵ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Bambang DH, Surabaya City, 16 November 2014.

the public such as waste management, flood control, and damaged road infrastructure. But, on the other hand, the Surabaya City administration also lacked the financial capacity to carry out programs that required massive investment in infrastructure.⁷⁶ In the period of 1999-2003, the local government only carried out sporadic maintenance of the existing infrastructure, leaving a whole range of problems unresolved.

Bambang DH's first response to public pressure for change was to take control of the bureaucracy through a restructure. He carried out an intensive rotation of officials to break down the networks of corruption and influence established by the previous regime. This rotation also targeted the Regional Secretary's Office, resulting in the recruitment of young, professional and highly dedicated staff in the Program Development Section (DPS). Within the government, the role of the DPS was pivotal because of its role in monitoring the implementation of all planned local government programs and projects. Its role also encompassed the procurement monitoring process.

The restructuring resulted in the appointment of Tri Rismaharini or Risma (who, as noted previously, later became mayor in 2010) as the head of the DPS unit. She was also known as one of very few bureaucrats who were involved in the series of discussions led by civil society (specifically, the *Dewan Kota* or City Council) concerning the main issues facing the city during the period of political crisis during 2001 and 2002.⁷⁷ Following her appointment, Risma adopted procurement reform as one of her program priorities to help the mayor establish some quick wins in

⁷⁶Interview with Eric Cahyadi, Surabaya City, 31 October 2014.

⁷⁷ Interview with Early Rahmawati, (*Pupuk Surabaya*), Surabaya City, 28 October 2014 and Wawan Some (*Yayasan Nol Sampah*), Surabaya City, 31 October 2014.

remedying the city's problems. In addition to Risma, there were a group of bureaucrats within the DPS who also contributed to the initiation and advancement of procurement reform, especially after the replacement of Risma as head of the unit in 2005. These included Agus Sonhaji and Eric Cahyadi, two young and idealistic bureaucrats who helped Risma to establish the *lelang serentak* (simultaneous bidding) and the electronic procurement system. Agus Sonhaji replaced Risma as the head of the DPS from 2005-2009. Eric Cahyadi then replaced Agus Sonhaji in the position between 2009 and 2011.⁷⁸

Apparently, Bambang DH supported the procurement reform as he judged that the reform would be a visible quick success that would demonstrate his ability to transform the bureaucracy in response to pressure from the public and civil society. Risma proposed the idea of procurement reform in an official meeting held by Bambang DH following the appointment of Risma as the head of the DPS. In this meeting, Bambang DH expressed his full support for her idea in front of an audience including the head of government agencies (Ashadi 2012, p. 58).⁷⁹ However, there was strong resistance to reform from within the bureaucracy during the early stages of the reform process particularly given the fact that in the early years of Bambang's leadership, the bureaucratic rotations he implemented did not eliminate entirely the previous regime's bureaucrat formation. Risma reports that she and her family even received death threats from those who opposed the reforms (Tempo 2013). In the end, however, Bambang DH was able to gain control over the

⁷⁸ Interviews with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

⁷⁹ Interview with Bambang DH, Surabaya City, 16 November 2014.

bureaucracy by, as noted earlier, directly supporting the reform and the continuation of the bureaucrats' rotations.

Bambang's support was also motivated by his intention to have full control over the bureaucracy. According to two well-informed informants, during the Sunarto period, control over the projects was monopolized and centralized in the hands of a business mafia figure known as GH (initial), a figure with close connections to Sunarto.⁸⁰ With close coordination with actors within the bureaucracy, he centralized all the budget allocations under his control and managed their distribution to his networks through patronage alliances. He collected kickbacks from all the appointed service providers and used the collected funds to finance his individual and political needs. According to Saleh Muqaddar, a senior PDIP politician, and a close partner of Bambang DH, Bambang wanted to clear out of the patronage networks left over by Sunarto's alliances. Thus, the implementation of procurement reform initiated through *lelang serentak*⁸¹, which opened the tender mechanism to wider business actors, was a breakthrough to demolish GH's bureaucratic and clientelistic networks that monopolized local government projects.⁸² This motivation paved the way for Risma and her team to proceed with their reformist plans.

As things progressed, Bambang DH, Risma and her team built useful alliances in support of procurement reform with a range of key actors. One of these was the well-respected technology-focused higher education institution in Surabaya, the 10 November Institute of Technology (ITS). The government worked in partnership

⁸⁰ Based on two confidential interviews in Surabaya City from October and November 2014.

⁸¹ See pages 145-146 of this chapter

⁸² Interview with Saleh Muqaddar, Surabaya City, 6 November 2014.

with ITS to develop the new procurement system in 2004. The university deployed four young professionals with IT and e-governance programming expertise to help Risma's team develop the system.⁸³ This link was facilitated by the fact that Risma, Agus Sonhaji, Eric Cahyadi and other key team members were graduates of ITS, making them part of the ITS network. Bambang DH had also graduated from ITS and was building a range of cooperative links with the University to support his programs and policies⁸⁴. Risma and her team also gained support from the media. According to Agus Sonhaji, in the early stages of the procurement reform process, Risma and her team worked closely with the local media to disseminate information about the reforms. The media helped raise public awareness of the reforms by publishing critiques, opinions and intellectual reviews about the transformation taking place. The most notable media outlet in this respect was the *Jawa Pos*. The *Jawa Pos* Institute of Pro-Autonomy awarded the Regional Leader Profile in the Public Accountability awards on 28 April 2004 and on 4 May 2005 for the city's e-procurement measures (Delgosea 2015). The Institute saw the reforms as an innovative measure for more accountable governance. *Jawa Pos* then disseminated news about the reforms through its nationwide networks.⁸⁵

Risma and her team also gained support from the local business community in Surabaya. While those who were closely linked to corrupt bureaucrats within the government opposed the reforms, business entities excluded from these networks tended to support the reforms. Initially, most local contractors expressed anxiety about the likely impact of the reforms, especially smaller entities. They perceived

⁸³ Interview with Agus Sonhaji, Surabaya City, 19 November 2014

⁸⁴ Interview with Rosdiansyah, Surabaya City, 24 October 2014.

⁸⁵ Interview with Agus Sonhaji, Surabaya City, 19 November 2014.

the unprotected open competition for procurement contracts as potentially impeding local businesses, as it would allow business competitors from other cities to participate. However, following a series of consultations, including the direct involvement of association leaders in the reform, design and planning phases, local contractors shifted from rejecting the reforms to supporting them.⁸⁶ KPK (2007) and B-Trust (2008) note that since the initiation of electronic procurement in 2004, the city government engaged in widespread dissemination and coordination activities with all related stakeholders in order to bring them on-side. This was one of the main successes of the early implementation of the reform.⁸⁷

Business sector support came specifically from influential business associations especially GAPENSI (the Construction Business Association), the core umbrella organization for most of the contractors. According to Eric Cahyadi, GAPENSI's support was attained following communication and dialogue with the association. GAPENSI was highly involved in the initiation process, especially in the process of disseminating information about procurement reform policies to business entities.⁸⁸ Agus Sonhaji also believes that the tangibility of the output that benefited the members of the associations was the key factor in securing increased support from the associations. Enforcement of simultaneous bidding and e-procurement, which were implemented in 2003 and 2004, provided evidence that through open,

⁸⁶ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

⁸⁷ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

⁸⁸ Ibid.

transparent, and competitive processes, local firms could win most of the available projects.⁸⁹

From an analytical perspective, the GAPENSI support for reform cannot be separated from the existing political context surrounding the changing relationship between business entities and associations in the period. At a macro level, the procurement regulation *Keppres* No. 18/2000 on the Government Procurement Guidelines gave delegated business certification to business associations: any business player could obtain business certification from various business associations, leading to the flourishing of new business associations. In this context, GAPENSI's support for reform could be part of their strategy to sustain their existence through adapting their organization to become a reassuring association and later inviting many contractors to become members of their own association. Related to this, the secretary of GAPENSI, Herwahyudi, claimed in his interview that, given increasing competition among the associations, the GAPENSI agenda had been to increase its membership by inviting new members and sustaining their loyalty through providing assistance and capacity building. GAPENSI support for the procurement reforms in 2002 was part of this goal, which included opening up access for their members to government projects.⁹⁰

Another aspect of the political context was a disconnection in the relationship between GAPENSI and GH, who was the central focus for associations and local governments seeking patronage for project bidding, as noted earlier. An informant said that GH controlled all the associations, not only GAPENSI, and distributed the

⁸⁹ Ibid.

⁹⁰ Interview with Herwahyudi (the Secretary of GAPENSI), Surabaya City, 21 November 2014.

government projects to various associations under his patronage. Thus, since the patronage link was to GH, not directly to Sunarto or bureaucrats within the government, the disconnection between GH and the new regime (Bambang DH) ruined the links between business and government. This fracture grew deeper given the bureaucratic rotations carried out by Bambang DH. Presumably then, business associations such as GAPENSI became powerless to challenge the new regime's agenda, and so supporting the agenda was the only choice to enable them to survive.⁹¹

Finally, procurement reform encountered little resistance from the city's parliament since politicians in the local legislatures were too weak to challenge the change for two reasons. Firstly, as mentioned above, at the time the reforms were initiated, the mayor had just prevailed in a contest for power against a legislature which had endeavored to unseat him. Public sentiment favored the mayor, while its trust in politicians in the local legislature experienced a decline. This situation potentially discouraged the local parliament members from blocking his procurement reforms. According to Bambang DH, Eric Cahyadi and Agus Sonhaji, the DPRD did not even reject the various mayoral regulations that were issued to effect the transformation, even though most of them were locally invented procedures and hence subject to their approval, rather than ones required by national regulations.

Secondly, politicians in the local parliament may have had a relatively small stake in the procurement system, as they were not familiar with procurement business and their patronage arrangements. The legislative election in 1999 resulted in numerous newcomers entering the political stage through newly established parties

⁹¹ Interview, Surabaya City, October 2014.

or opposition parties (PDIP). Relatively few of these individuals had contractor backgrounds or experience in government project implementation. At the same time, rent-seeking arrangements involving the executive and legislature were preserved in various other forms. These included allocating excessive allowances to the DPRD, providing compensation for passing regulations, including those required to approve the local budget and the mayoral accountability reports, and providing cash to members of parliament to support their institutional or individual needs from outside the local budget allocation (Aribowo 2008, p. 6).

5.4.2. Bambang DH's Second Period as Mayor (2005-2009)

During the mayoral election campaign in 2005, Bambang DH used procurement reform to boost his popularity. The PDIP had performed poorly in the legislative election one year earlier.⁹² This meant that he could not rely on his association with that party to boost his electability and had to rely largely on his record in government. Despite the widespread demand from the public for governance reform during Bambang DH's initial period in office, he had had few successes to make use of in this respect other than his restructuring of the bureaucracy and procurement reform. Accordingly he made use of both. His use of procurement reform to increase his popularity was apparent in the timing of the presentation of the *Jawa Pos* Institute for Pro-autonomy Leading Profile on Public Accountability awards in 2004 and 2005. The presentation in 2005 was conducted during the campaign period for the mayoral election. This reflected the fact that the *Jawa Pos* supported Bambang DH's campaign and that his deputy mayor, Arief Afandi, was a senior director of the *Jawa Pos* before running for deputy mayor.

⁹² The number of PDIP members in parliament decreased from 22 to 13 out of a total of 45 members.

As explained in the previous chapter, Bambang DH's leadership between 2005 and 2010 was characterised by a tendency to build close links with local elites, including the business mafia and other political parties. PDIP's small membership in the DPRD made it necessary for him to build a more cooperative relationship with politicians from other parties in the DPRD to ensure both his own survival and their support for his policy agenda. As a result, Bambang DH's commitment to good governance weakened in the second period of leadership, hindering the deepening of procurement reform in Surabaya. The result was that local elites from the bureaucracy and politicians could capture government projects and violate procedures. KPK (2010) reports that based on its public sector integrity survey in 2009 based on the customer perception, Surabaya ranked only at 27 among 49 on the procurement implementation with 5.25 index value of the 4.18 – 7.43 index range, indicating the occurrence of severe corrupt environment in Surabaya procurement practice despite the reforms (KPK 2010).

Informants from the procurement reforms, unfair selection and favoritism practices still occurred under Bambang DH's leadership. They estimated that around 40%-50% of the projects were accomplished through pre-arranged winner or favoritism-based mechanisms. The pre-arranged winner mechanisms usually occurred with projects that were so-called political schemes, that is, projects that were ordered by influential politicians or bureaucrats.⁹³ Two informants within the bureaucracy, for example, suggested that intervention by local legislative members and other politicians was still common in the period of Bambang DH's administration.

⁹³ Interviews, Surabaya City, November 2014

However, according to them, for most projects, service providers were selected through electronic procurement in an open and fair manner.⁹⁴

There are also signs that Bambang DH's party alliance penetrated the reform agenda in the second period of his leadership. As noted in the previous chapter, Bambang DH had tendency to facilitate his party's interests. He maintained a close link with PDIP figures Saleh Muqaddar, the head of PDIP from 2005 to 2009, and Jamhadi, the secretary of the PDIP and the head of the local arm of KADIN (the Indonesian Chamber of Commerce). In the context of government procurement, Bambang DH faced a clear conflict of interest because both Saleh Muqaddar and Jamhadi ran construction businesses. Saleh Muqaddar is the Provincial Head of a construction industry association called the Indonesian Construction Businesses Association (*Asosiasi Pengusaha Konstruksi Indonesia* or ASPEKINDO), while Jamhadi, apart from being the local head of KADIN, also operated a construction business, *PT Tata Bumi Raya*. This business was owned by Sucipto, a leading figure in the PDIP in Surabaya and the General Secretary of the PDIP at National Headquarters. Confronting this allegation, Saleh Muqaddar claims that despite the fact that Bambang DH was accommodating to local business interests, he managed his service to political parties through policies that benefited them rather than through giving privilege in winning government projects. He asserted that Bambang DH was firm in protecting the government projects from being captured by political and business interests.⁹⁵

⁹⁴ Interviews, Surabaya City, November 2014

⁹⁵ Interview with Saleh Mukaddar, Surabaya City, 6 November 2014.

The involvement of political interests in undermining procurement processes under Bambang DH's leadership is apparent from the various corruption cases involving local legislative members that occurred during his leadership. In 2006, for example, a local legislative member, K. Harminto, was jailed because he had intervened to ensure that his business allies won a lift establishment project at the local state-owned grocery market, *Pasar Turi* worth around IDR 2.4 billion. The corruption was exposed because the winning contractor sub-contracted the project to another contractor who failed to meet the specified contract (Jawa Pos 2006). In 2010, another corruption case emerged related to the training program dedicated to congressional members. The allocated budget of IDR 2.7 billion was not spent for training but distributed in cash to members of parliament (Surabaya Post 2011).

Despite the constraints imposed by these factors, however, Bambang DH's administration made significant further progress in carrying out procurement reform during his second period in office. Interview and other material collected during the fieldwork suggest that there is a political-economic explanation for this, entailing three elements. First, Bambang DH's program of staff professionalization served to encourage the reform minded bureaucracy to roll out the procurement agenda. As noted in the previous chapter, Bambang DH sought to professionalize the bureaucracy through measures such as rotation and promotion, skills development, the provision of rewards, and the imposition of punishments. With regards to procurement reform, the result was to ensure that the procurement team developed in a way that allowed innovative young professional bureaucrats to emerge with the ability to create and manage the system by them, without sourcing consultants to help. This ability enabled them to refine, adapt and continue improving the system in response to emerging issues in implementation.

In the middle of 2005, Bambang DH promoted Risma from the head of Program Development Section/DPS (Echelon III) to Head of the Research Development Department (also Echelon III) and promoted her further in the same year to lead the City Cleanliness and Landscaping Agency (Echelon II). The promotion of Risma was followed by the promotion of Agus Sonhaji from the head of the Electronic Procurement Unit to the head of the Development Program Section/DPS (Echelon III) within the Local Secretary Office, under which the Electronic Procurement Secretariat was located. Bambang DH also promoted Eric Cahyadi from a staff position in the electronic procurement unit to head of that unit (Echelon IV). In the same year, Risma was further promoted to Head of City Cleanliness and Landscaping (Echelon II) where she launched various reform initiatives to improve the city landscape that became the city's flagship development programs. In 2009, Risma was promoted once more to Head of the Local Development Planning Department (Echelon II), the most strategic and pivotal agency in designing the direction of the city's development program and budgets.

Second, beyond the institutional advancement, the team exposed their ability to manage the reform trajectory in the given political context. Under the lead of Agus Sonhaji and Eric Cahyadi, the e-procurement team was able to expand their support beyond the bureaucracy and the leadership. The procurement team successfully extended their role to include indirect support from a wider audience regionally and locally. Since 2005, for example, while the reforms continued to progress, the team has been able to promote and disseminate the reforms outside the city with support from the local and national media. The team also even benefited from the *Jawa Pos* awards in 2005 and its nationwide dissemination. This boosted the mayor's support for their efforts to advance procurement reform. Since 2006, Agus Sonhaji and

Eric Cahyadi and other team members emerged to become leading resources persons in the area of procurement reform regionally and nationally. Hundreds of workshops and training sessions have been delivered by the Surabaya team. The team was also consulted intensively by Bappenas (the National Development Planning Bureau) and NPPA on the process of developing a national policy on centralized electronic procurement that was established on 2007.⁹⁶

In 2008, under Agus' direction, the Program Development Section strengthened the city's legacy further as being the most progressive, innovative city in procurement reform. Agus accommodated a recommendation from a collaborative research project conducted by The Asia Foundation (an international NGO) and B-Trust, a local NGO based in Bandung city. The research found that Surabaya could potentially resolve the identified issues of the existing discrepancies in their procedures outside the e-procurement system. The research showed that the existing arrangement of procurement committees that were spread across different government units potentially hindered the system's effectiveness, especially in eradicating corruption due to the high conflict of interest within each government unit. The research proposed the establishment of the procurement service unit (PSU) to relocate the committee arrangement away from all technical units, into one specific unit with the support necessary to be effective. Agus and his team followed up on the recommendations and lobbied all the related stakeholders within the bureaucracy, and also the mayor, to establish the 2008 PSU. With the help of the Asia Foundation, Agus' team and the newly established PSU team promoted their PSU innovation regionally and nationally, thereby increasing the local

⁹⁶ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

government's prestige, especially following the adoption of the PSU into national regulations in 2010.⁹⁷

Another important dissemination process was the publication of the KPK research in 2007 entitled *Preventing Corruption Through E-Procurement: Evaluating the Success of E-Procurement Implementation in the Government of Surabaya*. This report justified the significant role of e-procurement reform in Surabaya in combatting corruption. Such dissemination processes ensured the spread in popularity of the reform and attracted a lot of attention from the national and local governments that later helped to provide an incentive for Surabaya to sustain the progressive reforms. In the period between 2006-2008, for example, as many as 35 national and local institutions signed Memoranda of Understanding (MoUs) with the city of Surabaya to replicate and help with the installment of the SePS into their institutions including the KPK and the Ministry of Information at the national level. According to Eric Cahyadi and Agus Sonhaji, there are also hundreds of national and local institutions that are interested in replicating the system.⁹⁸ However, the fact that the national government through the NPPA was establishing the application nationally was crucial. All of these external supports provided political incentives for the government of Surabaya to sustain and improve these reforms continuously.

Third, there was less penetration by politicians and business to capture the reform. The already established procurement reforms before the general election for local legislative and mayoral elections protected the government's project from

⁹⁷ Interview with Agus Sonhaji, Surabaya City, 19 November 2014.

⁹⁸ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

becoming the primary source of local political economic competition. Bambang DH claimed that he has had widespread support for the reforms since 2003, enabling him to continue the advancement of e-procurement and avoiding it being subjected to political negotiation. Thus, the institutional improvement provided disincentives and risks for politicians trying to hijack the project due to the transparent and easily monitored nature of the system.⁹⁹

At the same time, big business in Surabaya put up little resistance to the reforms. With their greater resources and capacity, larger enterprises did not have to rely on Surabaya government projects to generate a profit. They had the ability to win projects at the provincial level and in other districts, including ones offered by other local private businesses, given the city's economic scale. This was also true for the business mafia, that is, business groups associated with organized crime in Surabaya. Particularly in the early period of procurement reform, most of the projects were too small in value for such business groups to bother trying to win them. There was consequently little incentive for them to mobilize against change. The contractor mafia in Surabaya preferred to compete for projects using their wider provincial networks. They built clientelistic relationships with officials in unreformed governments at the provincial level and in other cities/districts to access projects. A notorious member of the business mafia in Surabaya, for example, La Nyala, the head of the East Java Chamber of Commerce and a leading figure in the *Pemuda Pancasila* (Pancasila Youth), a 'thugs' organization nurtured by the New Order, did not have much involvement in the government projects.¹⁰⁰ Thus with all this supportive political landscape, according to Bambang

⁹⁹ Interview with Bambang DH, Surabaya City, 16 November 2014.

¹⁰⁰ Confidential interviews, Surabaya City, October - November 2014.

DH and Agus Sonhaji, during this period the arguments between executives, legislatives, and business were no longer about stopping the reforms, but more about the technicalities of implementation, especially the nature and extent of government support for local businesses to help them use the system.¹⁰¹

5.4.3. Risma's Period as Mayor (2010-2015)

With Risma's victory in the 2010 mayoral election, procurement reform in Surabaya became politically stronger. As indicated in the political landscape section, Risma became known as a clean and reform-minded leader with strong support from civil society and the wider voting public and little if any connection to predatory interests. The fact that there was distance between Risma and the local predatory elites provided a supportive political landscape for procurement reform and reduced the likelihood of it being captured by the predatory elites. So too did continued bureaucratic restructuring under Risma's administration, because it helped to consolidate the formation of a stronger pro-reform alliance within the bureaucracy.

After becoming mayor, Risma displayed her continuous support for e-procurement by scaling-up the e-procurement system to establish the Government Resource Management System (GRMS). As explained earlier, the GRMS integrated all the parts of the city government's budgetary processes into a single electronic system covering e-budgeting, e-project planning, e-procurement, e-contracting, e-monitoring, e-payment and e-performance assessment. Since its establishment, it has allowed the city's government to control and monitor the consistency

¹⁰¹ Interview with Bambang DH, Surabaya City, 16 November 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

and accountability of the government's budget, the progress of development programs, and the performance of individual staff and management units. Risma is believed to monitor the procurement process regularly through a GRMS application that is installed on her handheld gadgets¹⁰².

According to Agus Sonhaji and Eric Cahyadi in the interviews, Risma employed the GRMS as a means to confront the legislature's interest in the local budget, in particular through its e-budgeting feature. This feature entailed the use of a centralized ICT application that controls and ensures alignment with procedures in the budgetary cycle from planning, programming and budgeting to allocations of financial resources. The system makes it difficult for officials to change, add, or modify programs and budgets in the local revenue and expenditure budget documents, without verification by the head of *Bappeda* and approval from the local secretary and mayor. Specifically, Risma ordered Agus Sonhaji, as head of the Planning Development Bureau, to use the e-budgeting system to avoid illegal insertion of politically-ordered programs, alongside the programs already agreed upon in formal discussions with the DPRD. Risma also prohibited her officials from using non-budgetary funds to provide support for any policy-making process involving the parliament members.¹⁰³

In addition to this internal consolidation, Risma also expanded external support to maximize the consistency of procurement management in the city. For example, she extensively promoted e-procurement and GRMS as the city's most important initiative for combatting corruption, using the media to good effect in this respect.

¹⁰² Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014

¹⁰³ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014

Her personal popularity and the city's governance performance ensured that her statements were widely covered by both the local and national media. Risma also established a close relationship with the local police, Attorney General's Office and KPK, facilitating their oversight of her administration and assistance in eradicating corrupt practices. She also made an agreement with the local Attorney General's Office and the local police that she would not protect and defend corrupt officials from any investigation conducted by local prosecutors or local police agencies. Regarding the procurement process specifically, she carried out collaborative engagements with these offices by involving them in the winner selection process for any complicated projects involving large budgets.¹⁰⁴ Unsurprisingly, procurement reform under Risma resulted in cleaner government procurement processes as evidenced by the data presented in section 3.5 in this chapter.

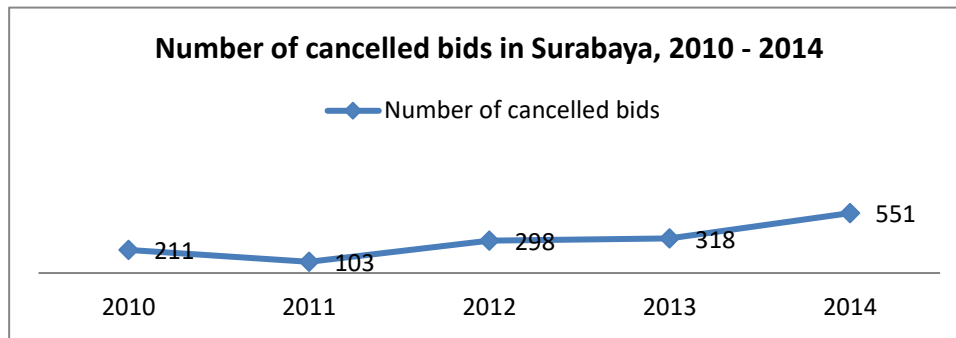
However, even under Risma, efforts to manipulate the system occur in the tight competition for obtaining projects. The Surabaya government budget efficiency orientation through e-price sourcing and e-budgeting and the application of appointing lowest price bidder mechanism, and standardisation of project value estimation has put pressure on goods and services providers to lower their bid prices against the already low project budget. In many cases, this, in turn, has discouraged them from participating in projects in the first place because of concerns that they would not make a profit, especially with projects that are complex in nature and hence risky¹⁰⁵. This disincentive has contributed to an increase in the number of government projects that fail to procure bidders. Government data on the number

¹⁰⁴ Interview with Kartiningrum (the Secretary of Procurement Service Unit), Surabaya City, 25 October, 2014.

¹⁰⁵ Interviews with four businesses, one NGO activist, and one politician background contractor. Surabaya City, November 2014

of canceled bids are shown in Figure 21. In 2015, 551 bids were cancelled, mostly due to a lack of participants in the bidding process. This number significantly increased from only 211 bids cancelled in 2010.

Figure 21: Number of cancelled bids in Surabaya



Source: Analysis of local government procurement primary data obtained from the SePS Secretariat (Kota Surabaya 2014).

The budget efficiency policies also trigger service providers to practice underpricing bidding strategies, especially for infrastructure projects. In some cases, the delivered output may not necessarily correspond with all these specified materials and labor input. To be able to lower their bids, some contractors often reduced the project cost (and increase profits) by using lower quality materials (under specification) and fewer work hour inputs than those that are specified in their contracts. On the other hand, the capacity of government authorities to diligently conduct in-depth oversight and an audit of each project is somewhat limited, given the fact that there are a massive number of projects in Surabaya each year. The widespread impact, according to a legislative member interviewed in this

study notes, has been that procurement reform has resulted in a lowering of the quality of infrastructure developments in Surabaya.¹⁰⁶

Private sector bidders naturally continue to find gaps in the system to distort the system. One common mechanism mentioned by local informants is that in some cases (especially in projects with a high value), well-connected contractors work together to win the bidding. In practice, a contractor can ask their business partners participating in a tender to bid higher to give a chance to his/her company to win. Another practice is that a big company negotiates with his/her business competitors who are on the list of the eligible companies to withdraw in exchange for compensation. However, these practices do not always work as they depend on the capability of a company or a network of companies to negotiate with their competitors despite tight competition among business entities and a narrow window of opportunity to obtain back up from the procurement committee or bureaucracy.¹⁰⁷

Aware of these problems, the city government since 2014 has implemented some measures to address severe project cancellation rates, and the low quality of projects. For instance, the government has managed projects earlier in the fiscal year. According to Agus Sonhaji, by starting procurement for projects earlier in the fiscal year (such as in the first quarter), the government is better able to deal with projects that have a lack of bidders. They can review their budget plans and re-procure such projects with adjustments when necessary. Since government

¹⁰⁶ Interview with Baktiono (Legislative Member from PDIP, 1999-2014), Surabaya City, 14 November 2014.

¹⁰⁷ Interviews with four businesses, one NGO activist, and one politician background contractor. Surabaya City, November 2014.

regulations allow direct appointment after bidding has failed twice, early scheduling ensures that there is adequate time to execute projects through the direct appointment mechanism.¹⁰⁸

To help ensure project quality, the city government has pushed government officials to conduct more diligent monitoring and auditing of project implementation. This has included the integration of the payment system into the GRMS. This requires all officials to proceed to payment only after a project audit has been conducted at the project site and an audit report has been recorded in the system¹⁰⁹. Apparently, concerning the project implementation monitoring and audit, the government still needs continued efforts to improve their officials' capacity. This is especially to deal with the complexity of projects and the number of projects implemented each year.¹¹⁰

The city government through the PSU office has also mitigated the potential for conflicts of interest in major projects. Kartiningrum, the secretary of Surabaya's PSU, explained that big projects often see business players try to obstruct procurement procedures and project implementation. To mitigate the scope for such behaviour, ULP involves representatives from the local police, the Attorney General's Office and independent advisors to assist the PSU and its procurement committee in the bidding process on big projects¹¹¹.

¹⁰⁸ Interview with Agus Sonhaji, Surabaya City, 19 November 2014.

¹⁰⁹ Interview with Eric Cahyadi, Surabaya City, 31 October 2014 and Agus Sonhaji, Surabaya City, 19 November 2014.

¹¹⁰ Ibid

¹¹¹ Interview with Kartiningrum (the Secretary of Procurement Service Unit), Surabaya City, 25 October, 2014.

Despite such efforts, it seems that there will be continued attempts by elite interests (especially business mafias and local politicians) to distort reform. However, in the case of Surabaya, especially under Risma's leadership, since the patronage system between the business mafia, local politicians and bureaucrats has significantly weakened and the reform coalition has been strong enough, the Surabaya government may potentially sustain its procurement reform initiatives.

5.5. Conclusion

In Surabaya, procurement reform has achieved considerable success and contributed to improvements in good governance. It could be argued that leadership has been the key factor in the adoption and successful implementation of procurement reform in Surabaya. Bambang DH showed his commitment to the reforms from the outset. Procurement reform was one of his flagship policies. Bambang DH's support was not limited to material support but also involved political backing, which was very significant given his ability to control local politics and the bureaucracy following the political crisis of 2002. Executive support for the procurement reforms became stronger in the period of Risma's leadership as she was the initiator of the reforms. However, a broader analysis of the local political context shows that the political origins of procurement reform in Surabaya extend beyond the leadership factor. Specifically, they lie in a political constellation whereby progressive forces have been able to limit the influence of predatory elites. Procurement reform was initiated in a period when progressive forces combining progressive civil society (such as NGOs, universities and media), a reformist leader, and pro-reform public officials were

strong enough to contest local predatory elites' practice of capturing local government projects.

Thus, the role of progressive civil society was pivotal in procurement reform. Besides effectively confronting New Order-era elites, civil society helped reform by increasing Bambang DH's confidence in his ability to confront the anti-reform politicians and pressuring the city's leadership and bureaucracy to improve their performance. In addition, the 10 November Institute of Technology (ITS) played a direct role in procurement reform from the initiation of the reforms by providing continual political and technical support to help the local government translate the reforms into applications. The media also played an important role by providing a channel for information about the reforms that in turn generated wider support locally and nationally from both public and national institutions. Leveraging the pressure and support of progressive forces, the role of reformist bureaucrats in Surabaya was also evidently substantial. Their dedication, continued cohesiveness, and innovative ideas guaranteed the initiation, implementation, and continued enhancement of the reforms. Their capacity to consolidate political support and provide direct, visible, positive impact helped the reforms to run sustainably and progressively.

The cohesiveness of progressive forces also served to weaken the predatory forces' ability to challenge the reform agenda. The corrupt bureaucrats lost their networks and power due to their exclusion from strategic positions. The old patronage links between bureaucrats and predatory businesses has loosened as a result of the changes in leadership. Thus, in the case of public procurement reform in Surabaya, the consolidation of the progressive actor coalitions was beyond the ability of the fragmented predatory alliances to resist. Bambang DH's protection of the reforms

appeared to weaken during his second term, but with a well organized and cohesive consolidated alliance watching his every step, there was a high disincentive for Bambang DH to undermine the reform. Reform has advanced further under Risma's leadership because her political support has emanated largely from progressive NGOs, universities, the media and pro-reform public officials.

Overall, Surabaya's experience with procurement reform provides evidence that in a locality where progressive force are powerful enough to shape the contours of the local political landscape, democratic decentralization can promote good governance. The next two chapters (Chapters VI and VII) confirm this conclusion by presenting a comparative of the city of Bogor. In this case, procurement reform failed in the face of opposition from predatory elites who retained their control over the state apparatus following democratic decentralisation, notwithstanding the election of a reformist mayor in 2014. The crucial difference in this case was the relative weakness of progressive civil society elements such as NGOs, intellectuals and media.

CHAPTER 6

THE POLITICAL ECONOMY OF GOVERNANCE REFORMS: CASE STUDY FROM BOGOR CITY

6.1. Introduction

This chapter analyses the impact of democratic decentralization on good governance in Bogor City. It argues that democratic decentralization has failed to improve good governance because, in contrast with Surabaya, reformist elements failed to emerge or at least present a serious political force, letting the predatory local political and bureaucratic elites nurtured under the New Order retain their political dominance. It presents an overview of the city including its history, geography, demography, social structures and economy, and examines the city's development outcomes including its limited progress in pursuing good governance despite some favorable economic development achievements.

The main part of this chapter is a mapping of the nature of political contestation within the city. It shows that the city has remained controlled by predatory political and bureaucratic actors despite democratic decentralization. New political actors associated with new political parties have been coopted by predatory elements. At the same time, potential reform drivers in the form of progressive forces such as non-government organizations, media, and universities have been absent from challenging these predatory forces and advocating good governance reforms. In 2014, a reform-minded figure was elected mayor. But with little support, he has been too weak to challenge the dominance of predatory elements. This has been the primary obstacle to good governance.

6.2. Bogor City: An Overview

6.2.1. A Brief History of the City

The city of Bogor is one of the oldest cities in Indonesia. Its settlement is historically associated with the existence of the *Pakuan Pajajaran* Kingdom, which emerged in the 670s in the waning period of the *Tarumanegara* Empire (one of the oldest Kingdoms in Indonesia). Settlement in the city began around the 10th century and it emerged as an important political administration in the 15th century when the locally famous King of *Pakuan* Pajajaran, Prabu Siliwangi, ruled the Kingdom and developed the city as the capital. In the late 15th century, the Kingdom was destroyed by the rising Sultanate of Banten that captured most of the Sunda (West Java) territory, including the *Pakuan* Pajajaran kingdom. The destruction resulted in the city becoming uninhabited and abandoned for around two centuries (Herwig 2007).

The arrival of the Dutch East India Company in the late 17th century helped the re-establishment of the abandoned city. The company changed the name of the city from *Pakuan* to *Buitenzorg* (Dutch for ‘beyond concerns or ‘without worries’). Since then, the city emerged as an alternative residential area for colonial settlement. The modern development of the city in the Dutch colonial period was marked by the establishment of the *Buitenzorg* Villa, built by the Dutch Governor-General Baron Van Imhoff in 1745. The Governor General of the Netherlands used the palace as his summer residence, enriching the palace through the creation of the world's largest gardens in 1817. In the same period, the Dutch also undertook a massive road development project called *de Groote Postweg* (Major Post Road) in 1811 and development of the railway networks to connect the Dutch colonial

territories across Java, which passed alongside the central settlement of Bogor City. This massive development thus connected Bogor City to other cities and reinforced the networks between Batavia and the city of Bogor (Hartanti and Martokusumo 2013, and Indraprahasta 2009). In 1860–1905, the Dutch boosted the city's development through the establishment of the largest agricultural school in the city, followed by other scientific institutions including a city library, natural science museum, biology museum, and veterinary medicine laboratories. Such massive city developments later propelled the city to become a centre for scientific development, especially in agriculture-related fields (Bogor Botanic Garden 2015).

In 1904, along with the decentralisation policy implemented by the Dutch kingdom for its colony in 1901 and the issuance of the Dutch Colony decentralisation law in 1903, *Buitenzorg* formally became the administrative Centre of the Dutch East Indies (*Gementee Buitenzorg*). In 1925 the Dutch divided its colony into several provinces and administered *Buitenzorg* as *Staads gemeente* or *Kotapraja*, that is, as a city with autonomous administration under the authority of West Java Province. The rearrangement resulted in the subordination of *Buitenzorg* to West Java province (Provinsi Jawa Barat 2015).

In the period of Japanese colonisation from 1942-1945, the centrality of Bogor City was undermined by the growing significance of Bandung, the capital of West Java. Following the country's independence in 1945, the status of Bogor as a *Kotapraja* (autonomous city) was reinstated and formalized in 1950 through Law 16/1950 on the Establishment of Major Cities in East Java, Central Java, West Java and the Special Region of Jogjakarta. The autonomous status of the city remained despite regulatory changes in regional autonomy in the post-independence period through Law No. 1/1957, Law No. 18/1965 and Law No. 5/1974. Despite its status,

especially prior to 1980, the city remained small with less rapid growth in city's economy. Since the 1970s, along with the centralistic patterns of the country's development, Jakarta (which used to be Batavia), experienced massive growth and became the centre of the country's economic and physical developments. The proliferation of Jakarta's economy impacted on its buffer regions, including Bogor City, which benefitted from the overflow of Jakarta's economic activities. In 1997, Bogor City was integrated into the Jakarta Metropolitan extended regions called *Jabotabek* (Jakarta, Bogor, Bekasi, and Tangerang). This integration was also boosted by the development of the Jakarta-Bogor-Ciawi toll road (the *Jagorawi* Highway) in 1973, which enhanced the relationship between Jakarta and Bogor City and interconnected the cities (Indraprahasta 2004; Tohjiwa et al. 2010; ADB 2009).

Since then Bogor City has experienced a massive urbanisation process that later made the city more cosmopolitan and highly populated. In 1995, the administrative territory was extended to take in some parts of the surrounding region, i.e., the Bogor Regency and Sukabumi districts. The extension made the widening city administrative area six times bigger than it had been (Ridwan 2013). The greatest impact on the expansion and growth of the Jabotabek agglomeration was made by the increasing population of the Bogor City administration. According to the ADB (2009, p. 3) the population had an average annual increase of about 10.59% in the period from 1990 to 2000. The population reached 743,478 in 2000 from only 271,711 in 1990. Other cities such as Bekasi and Tangerang only recorded 4.54% and 2.98% growth, respectively. The current regional autonomy policy, Law No. 22/1999 and its subsequent revisions, reinforce further the city's autonomous status

to embrace decentralized power and authorities in terms of politics, administration and finance.

6.2.2. Geography, Demography and Administrative Structure

The city of Bogor is located at the foot of the Salak Mountain at an altitude of 190 to 350 meters above sea level, featuring a hilly type of township. Its area lies over the basin of a volcanic mountain and features a humid and rainy climate that has led to the city being commonly nicknamed '*Kota Hujan*' (Rain City). Its average temperatures are lower than in coastal Java, at around 25.9 °C compared with 32.2 °C in Jakarta. Bogor City is small in terms of geographic size yet highly populated: according to the Local Bureau of Statistics data, it occupied 11,850sqm and had a population in 2014 of 1,030,720 people (51.06% men and 48.94% women) comprising 252,967 households. The population had increased significantly from only 743,478 inhabitants in 2000, suggesting a relatively high increase in population growth at 2.38%, as a result of rapid urbanisation. Besides the domination of people with Sundanese ethnicity, which accounted for about 87% of its population, numerous ethnicities exist in the city to make up the rest of the population including *Betawi*, Javanese Chinese, Arab and European people (Ridwan 2013).

Administratively, the city is an autonomous city under the oversight/authority of West Java Province. Its administrative territory is surrounded by the Regency of Bogor and is situated about 85 km to the north west of Bandung, the capital city of West Java province. The city is closer to Jakarta, being approximately 56 km south of the capital. Due to this location, together with the fact that there are three other regencies and four cities surrounding Jakarta, the city has been incorporated as part

of the capital city's extended agglomeration called *Jabodetabekjur*, which comprises about 28 million inhabitants.¹¹² As an autonomous city, a mayor and deputy mayor lead the city, supervised by *Dewan Perwakilan Rakyat Daerah* or DPRD (the local legislative body), which consists of 45 directly-elected members. The city is divided into six *kecamatan* (sub-districts) which oversee 31 *kelurahan* (suburban districts) and 37 *desa* (villages) or administrative units (Ridwan 2013).

6.2.3. *Economic and Social Development*

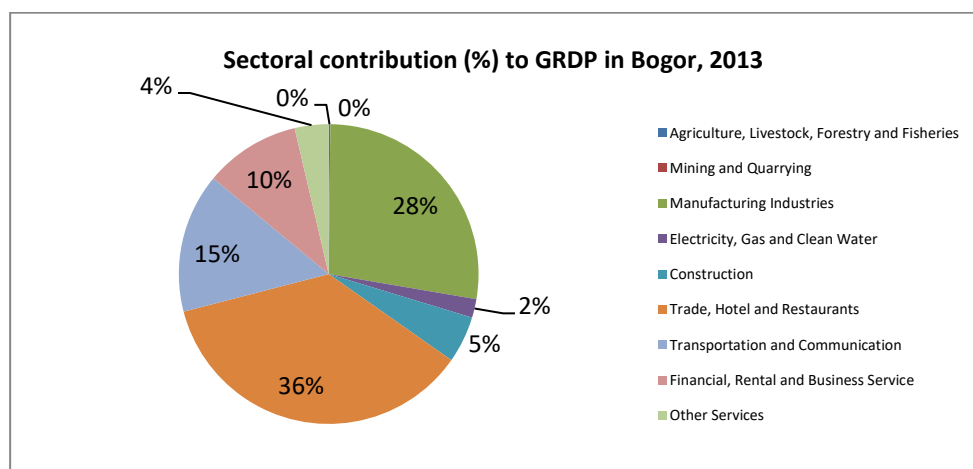
Bogor City is an important city in economic terms. The geographic location of the city, very close to Jakarta and the provincial capital of Bandung, has created a range of economic opportunities for it. It is connected to Jakarta and Bandung by good road infrastructure, including both highways and ordinary roads and train networks. This has helped to make the city an attractive tourist destination. Its position amid a mountain range, its mild climate and beautiful scenery has attracted many visitors, especially from Jakarta. Its attractiveness to tourists has been enhanced by the presence of the Presidential palace, the biggest national Botanic Garden and museums inherited from the colonial era. Such endowments, in combination with good infrastructure, have resulted in government efforts to brand the city as an alternative settlement, supporting the greater Jakarta development, tourism destinations and as a popular venue for various events of international and national importance (Ridwan 2013).

¹¹² *Jabodetabekjur* is the extension of Jabotabek. It consists of Jakarta Capital City, Bekasi and Bogor City districts, Bogor City, Bekasi and Depok cities (in West Javarovince), Tangerang district, and Tangerang and South Tangerang cities (in Banten Province) (Yananda, Maksum & Faturrahman 2017).

In the last decade, the city has grown more dynamically as a result its economic, social and infrastructure development. There are seven traditional markets, eight large shopping malls, and 45 hotels, and 1,272 small and medium factories that share the city's landscape. The city also hosts 12 public and private hospitals that serve patients in the city and surrounding region. Importantly, the city is known as one of Indonesia's major scientific and educational centres. 11 universities operate in the town including the prestigious Bogor Agricultural Institute (IPB), the country's main educational and scientific hub for agriculture (Ridwan 2013).

In 2013, the GDP of Bogor reached IDR 23,815 billion, which was significantly lower than for Surabaya, for example, which was about 131,604.6 billion. However, its dominant economic sectors resembled those of Surabaya. The commerce and services sectors accounted for around 36% of the city's total GDP, while the manufacturing industry accounted for 28%. Other important sectors included Transportation and Communication and Finance, which accounted for 15% and 10% of GDP respectively (Figure 22)

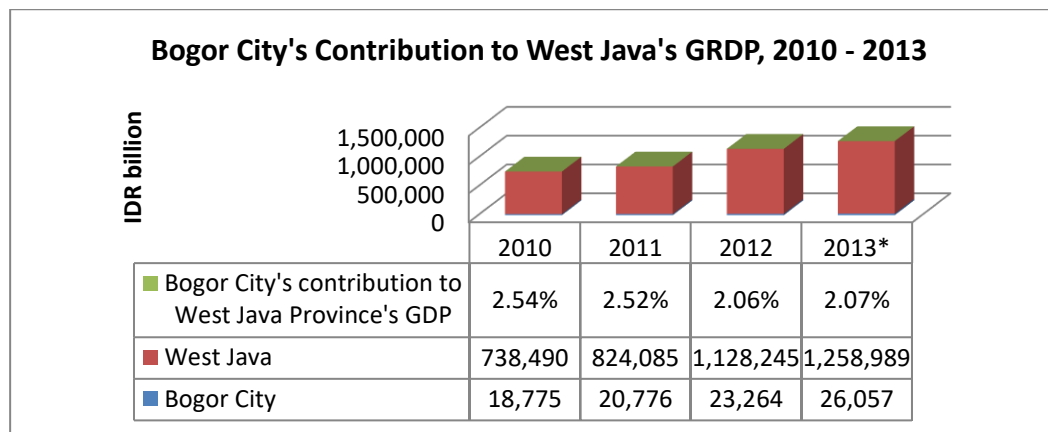
Figure 22: The contribution of diverse sectors to local GRDP in Bogor City, 2013



Source: BPS Kota Bogor (2014).

Bogor City, however, is not the main contributor to the regional economy of the West Province economy. Its GRDP contribution was only around 2% - 2.5% 1.75% of the regional GRDP in the period from 2010 to 2013 (Figure 23).

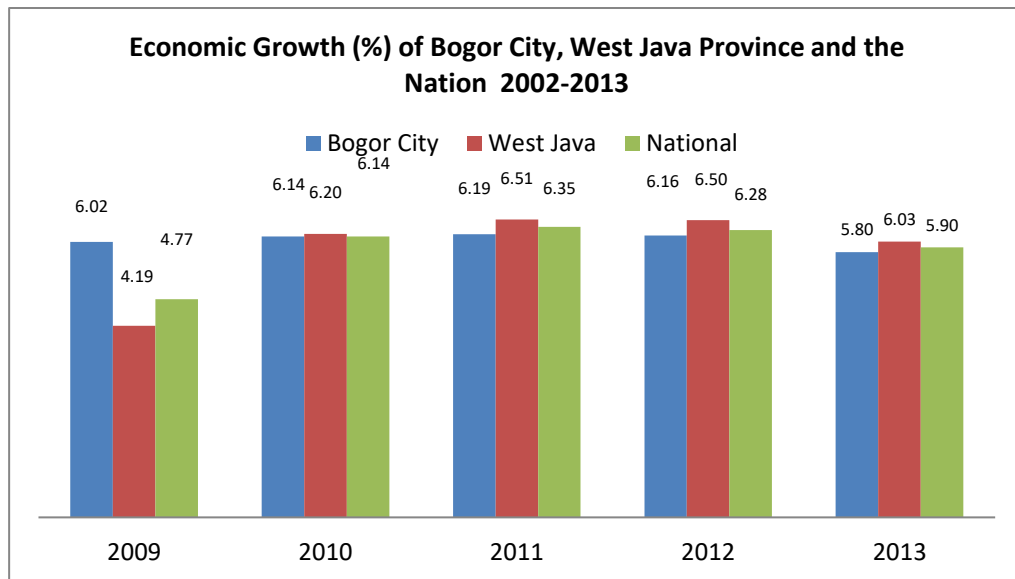
Figure 23: GRDP comparison between Bogor City and West Java Province



Sources: BPS Propinsi Jawa Barat (2012), BPS Jawa Barat (2015) and BPS Kota Bogor (2015).

During the period of democratic decentralisation, Bogor City achieved substantial economic growth. Between 2009 and 2013, it produced average GRDP growth of around 6% (See Figure 24). The trends, however, show a stagnant growth compared to the provincial and national growth levels, which had experienced a more dynamic growth rate in the period from 2009-2013. The growth in Bogor City was significantly higher than the West Java regional and national average in 2009. It accounted for 6.02% in 2009, notably better than the 4.19% and 4.77% of growth increase achieved by regional West Java and the nation as a whole. However, especially after 2010, while the provincial and national levels achieved significant growth increases, the city only achieved low growth. In 2013, the growth rate in the city was only 5.8%, slightly lower than the provincial growth rate of 6.02% and the national growth rate of 5.9%.

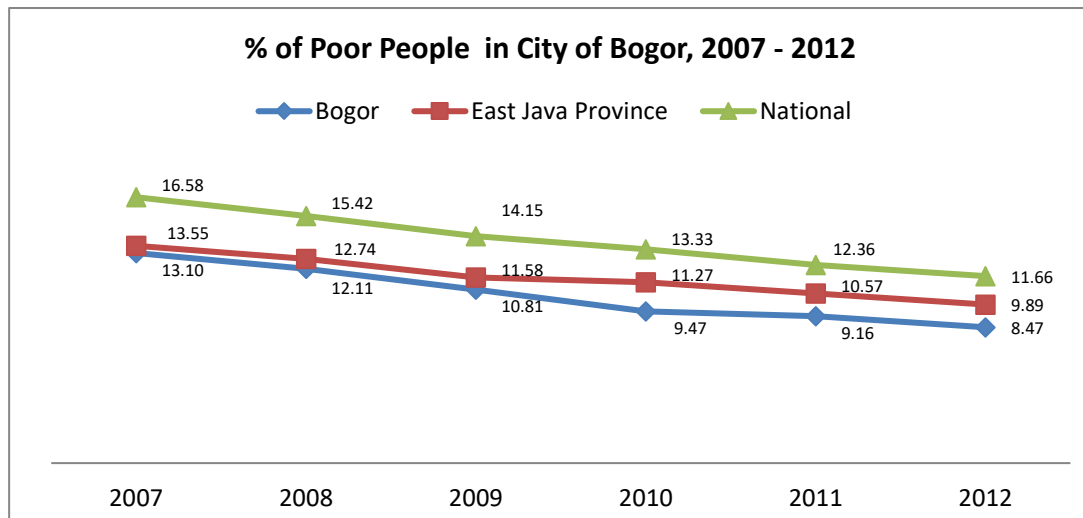
Figure 24: Economic growth comparison in Bogor City, West Java Province and the nation



Sources: BPS (2015), BPS Propinsi Jawa Barat (2012), BPS Propinsi Jawa Barat (2015) and BPS Kota Bogor (2015).

Alongside the tendency for continued improvement of the city's economy, the city has also had some achievements in social indicators such as poverty reduction and human development (see Figure 25 and Figure 26). Poverty incidence in the city significantly dropped by about 4.63% since 2007 from 13.10% to 8.47% in 2012. This performance is slightly better than the provincial level, which was only able to reduce the percentage of those in poverty by 3.66% over the period. However, the proportional decrease in poverty poverty was still behind the national figure, which recorded a 5.81% shrinkage in the same period.

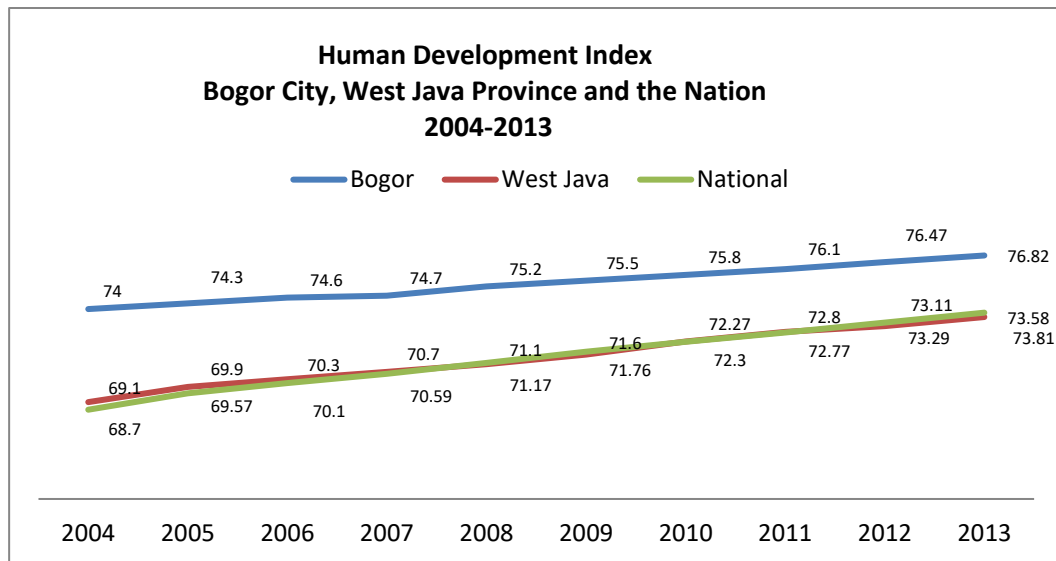
Figure 25: Trends of poverty incidence in Bogor City, West Java Province and the nation



Sources: BPS (2015) BPS Propinsi Jawa Barat (2015) and BPS Kota Bogor (2014).

A more positive development outcome, however, can be identified in the city's achievement with regards to the human development index (HDI). The local HDI data series from 2004-2014 indicates continual improvement (Figure 26). It started with a significantly higher level of HDI compared with the national and provincial average: the index in the city experienced gradual but continuous growth, starting from 74.0 in 2004 and reaching 76.82 in 2013. The level of progress is, however, slightly lower than that of the provincial level, which increased its HDI from 68.7 and 69.1 in 2004 to around just below 74 in 2014. Moreover, the slower HDI improvement in the city results from the closing gap between the city and both the national and provincial averages, despite the still existing significant differences.

Figure 26: Human Development Index (HDI) comparisons for Bogor City, West Java Province and the nation

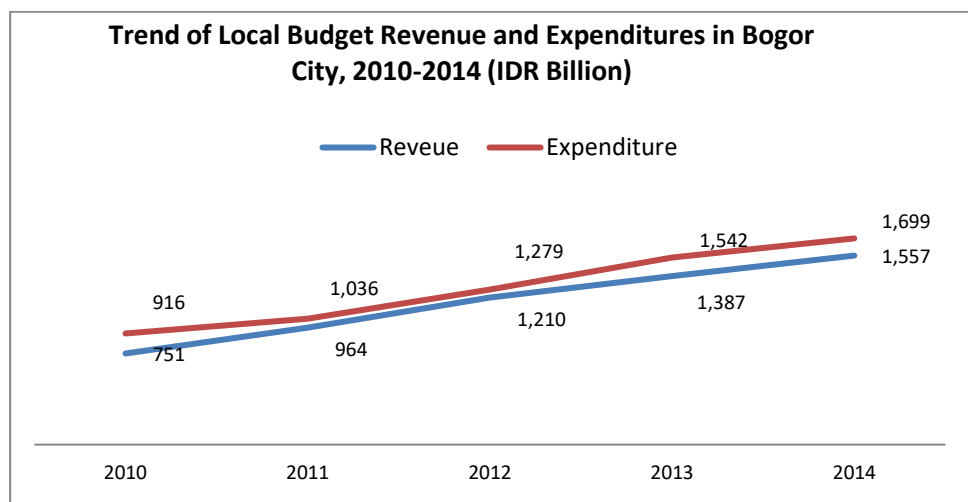


Sources: BPS (2015) BPS Propinsi Jawa Barat (2015) and BPS Kota Bogor (2014).

Finally, in the area of local government revenue and expenditure, there had been a significant increase in the local government budgets. Revenue increased more than twice from IDR 751 billion in 2012 to 1,1557 billion in 2014 (Figure 27). This trend also occurred for public expenditure, which almost doubled in total value in 2014, compared with 2011, with a notable increase from 916 billion to 1,699 billion. The budget figure of the city also shows the increasing dependency of the city on national transfers despite its still high reliance on national subsidies. As can be seen from Figure 28, the national subsidy contributed to 55.14% of the local budget in 2014, reducing from 2010 when it accounted for 74.16%. The reduction was associated with the city's capacity to increase its locally generated revenue from only 14.9% in 2010 to around 26.5% in 2014. It is also evident that in the case of

Bogor City, the element of ‘other income’¹¹³ contribution was significant; as important as the locally generated revenue (PAD). In 2011-2012, its contribution was even higher than the PAD, reaching 20.7% and 23%, respectively, whereas the PAD contributions in the period were 18.8% and 17.4%. In 2013 and 2014, the PAD exceeded the proportion of ‘other income,’ but still indicated the significance of the ‘other incomes’ in local government structures by contributing 20.5% in 2013 and 18.3% in 2014.

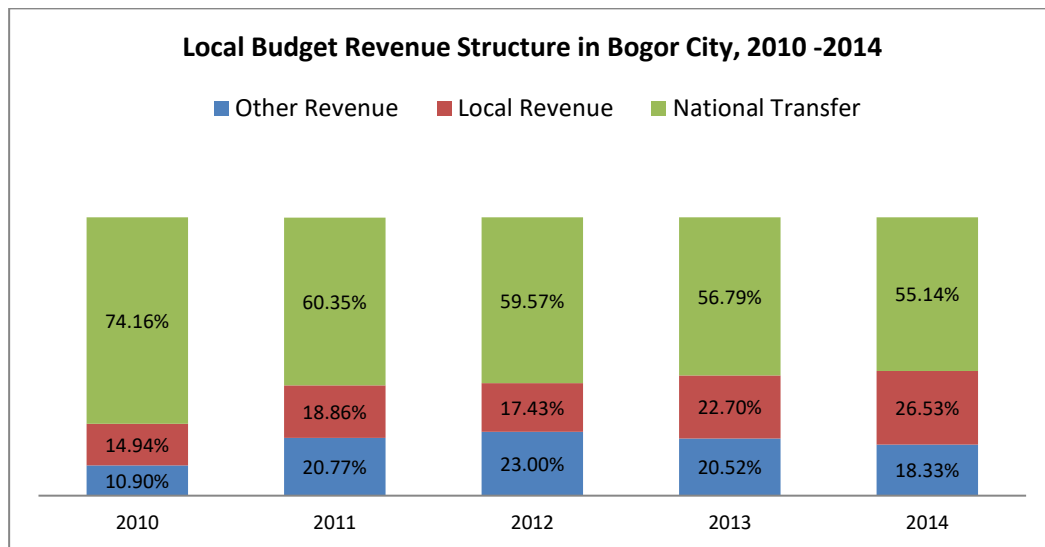
Figure 27: Bogor City local budget revenue and expenditure



Sources: Analysis from the local budget data of the Kementrian Keuangan (2015)

¹¹³ This includes disaster emergency funds, grants from the national or provincial governments or other legal entities, sales of government assets, bank interest, third party grants, compensation, various expiations, and revolving funds.

Figure 28: Local budget structure in Bogor City



Source: Analysis from the local budget data of the Kementrian Keuangan (2015).

6.2.4. Civil Society

Statistically, the city has an active civil society and media presence. The city is home to a growing number of civil society organisations. There are around 190 civil society organisations formally registered by the local government, along with numerous other unregistered entities (*Antarabogor* Bogor 2014). Their work is based on various backgrounds and interests and include organisations with a cultural focus, artistic groups, professional associations, youth organisations, political party supporters, and ‘thug’ based organizations. In terms of the media, there are ten local newspapers. The growth in local media, however, occurred only in the post-New Order period. The oldest and the most famous is *Radar Bogor*, which was established in 1998. Two other well-established media are *Pakuan Raya* (established in 2005) and *Jurnal Bogor* (established in 2008). Together with the existing newspaper-based media, there were also leading players in online media, which in Bogor has grown significantly in the last five years. There are also two

TV channels providing local broadcasts in the city, Bogor-TV and *Megasvara TV*, and numerous local radio stations. Most national media (print, online, or TV) are easily accessible. Besides the civil societies and media, 11 universities in the city also potentially enrich the vibrant activism of progressive forces in the city. Two major universities serve the intellectual community, including the prestigious Bogor Agricultural Institute-IPB (a state university) and *Pakuan University* (a private university).

In contrast to Surabaya, there is no significant evidence to show the active engagement of the civil societies with promoting good local governance, either through effective pressure or strategic collaboration. According to the city mayor, Bima Arya, typically the dominant groups of civil society work in the area of cultural and local product promotions and professional hobbies, alongside the religious-based associations. There are only a few active civil society organisations that engage with pro-democratic activism. Most of them are the local chapters of student-based national organisations such as HMI (the Muslim Student Association), PMII (the Indonesian Muslim Unity), KAMMI (the Indonesian Muslim Student Family) and the student association of the IPB (Bogor Agriculture Institute), which took part in the national movement to take down the New Order regime in 1998.¹¹⁴ There is one well-known local NGO called LBH *Keadilan Bogor* (the Legal Aid Foundation – Justice Bogor), which appears to have been active in uncovering various corruption issues in the city since it was established in 2012.¹¹⁵ There are also various sporadic street demonstrations in the city, mostly raising

¹¹⁴ Interview with Bima Arya (the city mayor, 2013-2018), Bogor City, 12 July 2014.

¹¹⁵ Interview with anonymous Bogor City, 18 July 2014, Bima Arya (The city mayor, 2013-2018), Bogor City, 12 July 2014 and Sugeng Teguh Santoso (*Lembaga Bantuan Hukum* (LBH) *Keadilan* - Legal Aid Foundation-Justice), Bogor City, 7 December 2014.

concerns about corruption issues, but their institutional organisations are neither registered nor have an established office for their activities.

Informants from the civil society and media asserted that there are no NGOs or media (other than their own organisation) that display strong idealism in favour of progressive activism in the city. Most of those who expressed such views through media opinions or street demonstrations worked to negotiate their power through economic interests (such as financial support or government projects), or by serving the competing local predatory elite interests.¹¹⁶ There is also no indication of active collaboration between the local government and the existing universities resulting in disengagement of the universities from good governance issues. Such a condition has occurred in the absence of civil society organisations promoting pro democratic values and pressuring the local government to perform better in delivering public services, as discussed later in section 3 of this chapter on the Political Economy Landscape of Good Governance in Bogor City under Democratic Decentralization.

6.2.5. Governance

Unlike Surabaya, the city of Bogor's progression towards good governance has not been widely discussed in the academic literature. A few papers record that the city engaged in best practice in the area of environmental conservation through various programs implemented since 2000 (Indraprahasta 2009; Kirmanto, Ernawi & Djakapermana 2012; International Council for Local Environmental Initiatives (ICLEI) 2013). Another significant assessment with more focus on good governance appears in the work of Komite Pemantauan Pelaksanaan Otonomi

¹¹⁶ Interview with Sugeng Teguh Satoso, Bogor City, 7 December 2014, Suprpto (*Arbangun* Foundation), Bogor City, 25 September 2014, Ambro (*Kompas*), Bogor City, 19 September 2014 and Tegar Bagdja anugrah (*Radar Bogor City*), Bogor City, 24 September 2014.

Daerah (KPPOD) (2007) on Local Economic Governance, which compared 243 districts across the country. According to this study, Bogor was not among the strong performers for good economic governance. It placed 155th out of the 243 districts/cities surveyed. The most notable weaknesses in the city, based on the nine variables used in the survey, were its business development program, capacity and integrity of the local leader, local government and business interactions, and business licensing indicators¹¹⁷ (KPPOD 2007, p. 113).

The government claims that over the 15-year period of democratic decentralization, the city has undergone various development programs, especially in the area of road infrastructure, education and health facilities (Ridwan 2013). However, there are also indications that the city government has not been effective in delivering public services. According to Yayat Supriyatna, an urban analyst from the University of Trisakti, infrastructure networks and transportation have become the most urgent issues in the city (Kompas 2014). The National Department of Transportation once reported that the city ranks first in terms of traffic congestion (Detik 2014) and the provincial government called the city the third most polluted city in West Java (Tempo 2013). Other prevailing urban issues also include expanding urban poor settlements with unhealthy infrastructure facilities and a lack of sanitation and water services, uncontrolled waste, increasing numbers of street vendors, and high traffic congestion. The growing number of beggars and homeless people is also contributing to a messy landscape in the city. The above issues have caused concern to the public in the city of Bogor and have become the subject of daily reports in

¹¹⁷ Five other variables used in the survey include land access, local infrastructure, local regulations, transaction costs and security and conflict resolution.

the local media.¹¹⁸ These problems were also raised in local planning documents such as the Bogor City Regional Medium Term Development Plans for 2004, 2009 and 2014, confirming the insufficient level of progress in dealing with the city's priority issues.

Moreover, the city government seems to have made few significant efforts to ensure that there is transparency, accountability, and an absence of corruption in the city's governance. Twelve government informants, including three parliamentary members (2004-2009), the city mayor and deputy mayor, agreed that there had been no significant program implemented to deal with governance issues such as transparency and accountability issues in the administration. Rather they believed that corruption, collusion, and nepotism are rampant in the government administration at all levels, amongst the executive and legislative members (DPRD).¹¹⁹

There are programs that supposedly enforce that transparency and accountability are carried out, such as the business licensing reforms through one-stop shop services, online taxation, online high school student admission, and the implementation of procurement reforms. In 2014, the government also initiated plans to improve the transparency of the local budget. However, their outcomes on good governance could not yet be clarified.

¹¹⁸ Interview with Bima Arya, Bogor City, 12 July 2014.

¹¹⁹ Interviews, Bogor City, July – September 2014 and December 2014.

6.3. The Political Economy Landscape of Good Governance in Bogor City under Democratic Decentralisation

6.3.1. The Iswara Years (1999-2004)

In contrast with some other parts of Indonesia (and most importantly for the purposes of this analysis, Surabaya), the early post New Order period did not witness the emergence of new local political leadership in Bogor City. The mayor, Iswara Natanegara (Iswara) who ran the city between 1999 and 2004 was appointed in April 1999, just a few months before the first democratic legislative election in June 1999. Following the process employed by the New Order, he was appointed by the local parliament that was elected in the 1997 general election. Before becoming mayor, Iswara was a career bureaucrat in the Ministry of Home Affairs, a key bastion of politico-bureaucratic authority and the instrument through which Suharto exercised control over local governments.¹²⁰ Iswara's election as mayor thus amounted to a New Order elite capture of the local executive in Bogor, giving local predatory forces nurtured under that regime a pivotal chance of surviving the transition to democratization and decentralization.

The general election in June 1999 saw the election to the Bogor DPRD of numerous figures from the PDIP (Indonesian Democratic Party of Struggle) and other newly established parties (Table 5). Together, the PDIP, PKB (National Awakening Party), PAN (National Mandate Party), PK (Justice Party), PKP (Justice and Unity Party), PNI (Front Marhaenist Party), PUDI (Indonesian Uni Democrat Party), PBB

¹²⁰ Interview with Luvi Triadi (Bima Arya's team) and Chusnul Rozaqi (the head of City Library and Archive Agency and former head of Communication and Information Agency), Bogor City, 30 December 2015.

Crescent and Star Party, and PP (Unity Party) accounted for 25 of the DPRD's 45 seats. By contrast, the Golkar Party, and PPP (United Development Party) won only 15 seats (35% of the total) between them with the military accounting for further five seats (Komisi Pemilihan Umum Daerah [KPUD] Bogor 1999).

Table 5: The party seats in the DPRD of Bogor City, 1999-2004

	Name of Parties	Number of Seats
1	Golkar (Party of the Functional Groups)	8
2	PPP (United Development Party)	7
3	PDIP (Indonesian Democratic Party Struggle)	12
4	Military	5
5	PKB (National Awakening Party)	1
6	PAN (National Mandate Party)	4
7	PK (Justice Party)	3
8	PKP (Justice and Unity Party)	1
9	PNI (Front Marhaenist Party)	1
10	PUDI (Indonesian Uni Democrat Party)	1
11	PBB Crescent and Star Party	1
12	PP (Unity Party)	1
	Total DPRD members 1999-2004	45

Source: Komisi Pemilihan Umum Daerah (KPUD) Kota Bogor (1999)

However, this election result did not fundamentally change the distribution of political power in Bogor City. According to three of senior political figures interviewed in the city, the political parties and legislative members proved

ineffective in controlling and providing oversight of the executive under Iswara for two main reasons. First, most members of the DPRD were new to political office. They had very limited background and experience in politics and little understanding of government administration and its complex regulations and structures. This in turn meant that parliamentary members tended to spend their time learning the ropes and being directed by the local government in how to carry out their responsibilities. The most experienced members were from Golkar, PPP and the military fraction of the DPRD, all of which were close allies of the mayor and his administration. These members came to act as ‘mentors’ for newcomer politicians, giving them an opportunity to sway decision-making in directions they favoured.

Second, the new DPRD members came under a range of types of pressure that served to make them dependent upon the executive. On the one hand, most of them experienced a sudden jump in social status. This meant that they had to adapt their behavior to their new social status including by having a high-cost social life. On the other hand, they received many requests for charitable and financial support from their constituents. Combined, these factors led to a tendency for DPRD members to find ways to try to access funding from the government, thereby creating a dependency relationship with the city administration and entangling them with predatory forces in the bureaucracy.

In this context, the relationship between the DPRD and the local executive became transactional in nature. Rather than focus on using the local budget to deal with the various problems facing the city, they focused instead on enriching themselves and lubricating patronage networks. This in turn allowed the mayor and the executive to run the city without control from the DPRD.

An illustration of this pattern is what became known as '*Anggaran Pendapatan dan Belanja Daerah - APBD Gate*' (APBD refers to the local government revenue and expenditure budget), a scandal that involved all DPRD members. The district Attorney General's Office investigated the cases of illegal expenditure made by the DPRD in the 2002 financial year, when they allocated IDR 5.5 billion in the original local budget and IDR 1.3 billion in revised budget documents to cover their operational costs and fringe benefits. The budget was not in the initial executive budget draft, but then the DPRD inserted it into the APBD documents. They then asked the executive to implement the budget and disburse it to all members of parliament. The procedure was against National Government Regulation No 110/2000 on the Financial Position of the Local Parliament, stating that budget proposals should be planned by the executive not the legislative members, thus inserting the budget by the legislative members violated the regulation. The local Attorney General's Office started investigating the case in October 2003, eventually deciding to prosecute all 45 members of the DPRD for corruption. 32 of these were sentenced to 1 year in jail by the provincial high court in 2010. Three passed away while the rest of the cases were postponed for further investigation (Tribunnews 2010; Koran Transaksi 2010).

One of the most obscure facts regarding the scandal was that none of the bureaucrats that were supposedly involved in allocating the DPRD budget were investigated as a suspect or sentenced. The mayor, the local secretary, the secretary assistants, the head of finance, and the head of regional planning, all avoided the prosecution. There was a suspicion that the bureaucrats in the executive colluded to cover each other, including managing the case with the local Attorney General and the courts (Koran Transaksi 2010). This also reflects the close relationship between the

bureaucrats and local Attorney General's officials who worked together to continue their supremacy in the post New Order era.

At the same time, progressive civil society forces in Bogor City remained weak and disorganized during this period. There were some demonstrations criticizing the local government and local DPRD, but most of them were too small to constitute a consolidated public movement or present forceful public demands for change. Most such demonstrations have been attended by only tens of participants from just one, two or three organizations.¹²¹ Despite the weakness of progressive forces within civil society, results from civil society activism nevertheless emerged. For instance, in 2002, some NGOs¹²² challenged the local parliament when it accepted the mayor's 2002 Accountability Report. They expressed concern about an issue where the mayor bribed the entire local parliament to approve his accountability report. They also asked the local parliament to reject the report as they saw that the mayor had not made any progress in educational services, economic recovery and reduction of poverty, and corruption (*Pelita* 2003).

They also pointed out that the local parliament used the accountability report meeting to seek financial support from the mayor for their interest. They also expressed suspicion that IDR 1.595 billion had been distributed to all DPRD members to pass the mayor's report. This amount was already in the allocated budget for the DPRD, but the fact that the disbursement occurred close to the DPRD meeting raised suspicions about it having a political purpose. The scent of a political

¹²¹ Interviews with Bima Arya, Bogor City, 5 September 2014 and Luvi Triadi and Chusnul Rozaqi, Bogor City, 30 December 2015.

¹²² These included Himpunan Mahasiswa Indonesia – HMI (Indonesian Moslem Student Association), Lead, and the H'ry Centre. Except for HMI, a well-established student association, informants in the field did not recognize the other two NGOs as formally established with sustainable program and activities (Interviews, Bogor City, July – September 2014).

transaction became stronger when the executive disbursed another IDR 1.350 billion following the passage of the report. It is unlikely that such small sums would have had a significant impact on the DPRD's decision to pass the accountability report. But, combined with the three NGOs' protest, while it was enough to persuade three legislators from the PKS (a new party well-known for its idealism around matters of corruption and good governance) to reject the report and return the money distributed before the meeting¹²³ (Pelita 2003), the rejection of the report did not actually occur.

In the case of 'APBD Gate', civil society pressured the local Attorney General's Office to address the case, not only in terms of the DPRD's involvement but also that of the bureaucrats. *Tempo* (2004) reported that an NGO coalition called *Koalisi Rakyat Penegak Supremasi Hukum - Korp-H* (Citizens' Coalition for the Supremacy of Law), established by 14 civil society organizations, had been formed to pressure the local Attorney General's Office through street protests. It is not clear in this instance, however, that such protests had a significant influence on the way local prosecutors handled the case, given the fact that no bureaucrat was prosecuted in the local court. At the same time, their concerns do not appear to have had a marked influence on broader public opinion. This can be seen in the results of the general election in June 2004. Many members of the DPRD who were involved in the 'APBD Gate' were re-elected for the following period (2004-2009). Two of them even sat as the Head and the Deputy Head of the Local Parliament.

¹²³ In fact, according to the local informants, PKS has often failed to live up to this idealism, rather than take action to enhance the popularity of the party in the following general election in 2004 (Interviews, September and December 2014).

With the above political constellations, the government ran the city as ‘business as usual’. There were no notable efforts in the city to achieve good governance under Iswara’s leadership (1999 – 2004). Rather the key feature of the city’s governance was the continuation of the New Order model of administration, characterized by bureaucratic patronage, corruption, and collusion. Some progress can be identified in the period related to physical infrastructure development, such as road improvements and the establishment of the Bogor Trade Centre to replace the unruly, dirty, messy traditional markets in the city. There were also efforts to prevent street vendors from spreading over the main street and to address road congestion problems through eviction of street vendors and clamping down on illegal parking areas. But such efforts were performed in an *ad hoc* fashion and were, in some cases, ineffective. For instance, in most cases the removal of street vendors and punishment of city public transportation (*angkot*) operators from stopping in restricted areas only came into effect for a period of no more than two weeks.¹²⁴

The Iswara period did witness the introduction of one best practice initiative aimed at improving good governance—that is, the establishment of a One Roof Services unit for business licensing. This unit was established as part of a national government pilot to streamline business licensing by improving transparency, accountability and eliminating corrupt practices. However, many believe that the unit did not significantly change the corrupt bureaucratic culture as expected. Indeed, in general, the relationship between government and local business has

¹²⁴ Interviews with Chusnul Rozaqi and Luvi Triadi, Bogor City, 30 December 2015 and Cepi Harun (Senior Figure of Golkar party, Head of DPRD 1997-1999 and DPRD member 2004-2009), Bogor City, 30 December 2015.

been characterised by the continuation of a clientelistic system. This is well illustrated by one publically known case of collusion between the local government and a business involving the loss of government income from land assets let to a business to run a major mall in Bogor City called *Bandung Indah Plaza*. The mall became the most popular in the city but collapsed due to a fire accident in 1996. In early 2002, the mall was reestablished with a new name, *Pangrango Plaza*. The government, which owned the land on which the new mall was built, was suspected of giving an opportunity to the mall's management to avoid their obligations to the city, especially with regards to local tax and retributions. Importantly, the government also allowed the owner of the mall to use the land as collateral to finance the mall. An NGO called H'ry Center took the case to the Indonesian corruption eradication commission (KPK) in 2011 requesting an investigation into the possibility that the government lost IDR 62.5 billion as a result of this decision (*Suara Pembaruan* 2011).

6.3.2. The Diani Years (2004-2014)

Between 2004 and 2014, predatory elements nurtured under the New Order continued dominating Bogor City's political power structures, in particular, ones based in the bureaucracy. 2004 saw the appointment of another former career bureaucrat, Diani Budiarto, as mayor; a position he held until 2014. In this context, the bureaucrats controlling the local political economy became even further entrenched, continuing to exercise full control over the political parties and the local parliament. Challenges from other elite actors emerged, but they were too fragile to have a significant impact on the dominant groups.

The election that brought Diani to power was held in April 2004, three months before the general election for the local DPRD. By regulation, the 1999-2004 mayoral term was meant to end in April 2004. The local political parties and the local bureaucrats, however, agreed that the mayoral election should be held before the general election and, as such, run through the DPRD rather than be a direct election by the people. The mayoral election was thus conducted during the period when all DPRD members were under investigation by the local Attorney General Office for the 'APBD Gate' case.

In the election process, two bureaucrats ran for mayor: Diani and Helmi Sutikno (Helmi). Diani was a local assistant secretary (Echelon II) in the city administration and drew most of his support from the bureaucracy. Helmi was also a career bureaucrat but had spent his career working in a national government department (like Iswara). He moved to the city at Iswara's request. He was appointed a director of *Perusahaan Daerah Air Minum* (PDAM), a local government-owned water company, not to a position in the city's administration. The two deputy mayoral candidates were both drawn from the political parties. Diani picked Muhammad Sahid, the then head of the DPRD and the head of the PDIP's local office, while Helmi joined up with Zainal A Uhar (Uhar), the head of the PPP's local office and a DPRD member.¹²⁵

In the poll, Diani finally won the election in April 2004, after a tight contest that involved two rounds of voting in the DPRD. In the first round of voting, the result was a tie: both candidates gained 22 votes from the 45 DPRD members. It is reported that most DPRD members from the newly established parties supported

¹²⁵ Interview with Chusnul Rozaqi and Luvi Triadi, Bogor City, 30 December 2015.

Diani. Helmi, on the other hand, had PPP and Golkar members as his main supporters. In the second round of voting, Diani finally won the election by 23 votes against 18 (Tempo 2004). It is reported that there was a high level of money politics involved in the process. According to a well-informed source, at least IDR 100 million was allocated to each supporting member to win the election, beyond other expenses.

The 2004 general election also witnessed a change in the composition of the DPRD. Military representatives were removed in accordance with the implementation the Decree of Peoples Consultative Assembly (TAP MPR) No. VII/2000 on the role of the state's military and police. At the same time, the June 2004 election led to changes in party representation (Table 6). Golkar won the highest number of local party seats, gaining 11 legislative members. PKS, a religiously-based party that was able to successfully build an image as the cleanest political party, was able to secure ten seats in the DPRD. The PDIP was the primary loser, experiencing a significant drop in its popularity and seeing its representation in the DPRD drop from 12 to 8 seats. The Democrat Party, a new party established by Susilo Bambang Yudhoyono to support his campaign for president, won 5 seats as did PAN (KPUD Kota Bogor 2004).

Table 6: The party seats in the DPRD of Bogor City, 2004-2009

	Name of Parties	Number of Seats
1	Golkar (Party of the Functional Groups)	11
2	PPP (United Development Party)	5
3	PDIP (Indonesian Democratic Party Struggle)	8
4	Democrat Party	5
5	PDS (Prosperity Democratic Party)	1
6	PAN (National Mandate Party)	5
7	PKS (Prosperity and Justice Party)	10
	Total DPRD Members 2004-2009	45

Source: KPUD Kota Bogor (2004)

This new configuration in the DPRD, however, did not challenge the ability of Diani and his bureaucratic group to control local politics, especially in the period 2004-2009. It is important to note that the new legislature consisted of 26 newcomers. According to a former DPRD member interviewed in the field, there was a tendency for beginners to become *gagap* (unsure, uncertain and insecure), making them act carefully and in an accommodative manner towards the executive. Meanwhile, 19 members of the previous formation were being investigated by the local Attorney General's Office about 'APBD gate'. For those members, cooperating with the bureaucracy was necessary to gain support and financial help in dealing with their law cases. This further undermined the ability of the DPRD and political parties to challenge the bureaucracy.

After being appointed as the city's mayor, Diani was able to develop a close relationship with the public, while also exercising control over all local political institutions including the political parties, the DPRD, and unconsolidated civil society organizations. Diani nevertheless maintained his popularity in the eyes of the public. Informants in the interviews stated that he successfully cultivated an image of himself as close to the people through various events including intensive direct visits to local communities and charitable donations at his initiative. He also presented himself as religiously devout, something that helped deflect concerns about corruption. He made a point of showing 'pious leadership' through his clothing and fashions. One of the most popular programs that he implemented was '*Suling*' (*Subuh Keliling* - Circulated Dawn Praying Congregation), where he asked his bureaucrats to perform dawn prayers in different mosques every morning as part of his local community visits. He also decorated his office with his religious symbols, carried out a renovation of the mayoral office mosque, and asked his officials to pray with him to show his commitment to the city's religious culture.¹²⁶

Diani also has a reputation as a gifted communicator and negotiator. He was able to build close personal relationships with all the elite actors in the city. This stemmed from his ability to dominate the bureaucracy, something he achieved through the distribution of patronage. While he was never formally accused of, or prosecuted for, corruption, most informants believe that his administration appears to have been characterized by systemic corruption that served elite interests. In interviews, several informants confirmed that Diani had accumulated significant personal wealth, lived in high-class luxurious accommodation, and pursued a high-

¹²⁶ Interviews, Bogor City, July – October and December 2014.

cost social life during his terms as mayor. He is also known to be married to three women and thus to have three family lives.¹²⁷

Following his election, he rotated bureaucrats who were not on his side during the election process. He also replaced officials from various strategic positions who were with Iswara (the previous mayor) in supporting Helmi and then appointed his own supporters to replace them. Helmi, who was the director of the PDAM, was replaced by one of Diani's allies. Helmi's allies in the DPRD and executive, including the previous mayor, were also cornered by the publication of the Financial Audit Bureau's (*Badan Pemeriksa Keuangan* – BPK) audit findings on the PDAM's financial reports. This report uncovered misuse of PDAM funds to finance various actors during the election (Media Indonesia 2004). Diani also seems to have taken some further benefit from the continuation of 'APBD Gate' because it resulted in his Deputy Mayor being prosecuted by the provincial court. The deputy had to leave his position, leaving Diani to lead the city alone.

Alongside his bureaucratic alliance and his subordination of the DPRD and political parties, Diani also reportedly maintained a strong relationship with the local Attorney General's Office and local police officials. In an interview, one of Diani's closest bureaucratic colleagues described Diani's relationship with the local Attorney General Office and police as intimate. With backing from his officials in the bureaucracy, Diani was highly accommodative of both the Attorney General's Office and local police officers' demands for financial support, either for individual needs or institutional needs. Signs of such a close relationship are also implied in comments by some local informants that Diani's administration was characterized

¹²⁷ Ibid.

by good internal coordination, in particular within the internal bureaucracy and between the bureaucracy and the Attorney General's Office and police officials.

Informants from the local bureaucrats and politicians further suggested that Diani was also able to ensure that there was a close relationship between the local legislature and the executive, on the one hand, and the executive and civil society, including local media, on the other. He was known to be very generous in helping individual legislative representatives by providing non-budgeted financial support. With regards to civil society, especially in the period from 2004-2009, local informants from media, NGO and within the bureaucracy also indicated that Diani and his administration were able to capture their activism by providing financial support through the provision of projects or cash funds from so-called tactical funds. Ironically, this also applied to the local media, also mostly dependent on local government support, not only through government advertising but also through providing operational financial support to their journalists. This served to weaken opposition whenever criticism or concern arose about his administration's performance. There was always a budget allocated to journalists for every local government events to ensure that the government gets positive exposure in the local media.

In 2008, Diani ran again in the mayoral election for the period from 2009-2014. This time the election was implemented through a direct election. Five pairs of mayor and deputy mayoral candidates competed in the election, with three being backed by multi-party coalitions and two being independents. Diani, who represented the bureaucrat camp, joined forces with Ahmad Ruchyat from the PKS party. Their principal competition was the ticket including Dody Rosyadi, the Local Secretary, as the mayoral candidate, and Erik Suganda, the son of an influential

business contractor, as the deputy mayoral candidate. There is an explanation for the emerging two competing candidates from the bureaucracy. In the early period of Diani's administration, he committed to giving away the next mayoral position to his local secretary. At the last minute, however, Diani decided to rerun to compete with Dody Rosyadi.¹²⁸

Even though Diani was not a member of any political party, the Diani-Ruhyat ticket was supported by the political parties with the largest representation in the DPRD, namely Golkar, PKS, and PDIP. Together, these parties accounted for 29 of the 45 seats in the DPRD. Dody Rosyadi and Eric Suganda, on the other hand, gained support from PAN and PPP (which held ten seats between them in the DPRD) and a set of other parties with no seats in the DPRD including PKB, PBB, and Pelopor. A third ticket included IIS Supriyantini and Ahani who were backed by the Democrat party (5 seats in the DPRD) and a group of very small parties, PBR, PKNU, and PKPB. Diani finally won the election by accumulating 64% of the total eligible votes (Bogor Local Election Bureau 2009). This result reflected Diani's success in cultivating a base of support within the bureaucracy, his patronage with the local major political parties, and ability to promote an attractive public image. He did not even need to be a member of a party to get political support and win the election. He capitalized on his deal-making skills and popular image in the absence of any concrete achievements in improving the quality of governance in the city.

Meanwhile, the DPRD election in June 2009 produced a win for the Democrat Party, with it acquiring 15 of the 45 available seats. Two new parties established by

¹²⁸ Interview with Usmar Hariman (The deputy mayor and former head of the DPRD 2009-2013), Bogor City, 22 December 2014.

military background figures who were connected to New Order regime parties, Gerindra (headed by Prabowo Subianto) and Hanura (headed by Wiranto), also recorded significant successes in their first election in the city, gaining two and three seats respectively. Other popular parties such as the PKS, PDIP, Golkar, and PPP collectively and individually all lost ground (Table 7).

Table 7: The party seats in the DPRD of Bogor City, 2009-2014

	Name of Parties	Number of Seats
1	Golkar (Party of the Functional Groups)	6
2	PPP (United Development Party)	3
3	PDIP (Indonesian Democratic Party Struggle)	6
4	Democrat party	15
5	Gerindra	2
6	PAN (National Mandate Party)	2
7	PKS (Prosperity and Justice Party)	7
8	Hanura	3
9	PBB (Crescent and Star Party)	1
	Total DPRD Members, 2009-2014	45

Source: Source: KPUD Kota Bogor (2009)

The 2008 mayoral election and 2009 legislative election once again did not challenge the political domination of the politico-bureaucrat element. According to a politician from the Democrat Party (that won in the 2009 election) and also a DPRD member in this period, the DPRD could do very little other than engage in business as usual. The mayor was able to build a harmonious relationship between the executive and legislature. Diani continued his accommodating approach and

generosity to DPRD members' needs from all parties beyond his supporting in the mayoral election. Most DPRD members also continued to lack the confidence to challenge the executive's performance or promote strategic policy for good governance reforms.

In 2011, Diani's control over local politics became stronger as the 'APBD Gate' case unfolded via the legal system. The provincial High Court prosecuted Ruhyat, the deputy mayor, in May 2011. Ruhyat was named as a suspect in the case because of his position as the Budget Commission Coordinator in 2002. He was forced to leave his position during the court investigation. Diani was once again running the city on his own. Diani also asserted his control over locally owned companies which many believe as key sources of corruption and political financing. He put members of his 'success team' in various strategic positions. For instance, Untung, who was Diani's key operator in securing the support of local villains based in civil society organizations during the election, was given a position on the Supervisory Board of Street Vendor Cooperation (SVC in 2009 and promoted further to the position of president director of the *Perusahaan Daerah Air Minum* – PDAM (state-owned water supply company) in 2012. Ali Yahya, who was also in Diani's campaign team, was made one of the directors of *Perusahaan Daerah Pasar Pasar Pakuan Jaya* – PD PPI (local state-owned public markets company) in 2009 and promoted further to lead the locally owned company in 2012 (Kabarpublik.com 2012). Another feature of Diani's term in office was that his administration had a tendency to provide favors to particular business groups, especially big business groups, in the real estate sector. The number of malls and trade centers grew exponentially, raising suspicions of collusion between the city government and big companies. In 2013, according to a well-informed informant, before the end of his second term, Diani

issued permits and licenses for about 20 new hotels in the city. Some informants also believe that Diani was trying to maximize kickbacks from permit issuance before he left office.

In the second period of Diani's leadership, his administration attracted increasing criticism and protest from non-government groups, particularly related to corruption and collusion. In 2012, for example, a local Legal Aid Foundation called *LBH Keadilan Bogor* (Justice Bogor) uncovered alleged corruption and collusion in the mayor's policy of giving away a major government-owned traditional market to PD. PPJ. Taking ownership of the asset, PD PPJ then established a cooperative arrangement with Street Vendor Cooperation (SVC), a trader cooperation company controlled by politico-business elites nurtured under the New Order era, to manage the assets. PD PPJ and SVC then rented out each unit in the market. The LBH suggests that this breached the principle that a given away government asset should be used in the public interest, not for rental fees to be taken by the PD. PPJ and the SVC (Bogorplus 2012). Despite the allegations raised in 2011, Diani promoted Ali Yusuf to sit as the executive director of PD PPJ in 2012 (Kabarpublik.com 2012).

This criticism was not, however, a sign of growing assertiveness on the part of an independent civil society advocating for public interest or good governance. Many believe that most protesting groups were seeking to access government projects and financial support. Many others were acting on behalf of competing interests in the city. The local media, which widely reported the criticisms, was also benefiting, by negotiating their publicity of issues about the interests of those providing support and projects. According to informants within the bureaucracy and local politicians, the emerging critics were supported by well-informed bureaucrats that Diani had evicted from their positions. Most of them were members of Dodi Rosyadi's

alliance within the bureaucracy who were transferred to non-strategic positions. Using their network of civil society organisations they tried to gain leverage by revealing secrets and releasing information, providing enough ammunition to the civil society groups to threaten the mayor and his bureaucratic alliance.

Within this context, there was little scope for substantial governance reform programs to emerge under Diani's leadership. Diani left a positive legacy in two key respects: he prohibited tobacco-related advertising in any form, and he delivered various programs that served to maintain the city's function as the most important environmental conservation site and water reserve for the region. In the latter field, under Diani's leadership, Bogor City became regarded as a model for national and international best practice (Ridwan 2013). However, Diani's administration essentially maintained the corrupt system that had characterized the New Order period. Most government programs were focused on infrastructure projects. With regards to good governance, only two notable projects were implemented during Diani's second period: i) the revival of one-stop shop business licensing services, which were established in 2008; and ii) the implementation of an electronic procurement system in 2007. Despite this, many believe that neither of these initiatives has resulted in more transparent and accountable transactions or served to reduce corruption.

6.3.3. The Bima Arya Years (2013-present)

The 2013 mayoral and vice mayoral election saw the victory of two figures with political party backgrounds: Bima Arya Sugiarto (Bima) and Usmar Hariman (Usmar). Bima (the mayoral candidate) was from the PAN party while Usmar (his deputy mayoral candidate) was the head of the DPRD and the city arm of the

Democrat party. Bima is a national-level politician. He is widely regarded as a rising political star with the potential to play a significant role in national politics in the future. Before launching a political career, he was an activist (having been active in this respect since he was in high school), a lecturer in two different universities, and a national political analyst. After completing a PhD in Politics at the Australian National University in 2005, he ran a political research and campaign consultancy called *Charta Politica* where he sat on the executive board. In this role, he developed a high media profile, appearing as a political expert on countless national TV shows and other forms of media covering political issues. In 2009, he joined the PAN and was appointed as head of the political communication department in PAN's National Office (Kota Bogor 2016)

Bima's election as the Mayor of Bogor City raised high hopes in some circles that there would be reform in the city's administration. His career experience, expertise, and idealist personality, it was believed, would see him challenge the existing elites' political power. This expectation was widespread not only among the public at local level but also at national level and was reinforced by the local and national media identifying Bima as one of the country's potential innovative leaders. In his early administration, his activities and comments adorned the pages of both the local and national media.¹²⁹

Bima's potential to bring about change was also viewed as promising because of the nature of his political support base during the 2013 campaign. Regarding political parties, Bima and Usmar were backed by a coalition of parties including

¹²⁹ Interviews with Ambro, Bogor City (Kompas), 19 September 2014, Sony (RRI Bogor City Chapter), Bogor City, 24 September 2014, Tegar Bagdja Anugrah (Radar Bogor City), Bogor City, 24 September 2019 and Erna Hernawati (Expert staff on social development and human resources management), Bogor City, 3 December 2014.

the Democrat Party, PAN, PKB, PBB, and Gerindra. But their main political machinery was the *Paguyuban Bogor* (Bogor Association). Established by Bima in 2011, the association brought together various non-political community groups including local artisans, high school student groups, young entrepreneurs, creative economy groups and local community role models and leaders. He took around two years to connect himself with the grassroots and branded '*Cinta Bogor*' (Love Bogor) jargon to build his electability. Other pivotal sources of Bima's political support were some figures in local universities, in particular, the University of *Pakuan* and the IPB (Bogor Agriculture Institute), and his networks at national level, especially from his party, PAN. In fact, for three local parties, nomination of his candidacy was ordered by the national headquarters. Similarly, much of his financial support was sourced from his networks in Jakarta. Finally, actors from various local organizations outside the Paguyuban also helped Bima, even though they were not involved in the running of political machinery.¹³⁰

With the above support base and campaign machinery, Bima and Usmar won 33.14 percent of the vote. This percentage was only 0.44% higher than second-placed contenders, Ahmad Ruhyat (the head of the PKS party and the deputy mayor 2009-2014 - under Diani) and Aim Halim Permana (the local secretary from the period of 2009 – 2013), who were supported by PKS, Hanura, PPP and the powerful local bureaucratic machinery. Other candidates were Dodi Rosyadi (the Local Secretary 2004 and 2008) and Untung Maryono (the head of the local PDIP and the head of local parliaments) supported by the PDIP, Golkar, and PKPI (KPUD Kota Bogor 2014b).

¹³⁰ Interview with Bima Arya, Bogor City, 12 July 2014.

At the same time, there was a new configuration in the DPRD as a result of the 2014 general election (Table 8). The parties that supported Bima did not accumulate enough representation to dominate the DPRD. The Democrat Party lost most of its seats, reflecting the national trend of its decreasing popularity. Its representation decreased from 15 seats to only 5 seats. PAN and Gerindra won 3 and 6 seats respectively, while the PKB and PBB won only one seat each. In total, the parties that backed Bima accumulated only 16 seats. The 29 remaining seats were shared among the major parties in Bogor City with the PDIP winning the highest number (8 seats) followed by PKS (5 seats), PPP (4 seats), and Hanura (4 seats).

Table 8: The party seats in the DPRD of Bogor City, 2014-2019

	Name of Parties	Number of Seats
1	Golkar (Party of the Functional Groups)	6
2	PPP (United Development Party)	5
3	PDIP (Indonesian Democratic Party Struggle)	8
4	Democrat party	5
5	Gerindra	6
6	PAN (National Mandate Party)	3
7	PKS (Prosperity and Justice Party)	5
8	Hanura	4
9	PBB (Crescent and Star Party)	1
10	PKB	1
11	Nasdem (National Democrat Party)	1
	Total DPRD members 2009-2014	45

Source: KPUD Kota Bogor (2014a)

Despite strong support from the public and community based organizations, Bima's leadership has been hampered by weak support from both the legislature and the bureaucracy. With a background as a national politician, his connection to local

politicians, even those in his supporting coalition, has been limited. The stronger local networks however, attached more closely to his deputy, Usmar, given the fact that he built his political career at the local level and headed the local parliament for the period of 2009 - 2014.

With regards to the bureaucracy, Bima has run up against entrenched interests, power relationships, and a culture of corruption and patronage. Corrupt officials' determination to protect each other has emerged as the most powerful obstacle to Bima's reform agenda. In general, Bima has had little support within government except for his deputy who is also a non-bureaucrat. The only significant group within the government that has supported Bima has been the think tank team that he recruited from his campaign team in *Paguyuban Bogor*, and seated outside the government structure. This team consists of young professionals, business people and academicians. Unfortunately, most members of this group lack experience in managing local politics and dealing with the bureaucracy. Support from local media and local civil society activists were initially also high but available more in the sense of moral support for the promising new leadership.¹³¹

With high public expectations about his leadership yielding changes in the city's administration, Bima has been under enormous pressure to show quick wins, but he was in an unsupportive political and economic environment. Early in his administration, on many occasions, he articulated a firm commitment to combatting corruption and to increasing the professionalism of his bureaucracy. In the first month of his leadership, he fired the head of the Local Government Public Police agency following the discovery that staff in the agency held a party at which illicit

¹³¹ Interviews with Bima Arya, 5 September 2014, Iwan Kurniawan and Rizky Aroebie, Bogor City, 8 September 2014 and Ambro, Bogor City, 19 September 2014.

drugs were consumed. He vowed publically to carry out war against drug users (*SindoNews* 2014). In 2014, he established online taxation processing (*Detik.com* 2014) and opened up the government's local budget documents through the city website as part of his commitment to government transparency and accountability (*Bogorplus* 2014). There were also a further two related moves made that potentially helped increase good governance: the establishment of an online complaint handling mechanism and online business licensing.¹³²

Bima has also endeavored to strengthen his connections to the public by doing field visits and carrying out public discussions with ordinary citizens. He has also opened new communication channels with the public by making his mobile phone number publically available and using social media, especially Facebook and Twitter, to participate in discussion groups. He has performed populist activities by targeting the most publicly noticeable issues. These have included directly managing the road traffic in the most congested areas, reviving an abandoned underpass crossing and decorating it to become a beautiful and safe pedestrian access, beautifying city lighting, and renovating public parks that were neglected by previous leaders. He also ordered his officials, especially those responsible for infrastructure development, to fix and clean some drainage networks, many of which had turned into waste dumping bins. He also intensified law enforcement to remove unruly street vendors and informal parking areas as a way of addressing the city's traffic problems. Also, he has given attention to artisans and creative activity groups, a key platform of his political base, by holding some events to promote their respective industries.¹³³

¹³² Ibid.

¹³³ Interview with Bima Arya, 5 September 2014 and 20 December 2014.

Bima's quick-wins strategy delivered a message of hope to the public about positive change, especially for the ordinary people. However, based on the direct observation through following his activities in the period of July and August 2014 the researcher found that he could not convert such quick wins into more substantial governance reforms. His key attempt was to clear up his corrupt bureaucracy, which had been structured by the previous mayor. This effort failed to be successfully implemented. In July 2014, Bima carried out bureaucratic rotations to restructure his bureaucracy by conducting a fit and proper test to select 32 Echelon II officials with help from the University of Pakuan. The test was started through inviting all interested Echelon III officials and the existing Echelon II officials to compete for the head of agencies positions. The process gained significant public attention and appeared to be a radical move for bureaucratic reform, indicating the mayor's commitment to a good governance reform agenda. The results of the tests recommended that most Echelon II officials needed replacement since many of the officials in this position were incompetent. The results also suggested that many Echelon III officials were eligible for promotion to replace the under-qualified higher-level officials. Coinciding with the test results, civil society groups and the media demanded the total dismantling of the current structures, as they had been known to be part of the previous, corrupt regime.

In the end, however, Bima was unable to carry out the much-needed reforms. Following the tests, instead of restructuring his officials' positions, he only carried out a rotation of Echelon II officials. None of them were dismissed. Only one Echelon III official was promoted to fill a vacant position. One reason for this

outcome was the issuance of Law No. 5/2014 on Public Officials, regulating various procedures for public official appointments for promotion and demotion. In the light of the regulations, none of the officials sitting in Echelon II could be demoted, leading to the unavailability of positions for potentially promoted officials. There is an indication that the previous mayor strategically planned his bureaucratic structure to become irreplaceable for at least the 4 or 5 periods of his successor's mayoral position, except for those who retired voluntarily. All of the Echelon II officials were more than four years away from retirement and there were no adequate performance records to use as the basis of demotion for those non-performing officials. This becomes more complicated given the requirements stated in the law that an official could only be demoted if s/he resigned from the position or violating any law. In short, the restructuring did not promote any new figures to Echelon and promotions were distributed amongst existing officials, ending up with the reappointment of the former officials with their corrupt behavior inherited from the old regime. The mayor, however, claimed that he tried his best and had no choice but to use the old structures to run the government. To ensure a better official performance, the mayor requested each Echelon II official sign an integrity pact to ensure his/her commitment to fighting against corruption.

Following the decision, public disappointment was widespread. The public began questioning the mayor's commitment to his anti-corruption and good governance agenda. The local media criticized the mayor for not having a strong commitment to restructuring his bureaucrat structures. He was also seen as being scared of being reported to the court by officials who opposed any demotions and of not being courageous enough to act innovatively, beyond standardized procedures. The

disappointment was also widespread across Echelon III staff members who participated in the test, resulting in decreasing trust in the mayor.¹³⁴

The failure of the mayor to rotate his bureaucracy hindered his ability to take control over his administration. Furthermore, it sustained the existing political power and structures, as well as their patronage networks, allowing the continuation of rent seeking and patronage between his bureaucracy and politico-business groups beyond the mayor's control. As a result, based on the direct observation in the first half year period of his administration, Bima has been unable to make any significant progress with regards to good governance. Local informants even believe that that his actions were merely image building to increase his popularity. This is because most of his programs were sporadic, inadequately funded, and as a result not implemented effectively. In the case of the complaint handling mechanism, even though all complaints became publically available, the government still did not show its responsiveness in resolving complaints made by the public. With online business licensing, it is believed that the service helps with access to business licensing but its efficacy in avoiding illegal transactions is doubted. There are also cases when the mayor cleared illegal street vendors' and street parking. They moved only at the time of the mayoral inspections, but then returned to occupy the public spaces in the following days. While it indicated that his policies had a lack of support from his apparatus, it also implied his lack of power in breaking the patronage relations between the apparatus and organized thugs that had long controlled the economic interests of illegal street vendors and illegal parking. The

¹³⁴ Interviews with Bima Arya, Bogor City, 5 September 2014, and Iwan Kurniawan and Rizky Aroebe, Bogor City, 8 September 2014.

more visible continuing clientelistic patronage networks in terms of public procurement are discussed in the next chapter.

Most importantly, beside his weak control over his bureaucracy and local politics, Bima's weakness was also rooted in his inability to build support from progressive forces outside the government. As mentioned above, the failure of bureaucratic reform resulted in public disappointment expressed by local civil society organizations and widely covered in the local media. However, rather than understanding the critics as a sign of the potential existence of progressive forces outside government, Bima saw the critics as being motivated by the economic interests of the media and civil society. As mentioned before, for a long period, the previous regime nurtured the economic interests of the local media and civil society and with this presumption, the mayor tended to treat them in ways the old regime had done, that is by providing financial support in exchange for their views. At the same time, this relationship extended the distance between Bima and civil society, including the local media. Informants from CSO and the media believed that despite the historic relationship between the media and civil society established by the previous regime, a few activists were idealistic in their activism but had limited access to the government policies. There is also the fact that Bogor City is home for many leading NGO activists at national level, but their roles had been absent in the city. Bima failed to channel this network and narrowed his alliances to only his inner circle of allies and his think tank, which, as noted before, was not strong enough to change the local power structure. There was also suspicion that his think tank members also engaged in collusive and corrupt activities to collect funds for sustaining political support as well for their personal needs, given the fact there was no local budget allocated for them. A reliable informant within the 'think tank'

also suggests that Bima was under pressure to secure his popularity from continual degradation due to the growing criticism and therefore had to manage all local contesting interests surrounding his administration, which required a significant amount of funding.

6.4. Conclusion

Overall, in the last 15 years, democratic decentralization has not yet brought about a fundamental change in Bogor City's political economy and, in particular, in the power relationships between predatory bureaucratic elites and progressive elements in civil society. The local bureaucratic elites nurtured under the New Order have sustained their strong influence, consolidating their authority over the local bureaucracy and securing control of parliament. This situation is consistent with the view of social conflict theorists that old predatory elites nurtured under the New Order regime have captured democratic decentralization. However, the case in Bogor also provides evidence that this predatory elite capture of the local state apparatus was possible because strong progressive forces did not exist in the city.

Despite suffering a decline in popularity in the 1999 local parliamentary election, Golkar, which was the New Order's electoral vehicle, remained influential for much of the post-New Order period. The ability of both bureaucrats and Golkar to retain their political domination was also reinforced by the fact that the actors from the newly established parties did not have strong political consolidation due to their lack of experience in the political sphere and susceptibility to corruption. Thus, the unreformed bureaucracy and old political actors became the only available mentors of the new rising political players. The weakness of the political modality of the parties and local legislature extended the dependency of the new emerging

politicians on the existing bureaucratic structures which held the greatest control over contested local economic resources.

At the same time, prospective reformist groups capable of constraining the old predatory elites did not emerge as a result of democratic decentralisation, enabling the latter to sustain their control over local political power and resources. Civil society and the media were captured by the politico-bureaucratic leadership with the result that the small number of activists committed to reform were unable to consolidate broad support for *agenda reformasi* (the reform agenda) at the local level. This absence of progressive forces in the city made it possible for predatory politico-bureaucrats to steer the local political sphere during the first 15 years of the democratic decentralization.

Moreover, the case in Bogor City also exposes the weaknesses of analytical approaches emphasizing the role of reformist leaders. As explained earlier, these rely heavily on the power of a local leader to promote good governance. The election of Bima Arya as mayor in 2013 represents a partial fracture with this pattern of control, but, lacking a powerful support base within the parliament and bureaucracy, he has been unable to challenge the existing power structures and break the mechanism that binds the elite's interests within that structure. Unable to promote real change, he has been forced to engage in a populist strategy that involves prioritizing tangible physical infrastructure programs to secure his popularity in the eyes of the public without directly confronting local elites' interests.

The following chapter on procurement reform provides more evidence as to how the long established political structure has constrained good governance reform. The unavailability of progressive agents and alliances to provide pressure or

support for reform has led the reformist mayor to allow the continuation of corrupt practices by default.

CHAPTER 7

THE POLITICAL ECONOMY OF PUBLIC PROCUREMENT REFORM IN BOGOR CITY

7.1. Introduction

This chapter examines Bogor City's experience with procurement reform and the role of political economy factors in shaping this experience. It argues that, in contrast to Surabaya, procurement reform has been limited, despite the fact that the city adopted local voluntary initiatives early in the piece. In general, procurement reform in the city has been directed largely by national regulation, resulting in limited choices with regards to institutional improvements and a lack of advancement in achieving better governance in project bidding. In this context, rather than improving governance in public procurement, the e-procurement and procurement service unit (PSU) have only served to facilitate corrupt and collusive practice in public procurement.

The chapter further argues that this inadequate outcome has reflected the persistence and continued dominance of clientelistic patronage networks involving strong predatory elites such as bureaucrats, politicians, and businesses. The introduction of procurement reform in the city, especially during Diani's second period as mayor went hand in hand with the consolidation of bureaucratic, political, and business patronage networks which relied upon mechanisms such as 'pre-arranged' bidding and cartels established through a business forum. As a consequence, rather than improving governance in public procurement as discussed in the case of Surabaya in Chapter 5, in Bogor City the establishment of e-procurement and a procurement service unit (PSU) simply served to facilitate

corrupt and collusive practice in public procurement, notwithstanding the rise of reformist leadership.

7.2. Public Procurement Reform in Bogor City

As in many other localities in Indonesia, provider selection in the city of Bogor has long been characterized by strong clientelistic relationships between government officials and service providers. Typically, only companies with strong access to clientelistic networks within the bureaucracy have participated in bidding for projects. There has been a condition in the City whereby rivalry among businesses fighting for local projects leads to disputes and conflict in project procurement. In many cases, the contention involved intimidation and physical extortion of the local officials by the contending service providers. Against this backdrop, the government needed to manage the conflict by introducing a mechanism that allowed every business entity to have equal access to participate in government projects and reduce the prevalence of fights and intimidations in processing the procurements.¹³⁵ There is a claim that procurement reform was aimed at combatting the clientelistic practices, corruption, and collusion that characterized public procurement in the city of Bogor.¹³⁶ However, given the habits of a corrupt administration that was well protected within the government structures as

¹³⁵ Interviews with Maman Abdurachman (Head of the Program Monitoring section in the Local Secretary Office) and Henny Nurliani (Head of the E-Procurement Unit), Bogor City, 17 July 2014 and Soni Riyadi (Head of Spatial and Building Infrastructure Planning of the Buildings and Settlements Control agency), Bogor City, 7 August 2014.

¹³⁶ Interviews with Maman Abdurachman and Henny Nurliani, Bogor City, 17 July 2014, Henny Nurliani, Bogor City, 18 July 2014, Maman Abdurachman, Bogor City, 17 July 2014, Hermansyah (Expert Staff for Local Development), Bogor City, 28 July 2014, Soni Riyadi, Bogor City, 7 August, 2014 and Heldi Yudiyatna (currently a public official at the National Procurement Policy Agency (NPPA) and formerly a Bogor City official and one of procurement committee members during 2006-2010), Jakarta, 12 February 2016).

discussed pervious chapter¹³⁷, it is difficult to say that this imperative had much effect. Rather, the impact of the political economy context behind the introduction of new procurement institutions in the city has been a more powerful driver, as discussed in Section 3 of this chapter.

Two reform initiatives were implemented in Bogor: electronic procurement (hereafter e-procurement) and the establishment of a procurement service unit (PSU). The government introduced an e-procurement system in the city in 2006 and began its implementation in 2007. The initiative came from the Local Development Monitoring Section (LDMS) of the Local Secretary Office, the principal functions of which included monitoring and controlling the implementation of all projects undertaken by all local government agencies. Thus, the LDMS aimed to use e-procurement to help the LDMS better administer and monitor the progress of project implementation across government institutions¹³⁸.

The introduction of e-procurement in Bogor came prior to the issuance of the national regulations on electronic procurement in 2010 and, as such, represented a local initiative. In the beginning, the implementation of e-procurement replicated the Surabaya's e-procurement system. Bogor was among many localities in Indonesia that were inspired by Surabaya's e-procurement system; at the time, the latter was widely considered to represent best practice in the field. Steps towards the implementation of this system began when the LDMS managed a comparative

¹³⁷ See Section 6.2: The Political Economy of Good Governance in Bogor City under democratic decentralization of this dissertation pp 205-23

¹³⁸ Interviews with Maman Abdurachman and Henny Nurliani, Bogor City, 17 July 2014; Henny Nurliani, Bogor City, 18 July 2014; Maman Abdurachman, Bogor City, 17 July 2014; Hermansyah (Expert Staff for Local Development), Bogor City, 28 July 2014; Soni Riyadi, Bogor City, 7 August, 2014; and Heldi Yudiyatna (currently a public official at the National Procurement Policy Agency (NPPA) and formerly a Bogor City official and one of procurement committee members during 2006-2010), Jakarta, 12 February 2016.

study visit involving 20 officials from various development units. Following the comparative study, the head of LDMS, Hermansyah, proposed the implementation of the reforms in the city. After getting an endorsement from the regional secretary, he then established a MoU between the Bogor City and the Surabaya governments. In the MoU, Surabaya City agreed to install its e-procurement system and to give technical assistance in its implementation. Following the MoU, the city government also established a special task force of 15 technical officials to operate the system, and implement various program activities, including training and dissemination.¹³⁹ In that period, the local government displayed a high commitment to the reforms. As one sign of this, the city government allocated an adequate budget to finance the infrastructure development and other supporting activities (e.g. a secretariat, internet access, servers and computers).¹⁴⁰

By the end of 2006, the system was ready to run following the issuance of Mayoral Decree No. 26/2006 (revised through Mayoral Decree No. 20/2007) on the guidelines for the implementation of the public procurement process that mandated the implementation of e-procurement. In this initial period, the key features of the city's e-procurement system were the same as in Surabaya, which facilitated the electronic process from the announcement of the offered projects, interested applicants' registrations, proposal submissions, and the winner announcement. Human interface processes were still involved during the process especially in

¹³⁹ Interview with Soni Riyadi, Bogor City, 7 August 2014.

¹⁴⁰ Interviews with Hermansyah, Bogor City, 28 July 2014 and Soni Riyadi, Bogor City, 7 August 2014.

paper document verification, project clarification processes, shortlisting of candidates, and selection of the winner.¹⁴¹

In 2007, the city applied e-procurement to government projects for the first time. Not all provider selection occurred through the system, but much did; the e-procurement budget was significant, accounting for government spending of IDR 91 billion from 191 projects processed through the electronic system. The first year of implementation also secured a 12.3% lower contracted budget than was planned and allocated from the planned budget and increased competition between contractors for government projects (Pemerintah Kota Bogor 2016). According to Haldi, one of the procurement committee members in the period, the average number of participants bidding for government projects doubled from 4 to 8 participants as a result of the change.¹⁴²

Despite these successes, however, the city government decided to suspend implementation of the e-procurement system after just one year of operation. There was a claim that the reason was the instability of the system. One common complaint, for instance, was that there was insufficient bandwidth for internet connections to work properly, leading to severe failures in uploading data. There were also suspicions that the system was intentionally crashed to exclude any unintended participants from competing against the pre-arranged winners. This view was most forcefully put by local contractors associated with the local arm of the Indonesian Chamber of Commerce (KADIN), the leading umbrella organization for business in the city. They also argued that the legal foundations of e-procurement were weak. Specifically, they claimed that there were no clear

¹⁴¹ Interview with Haldi Yudiyatna, Jakarta, 12 February 2016.

¹⁴² Ibid.

national guidelines on the use of e-procurement (Yudiyatna 2008a).¹⁴³ As we will see later below, there were political economy factors at work in this decision.

In 2009, the city revived e-procurement using an updated version of the Surabaya's system to procure most projects for 2009 and 2010. It advanced the system further in 2011 through adopting the national e-procurement system, following the issuance of Presidential Regulation No. 54/2010 on Public Procurement and the launch of a national Electronic Procurement System (*Sistem Pengadaan Secara Electronic* or SPSE). Bogor was among the cities that received assistance from the National Procurement Policy Agency (NPPA) and the West Java provincial government, which had decided to appoint Bogor City as one of the regions to pilot the new national e-procurement system. With this assistance and the already available necessary infrastructure and personnel from its own previous reform, Bogor City was able to set up the SPSE system relatively quickly. A first meeting was held with the NPPA in January 2011, followed by the installation of the system. SPSE task forces consisting of 10 young officials from the NPPA on 18-21 January 2011 and by West Java SPSE offices on 14-15 February 2011 were actioned. The taskforce then helped stakeholders within the government and local contractors adopt the new system through a series of dissemination and training programs targeting these stakeholders. The SPSE was then officially launched in March 2011 with the enactment of Mayoral Regulation No 3/2011 on Electronic Procurement Guidelines. The local government started using it to procure all projects that need to be carried out through open bidding.

¹⁴³ As he notes in his personal blog: <http://heldi.net/2008/05/e-proc-e-procurement-kota-Bogor-City-untuk-tahun-2008-ditunda/>. He is a public official at National Procurement Policy Agency (NPPA) and formerly the Bogor City official and one of procurement committee members during 2006-2010.

Subsequent to the implementation of the SPSE in 2011, the city government also established a PSU that was part of the institutional reform packet introduced by Presidential Regulation No. 54/2010. The PSU was to consolidate the bidding committee and procurement processes, including those that were scattered across different agencies. The regulations, however, did not clarify what sort of institutional organization should be established to implement PSU. Taking the simplest way to implement the regulations, the government established the PSU in the form of taskforces (not a formal organization in the government structure) through Mayoral Decree No. 027.45-49/2011 on the Establishment of the PSU. The PSU was staffed by 64 people who held procurement specialist certification (from the NPPA), whose responsibility it was to manage the procurement process. This covered preparing project documents, making initial calls for tenders, negotiating and selecting the winner. A particular office was allocated to them so that they could work in a team to undertake their duties.

The implementation of both SPSE and PSU in 2011 in Bogor City indicates that the city had the willingness to pursue procurement reform from the beginning. Indeed, Bogor was among the first local governments to respond immediately to the national campaign on the implementation of the SPSE and PSUs. Based on regulation No. 54/2010, the local government had permission to establish the e-procurement system and the PSU as late as 2012 and 2014 respectively, so it completed the required tasks in this respect earlier than required. According to Henny, the head of the SPSE, the initiative to implement both SPSE and PSU was originally from the city government not from the national or provincial governments. The local government sent a letter of interest to NPPA very soon after the issuance of Presidential Decree No. 54/2010, requesting assistance to establish

SPSE and PSU. It would be a mistake, however, to over-emphasize the extent to which these reforms reflected a genuine commitment on the part of local elites in Bogor to regularize procurement processes. The Bogor City government's approach to electronic procurement and the role of the PSU has been limited to the fulfillment of the minimum requirements mandated by national regulations, without further advancement beyond the minimum requirements. It has introduced almost no innovations beyond those required under national regulations. For example, despite the fact that corruption was one of the main issues which the reforms were intended to address, the city government did not establish any policy directions to help the SPSE and PSU in combatting corruption. It also did not provide an incentive such as 'special rewards' or selective requirements of the procurement officials to ensure the integrity of procurement apparatuses, especially in the PSU, where much of the decision making was made and therefore become the window for collusion.¹⁴⁴ The city government also did not extend the SPSE system into wider e-governance or integrated financial management to streamline the city's planning, budgeting, reporting and monitoring processes.

The most notable limitation of the institutional reform was related to the PSU's management. Institutional and infrastructure support for the PSU was very limited. The PSU in the city of Bogor was not a solid organization within the government's organisational structure. A PSU's staff described in an interview that the officers who worked in the PSU were staff from different agencies, most of whom served in a structural position in their agencies. Hence, they had to work on a part time basis outside their main roles in their agencies. Most procurement work was therefore conducted after hours when they had finished serving their agencies. In

¹⁴⁴ Confidential interview, Bogor City, September 2014.

the PSU, there were also no full-time officers to run the secretariat or dedicated supporting and management staff to help the committee deal with the complexities of procurement administration. The office infrastructure of the PSU, in particular its secretariat building and IT equipment, were also inadequate to support the PSU's staff, so it too had associated training programs, such as staff development and integrity enforcement. There was also no plan to turn the PSU into a well-established institution which functioned not only to carry out procurement but also develop better policies, procedures, and mechanisms for better procurement reform in the city¹⁴⁵.

7.3. The outcomes of the procurement reform

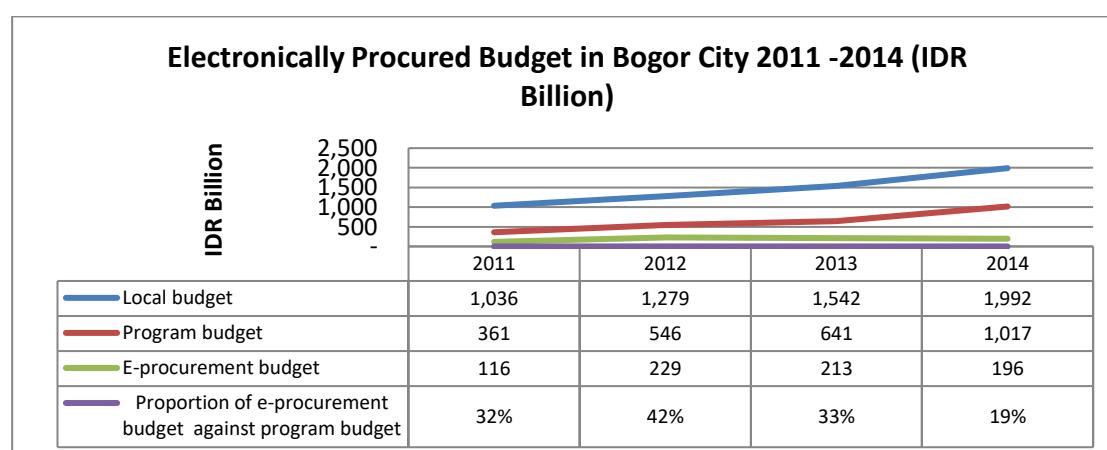
7.3.1. The Use of E-procurement

As mentioned in the previous sub-section, the implementation of procurement reform in Bogor City was limited to fulfilling the minimum requirements of national regulations. One consequence of this was that the city government tended to use SPSE only for projects required under these regulations to be implemented through an open bidding process. Under Presidential Regulation No. 54/2010, e-procurement should be used for any projects above IDR 200 million in value for goods and services and above IDR 50 million in value for consultancy services, specifically. The city government enacted local regulations that were consistent with these requirements. But, in contrast with Surabaya, it made no effort to go beyond them.

¹⁴⁵ Confidential interview, Bogor City, September 2014.

In 2011, the Bogor City government procured IDR 116.673 billion worth of goods and services through SPSE; and in 2012, this amount increased to IDR 229.297 billion. But in 2013 and 2014, the value of e-procured projects decreased to IDR 213.095 billion and IDR 196.255 billion respectively. As such, e-procurement spending not only declined in absolute terms, as just noted, but also as a proportion of total local government expenditure and the local program budget. From 18% of total government spending and 42% of the total program budget in 2012, it fell to only 14% and 33% of these funds respectively in 2013, before falling further in 2014 to 10% and 19% (see Figure 29). One might argue that Bogor City still recorded a better average of e-procurement budget compared to the national level, which recorded 11% of its program budget in 2011 (Sack et al. 2014, p. 11). Interestingly however, this decrease was not due to a decline in the overall size of either the government budget or its spending on programs specifically. Indeed, it occurred in a period when the local budget and program budget almost doubled in size.

Figure 29: Electronically procurable budget in Bogor City



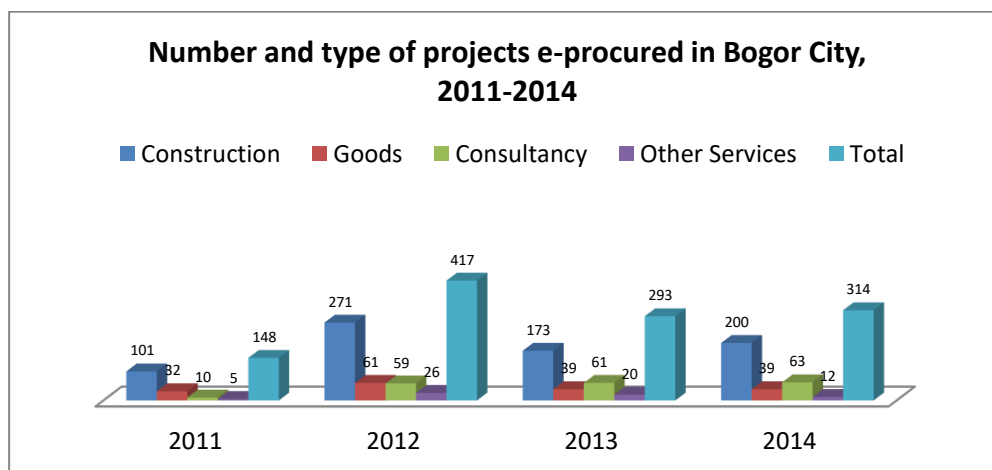
Sources: Kementrian Keuangan (2015) and Pemerintah Kota Bogor (2011; 2012; 2013; 2014).

In theory, this decline in e-procurement spending could reflect changes in local government priorities such as, for instance, the allocation of more subsidies to implement free education and health services. But it appears to have had more to do with the fact that not all procurable projects were carried out through SPSE. There is no evidence to suggest that the city government sought to maximize use of the SPSE (and minimize the non-e-procurement budget) by, for instance, consolidating small projects into bigger projects so that they could be electronically procured, or introducing requirements for small projects to be managed through the SPSE system. In 2011, for example, 167 projects worth around IDR 200 billion were procured outside the SPSE. This number increased to 2,713 projects in 2014 (Pemerintah Kota Bogor 2011; 2014). Some informants interviewed on this subject even believed that heads of agencies within the city government often deliberately split up big projects into smaller activities or designed projects to be small to avoid having to use e-procurement and PSU.¹⁴⁶

Local procurement data confirm the above suggestion, showing a lack of intention to increase the number of e-procured projects. 146 projects were procured in its first year of the SPSE. This increased to 417 projects in 2013 but fell sharply to 293 projects in 2013 before a slight recovery to 314 projects in 2014. Construction projects appear to dominate the e-procured projects, with the highest proportion in 2012 when they accounted for 65% of the total number of activities (see Figure 30).

¹⁴⁶ Confidential interviews, Bogor City, September 2014.

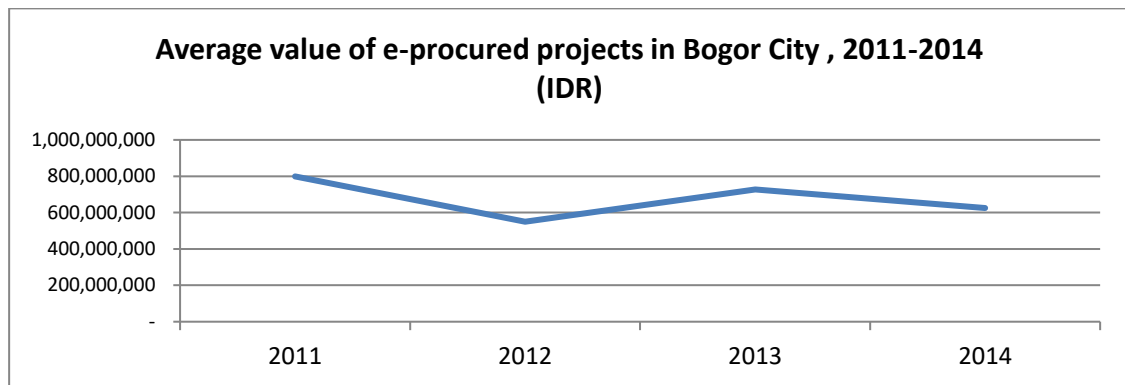
Figure 30: Number and type of projects e-procured in Bogor City



Sources: Pemerintah Kota Bogor (2011; 2012; 2013; 2014).

Arguably, one mark of the outcome of the procurement reform was the ability of the government to increase the value for money of each project. The assumption behind this notion is that consolidating projects into bigger contracts will lead to more efficient and effective project management. In the case of Bogor, other than implementing the SPSE and PSU, such an intention has not been apparent. The e-procurement data even show that throughout the four-year period from 2011 to 2014, the average value of projects was getting smaller rather than bigger. The average value for each project that was about IDR 800 million in 2011 contracted to IDR 600 million in 2014 (see Figure 31). Given the fact that the number of projects from 2012 to 2014 was significantly higher than in 2011, it would appear that the local government gave greater consideration to the number of projects rather than their value for money.

Figure 31: Average e-procured project value in Bogor City

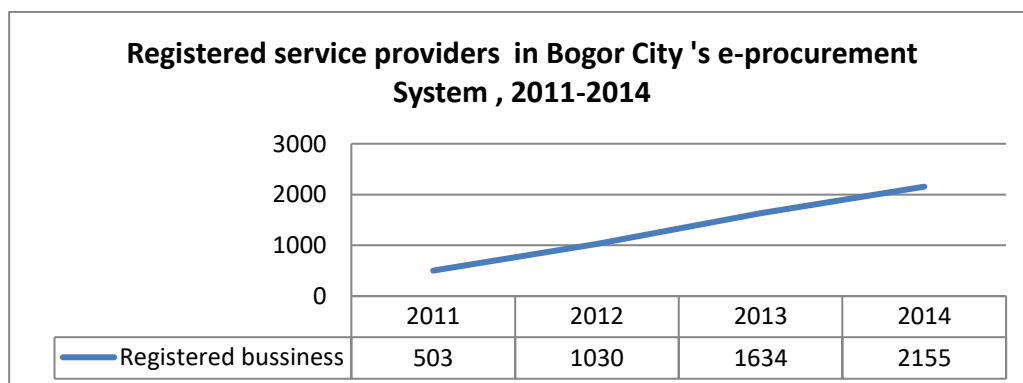


Sources: Pemerintah Kota Bogor (2011; 2012; 2013; 2014).

7.3.2. Budget Efficiency and Market Competitiveness

It seems that the implementation of e-procurement, however, helped the procurement business in the city become more competitive. Local government data shows that following the initiation of procurement reform in 2011, there was a marked increase in the number of businesses participating in local government projects. In 2011, 503 business entities registered in the SPSE. By 2014, this number had reached 2,155.

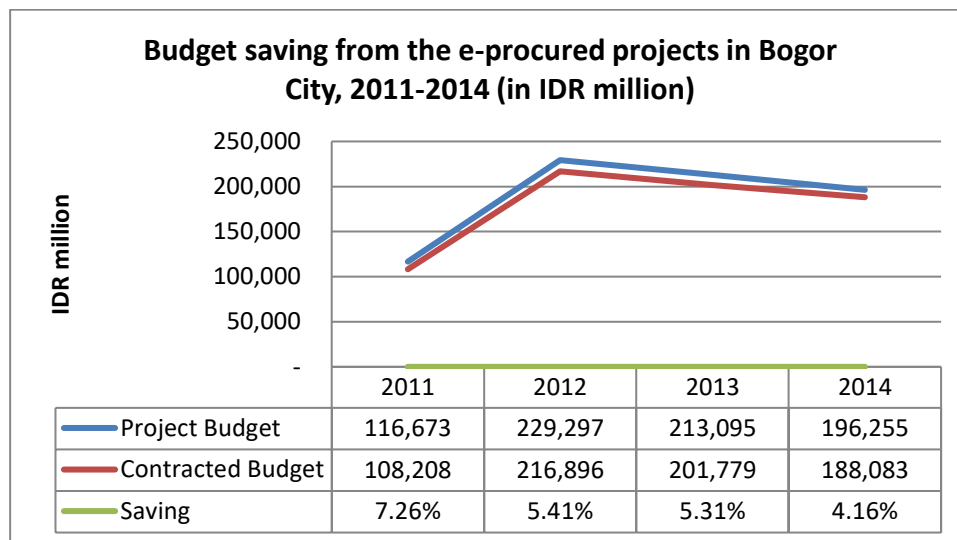
Figure 32: Number of registered service providers in Bogor City's e-procurement system 2011-2014



Sources: Pemerintah Kota Bogor (2011; 2012; 2013; 2014).

Rationally, the use of SPSE should have maximized value for money for the government by driving down costs as a result of increased competition between suppliers. However, there is no evidence to suggest that the SPSE and PSU led to significant improvements in budget efficiency in the city of Bogor. For instance, in most cases, the value of the budget allocated for particular projects and the contracted budget for those projects were very close (see Figure 33).

Figure 33: Budget savings from e-procured projects in Bogor City, 2011-2014



Source: Indonesia Corruption Watch (2014).

In 2011, the use of the SPSE produced a budget saving for the Bogor City government of 7.25%. Over the next three years, this saving decreased further to 4.16%. Ironically, comparative data for 2011 shows that the government made better savings from non-e-procured projects. These produced savings of 8.36% in that year. Overall, however, the saving is much lower compared with Surabaya, which recorded savings above 20% following the implementation of e-procurement, as noted in Chapter 4.

Findings from the field research confirm Bogor's poor performance in this respect. According to local businesses interviewed during fieldwork, there were not many

differences in terms of budget efficiency between e-procurement and the conventional system. They believed that most contracted projects were manipulated to cost as much as the planned project budgets. This is because, despite the implementation of SPSE and PSU, clientelistic and collusive practices have persisted in procurement. In most cases, these sources suggested, successful bidders were pre-determined, appointed, and the contracted budgets agreed before the e-procurement process. Typically, the local government agencies and all local business associations would strike an under-the-table agreement on who among the participating service providers would win what projects. Thus, from the early stages of local government planning, most of the projected winners had already been determined, based on arrangements between the government and local associations (see the discussion in Section 3). With such agreements in place, procurement processes through SPSE and PSU consequently functioned simply to make sure that all procedures were met to justify decisions to award contracts to pre-arranged winners. Unsuccessful competitors who participated in the bidding, in most cases, did not mind losing because they knew it would be their turn in another round. They were happy just to ensure that the procurement processes involved the required minimum number of participants.

The interviewed local providers also acknowledged that competitors from outside of the city also would find it hard to participate in procurement processes. If they tried to do so, they could be forced to withdraw their application through various means, including making up requirements to that was hard to fulfill in very short of time, preventing them from coming in for the face-to-face verification step required before the final winner decision-making process or intimidating them to withdraw their participation. Some non-Bogor resident entities did win government contracts,

but in most cases, they were actually acting on behalf of a local business that already been allocated the project. In this case, local providers worked with their business links outside Bogor City to meet the contractual requirements that often legally could not be met by the local contractors. Alternatively, projects could be won and implemented by the providers from outside the city of Bogor if they had strong local political back up.

The local government could have improved value for money in its procurement processes through its Local Goods and Services Price Guidelines that are issued annually as a basis for calculating project budgets. However, informants in the field confirmed that all item prices set by the local government were much higher than those in the market. According to the regulations, each item price should have been determined based on local market price surveys. However, in most cases, price standards were calculated through increasing the previous year's estimation by some percentage (usually around 10%). If a real market survey were needed, the price was typically set at the highest price charged in the city. In addition, while calculating market prices, some amount of provider profit, around 10%, was typically added on top of the already overpriced list, creating a distinctively pricey list of items in the annual guidelines.¹⁴⁷

7.3.3. Better Project Implementation Management

It was expected that the introduction of e-procurement and the establishment of the PSU would help the local government to manage projects better. In the city of Bogor, this appears to have happened. In an interview, the head of SPSE claimed that the system had forced the government to prepare entire project procurement

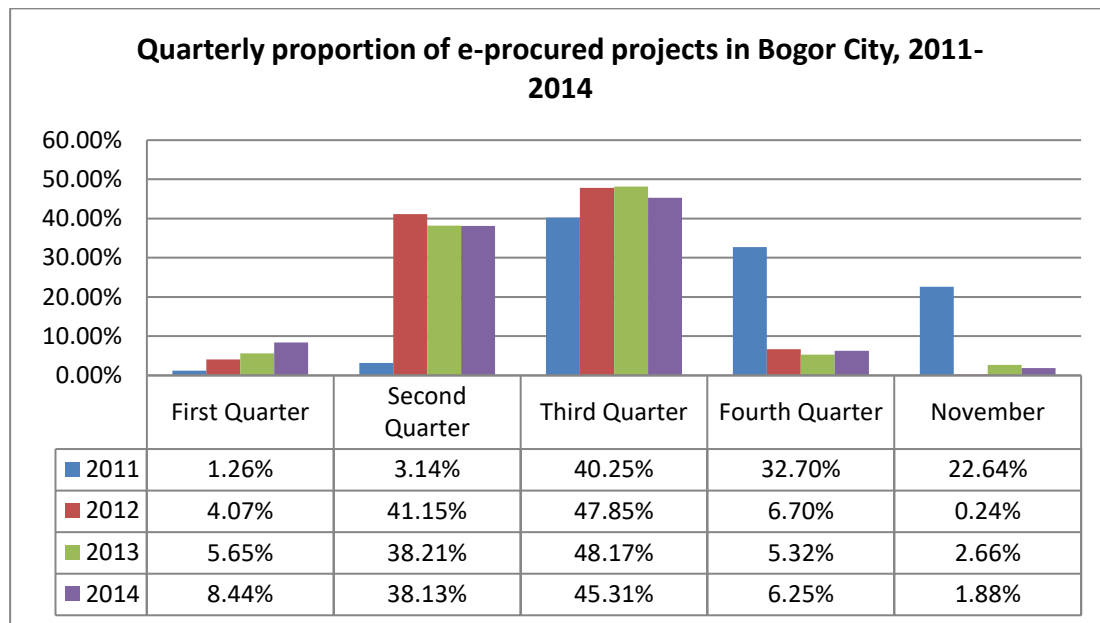
¹⁴⁷ Confidential interview, Bogor City, September 2014.

plans and indicative procurement schedules from the outset. This, in turn, assisted the controlling unit section in coordinating the SPSE and PSU, scheduling the project bidding timetables, and ensuring that all planned projects were carried out throughout financial years (rather than in a rush at the end).¹⁴⁸

The national SPSE data, as consolidated by Indonesian Corruption Watch (ICW) (2015), reflects such favorable outcomes. According to this data, during the four-year period of the reforms, the Bogor City government's procurement activities became better distributed throughout the financial year. As shown in Figure 34 on the distribution of project procurement, there was a marked change in the timing of bidding activities between 2011 and 2014. More projects were procured in the first, second and the third quarters, both in absolute terms and as a proportion of the total number of projects procured and far fewer in the last quarter. Due to the reform, the government was able to implement more projects early in the financial year, as indicated in the trend of the increasing number of projects implemented early in the financial year, which accounts for 8.44% in 2014; much better than 1.26% in 2011. Importantly, the number of projects procured in the last two months before the end of each financial year also decreased significantly, from 22.64% in 2011 to only 1.88% in 2014, reducing the end of year rush in project implementation due to financial pressure.

¹⁴⁸ Interview with Henny Nurliani (Head of the E-Procurement Unit), Bogor City, 18 July 2014.

Figure 34: Quarterly proportion of e-procured projects in Bogor City

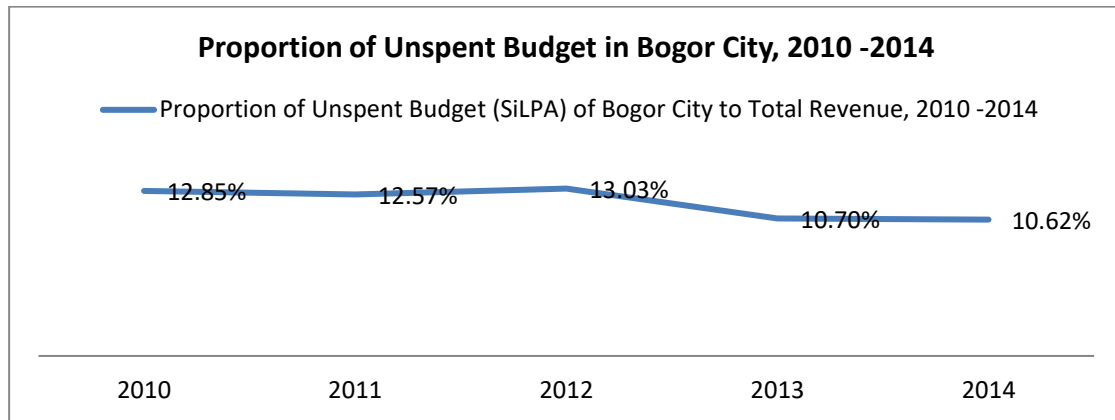


Source: Indonesia Corruption Watch (2014)

The above improvement in the ability of the government to procure more projects in early periods meant that the city government managed better to ensure that procured projects were executed on time. It could also lead to better project implementation monitoring, better management of the city's cash flow, and improved realization of budget spending. The latter, in fact, is supported by city budget data showing that the government maintained a relatively small unspent budget level and, indeed, reduced it between 2011 and 2015. In 2011, the unused budget was 12.85%. This decreased to 10.62% in 2014 (see Figure 35). According to Rahman (2014), such a level of unspent budget is insignificant compared with other big cities such as Surabaya, Medan, Bandung, and Makassar where in 2014 their unspent funds reached around 15 percent or higher. It is true that a low level of unspent budget might result from the the implementation of non-procured

program activities. But the informant from the SPSE confidently believes that the procured budget was a significant contributor to the unspent budget performance.¹⁴⁹

Figure 35: Proportion of unspent local budget in Bogor City



Sources: Kementrian Keuangan (2015), Pemerintah Kota Bogor (2011), Pemerintah Kota Bogor (2012), Pemerintah Kota Bogor (2013) and Pemerintah Kota Bogor (2014).

7.3.4. Increasing Transparency, Accountability and Openness to Public

Monitoring

Another expected outcome of e-procurement is improved transparency, accountability, and openness with regards to procurement activities, especially improved access for citizens to procurement-related data. Improved data recording made most information related to project procurement in Bogor City electronically traceable from the start of the procurement process to the selection stage. Procurement documentation, recorded communications, and project contracts became available to those who have the authority to sign in to the relevant information system. In this system, there were two types of authorized access—for

¹⁴⁹ Ibid.

users and non-users. *Users* included the service providers and the members of the procurement committees, while the *non-users* include the authorized internal government officials with authority to monitor, oversee, and audit procurement activities. *Non-users* also encompassed members of the public. With no password, they could access a vast amount of information in significant detail through a dedicated website. This information covered the list of projects procured, a brief explanation about each project including its value and location, detailed announcements of procured projects, the names of participating and winning service providers, and the selection criteria used in the selection process.

But while the availability of data improved significantly, it was underutilized when it came to public monitoring. The problem is not that the government was failing to disclose the required information, but that local civil society did not use it effectively to hold the local government accountable for public procurement. Interviews during fieldwork suggest that the main reason for this was limited interest among civil society groups in monitoring public bidding issues. In part, this reflects a lack of civil society capacity to understand complicated procurement procedures. Without sufficient understanding of procurement procedures, it was hard for civil society groups to make use of the available data as a basis for their advocacy.¹⁵⁰ To be sure, some groups claiming to represent civil society reported suspicious, corrupt practices. But in most cases, they did not use the data available

¹⁵⁰ Interviews with Leo Nugroho (Procurement Experts Residing in Bogor City), Bogor City, 29 August 2014, Ambro (Kompas), Bogor City, 19 September 2014, Suprpto (*Arbangun* Foundation), Bogor City, 25 September 2014, and Sugeng Tegus Santoso (LBH *Keadilan* (Legal Aid Foundation-Justice), Bogor City, 7 December 2014.

through the SPSE because their advocacy was centered on the issues to do with the implementation of projects rather than the procurement process.¹⁵¹

Likewise, journalists also rarely used the available procurement data in their media reports. Reporters from local media admitted that local journalists rarely consulted the available procurement data when reporting on corruption cases. Rather, their reports tended to focus on issues related to project implementation such as unfinished or low-quality projects. In reporting such cases, they tended to rely on interviewing available informants from service providers, civil society organizations, the bureaucracy, and the local Attorney General's Office and observing the implementation of projects in the field. Local journalists also seemed to have limited capacity to understand procurement issues. According a locally-based contributor to *Kompas* (the country's largest circulation daily newspaper), this lack of journalistic capacity was linked to the fact that most local media paid little attention to developing the skills of their journalists. They did not use rigorous selection criteria in recruitment, paid low salaries, and invested little in staff development programs.¹⁵²

7.3.5. Reduction of Corrupt Practices

Corrupt practices continued in Bogor City despite procurement reform. The tendency noted above whereby the local government limited the scope of the e-procurement budget and maintained a significant non-e-procured budget indicates that the city government was reluctant to use e-procurement as an anti-corruption measure and that corruption persisted in procurement processes. The evidence

¹⁵¹ Interview with Ambro (Kompas), Bogor City, 19 September 2014.

¹⁵² Ibid.

concerning the pre-arrangement of tender results also illustrates that service providers and local governments continued to work hand in hand to sustain corrupt and collusive practices. Qualitative data on kickbacks to government officials collected during fieldwork provides further evidence in this respect. Informants from the business sector reported that as much as 15-20% of the total budget for a project was typically allocated to bribe government officials. Such payments were distributed to all officials involved including the committee members in the PSU.¹⁵³ According to a report in *Bogor Today* (2015) perceptions that corruption in the city's procurement processes was rampant were strongly held, characterizing the views of members of the local legislature, representatives of business associations, and high level bureaucratic officials. All informants surveyed in the report believe that corruption in procurement was deep-rooted and difficult to control.

In 2012, the National Financial Audit Bureau (BPK) found evidence of possible corruption in government projects during 2011. Its city financial accountability report stated that the government budget had potentially lost IDR 230 million due to 'mark ups'¹⁵⁴ in three projects implemented in 2011 (*Inilahcom* 2012). This case has resulted in no prosecutions. It is unclear why not. Most likely, it is because the local government responded by clarifying the findings and refining their financial reports, enabling the cases to be closed without further investigation by the local judiciary office. Another case of suspected corruption emerged, this time related to the local health department's procurement of medical and health equipment between 2012 and 2013. The Islamic Student Association (*Himpunan Mahasiswa Islam* or *HMI*), was very vocal about this case but to little effect. It did not generate

¹⁵³ Interview, Bogor City, September 2014

¹⁵⁴ Allocating a project budget more than its real value as required in the implementation.

significant public attention or stimulate action by the local Attorney General's Office. It is consequently unclear if and how these cases have been resolved (Sentanews.com 2014).

An informant at the local Attorney General's Office suggested that this office only investigated one such case between 2011 and 2014. This fact does not mean that corruption was non-existent in Bogor City. Rather it implies that all related stakeholders have worked together to protect the practice systematically. Some of the interviewed stakeholders within the bureaucracy and business sectors expressed precisely this view, arguing that businesses, local officials, leaders, politicians, and organizations claiming to represent civil society, are all taking a slice of the benefits from unreformed procurement practices and backing up one other to protect the system. A PSU official explained in an interview that corruption was hardly ever identified in formal audits and investigations since the dealing and negotiation as to who wins the project were conducted well before the procurement. The PSU and LPSE were merely used to make sure that all the required procedures were carried out according to the formal guidelines. The PSU official claimed, however, that collusion could not occur during the procurement process since all processes were open and well-recorded. So, it is necessary to stitch things up early.

7.4. The Political Economy of Procurement Reform in Bogor City

The discussion in the previous chapter on the local political landscape showed that decentralization in the city of Bogor had seen a strong predatory elite, especially a group of politico-bureaucratic officials, maintain their political dominance in the city. However, unlike in the New Order period where most contracts were granted to only a narrow group of businesses allied with the New Order regime, democratic

decentralization opened up opportunities for various predatory agents to partake in capturing government budgets. These agents included newly established businesses with connections to local politicians and individuals connected to thug-based organizations. Following democratic decentralization, the city's businesses were no longer completely integrated with the local arms of *Kamar Dagang Indonesia*—(KADIN, Indonesian Chamber of Commerce) and *Gabungan Pelaksana Konstruksi Seluruh Indonesia* (GAPENSI, the All-Indonesia Constructor Businesses Association), the home of most of the business elite nurtured under Suharto's regime. New business associations emerged. Friction among elite agents within KADIN and GAPENSI fortified the growth of associations. This friction was revealed when some elites from the two organizations resigned to establish 'new associations'¹⁵⁵ in the city and partook in competition to capture government projects. The growth in new associations further heightened the competition among local business elites in the city. They confronted each other in obtaining government projects, and occasionally, even encouraged mass mobilizations and physical intimidation (especially those associated with thug organizations). The result was a situation where most contracts were awarded to those who had the strongest back up from elites within the bureaucracy or politicians, or to those who were able to terrorize both their competitors and procurement officials.

7.4.1. Diani Budiarto's First Period as Mayor (2004-2009)

E-procurement was first initiated in the city of Bogor in 2007. The origin of the idea was introduced by an Echelon IV bureaucrat, Soni Riyadi (Soni), who was an

¹⁵⁵ This was also associated with the decreasing role of KADIN and GAPENSI in procurement. See chapter 3 on the political economy public procurement reform.

idealistic member of staff. He proposed to replicate Surabaya's e-procurement system which at the time had attracted broad national acknowledgment as constituting best practice for transparency, accountability and especially budget efficiency.¹⁵⁶

Soni's effort to promote reform reflected increasing conflict among businesses in trying to grab a share of the government budget. Soni was a member of the procurement committee group. This group was highly vulnerable to corrupt and collusive practices. Deceitful and corrupt practices involved manipulating procedures in the selection process since the planning, administration and verification processes were under the procurement committee's remit. In many cases, procurement committees were forced to act in a way that put them at high risk of being prosecuted. They were also objects of various forms of intimidation from the competing businesses.¹⁵⁷ Many procurement committees came under psychological and physical threat when they tried to follow proper procedures. This pressures was greater than justified by the small kickbacks they received. Higher officials took the most of the funds generated by corruption.¹⁵⁸

Within this context, Soni saw e-procurement as a way to help him and his cohort of low level officials get protection from the risks associated with being involved in collusive practices. It could make all processes easier to carry out, reduced their workloads, and lower the risk of being done for corruption. E-procurement also promised to help Soni in monitoring government project implementation, his main

¹⁵⁶ Interview with Soni Riyadi (Head of Spatial and Building Infrastructure Planning of the Buildings and Settlements Control agency), Bogor City, 7 August 2014.

¹⁵⁷ Ibid.

¹⁵⁸ Ibid.

task in LDMS, as procurement process records became more standardized and automated.¹⁵⁹

Another figure who helped to initiate reform was Soni's supervisor, Hermansyah, the head of Local Development Monitoring Section (LDMS) of the Local Secretary Office in the period. Hermansyah took the e-procurement idea and proposed it to the local secretary who later supported its implementation. While the role of Hermansyah was significant, his motivation for improving transparency, accountability and reducing corruption in the system is questionable. According to a well-placed informant within the government, Hermansyah was one of Diani's close allies and was heavily involved in sourcing financial support for the mayor's activities.¹⁶⁰ Other figures who were central in ensuring adoption of the e-procurement system were the local secretary, Dody Rosyadi, who, as noted above, endorsed the idea and provided backup for its early implementation, and the city mayor. The latter also seems to have supported the system, given the fact that he issued the regulations required for its implementation.¹⁶¹ Like Hermansyah, their motivations in promoting e-procurement reform were also questionable.

According to well-informed politicians and public officials, the Diani administration sustained the corrupt system of the past. At the same time, in this early period, Diani's bureaucracy was solid and well controlled by the mayor. Diani was not centrally involved in managing projects as all dirty roles were carried out by his bureaucratic subordinates. All slush funds from corrupt and collusive

¹⁵⁹ Ibid.

¹⁶⁰ Interview, Bogor City, July 2014.

¹⁶¹ Interviews with Maman Abdurachman and Henny Nurliani, Bogor City, 17 July 2014 and Hermansyah, Bogor City, 28 July 2014.

practices, including those sourced from public procurement, were managed by his loyal bureaucrats under the coordination of the local secretary, Dody Rosyadi. Within this context, it is hard to believe that the introduction of an e-procurement system was meant to disturb the existing well-established clientelistic and patronage mechanisms they had cultivated.

It is more likely that the Mayor's support for e-procurement was merely to build his image as a reformist leader. E-procurement is an effective means for a politician to build an image as a reformer because it demonstrated the mayor's commitment to fight against acute corruption practices. This popularity motivation arguably became stronger in the context of heightening conflict among contractors that Bogor faced at that time because e-procurement would show that all bidding appointments were free from collusion. It is also important to note that a new election for mayor was scheduled for 2008. There was an agreement between Diani and Dody that Diani would not run at the next mayoral election but would support Dody to succeed him.¹⁶² Procurement reform helped both individuals to increase their popularity by increasing their apparent commitment to good governance reform in the city. This pact between these two individuals also helps to explain why the head of the LDMS, Hermansyah, supported e-procurement and why there was no significant resistance from within the bureaucracy to the early implementation of e-procurement reform.

Unfortunately, the introduction of the reforms in 2007 seems to have posed an unexpected political outcome for the mayor and his bureaucracy, especially in facing the mayoral election of 2008. The bidding process through e-procurement

¹⁶² Interview with Usmar Hariman (the deputy mayor and former head of the DPRD 2009-2013), Bogor City, 22 December 2014.

led to increasing tensions between local contractors and the procurement committee, resulting in the discontinuation of the e-procurement reform in 2008. The problem occurred since collusive practices in bidding processes were continuing despite the wider participation of the private sector due to e-procurement. The disqualified contractors then complained that they were hijacked by their competitors who worked in cooperation with the internal bureaucracy (Yudiatna 2008a).

Importantly, the mayor's decision to discontinue the implementation of e-procurement also linked to his change of strategy with regard to the mayoral elections in 2008. The mayor decided to run for re-election to compete against Dody Rosyadi, who had already planned to run and was expecting support from the mayor. This decision resulted in confronting rivalry between them. As noted in the previous chapter, this led to fragmentation within the bureaucracy, splitting their support base into two rival support groups.¹⁶³ Thus, both the mayor and the local secretary were in the process of consolidating their political alliances, including among local contractor networks, to sponsor their campaign. There were critics following these decisions, especially some members of the DPRD, who showed that the postponement of e-procurement in 2008 was a setback for progress in the implementation of good government. One member of the DPRD said that he suspected that the decision to stop the e-procurement was related to political issues rather than technical matters. Despite these criticisms from the DPRD, the mayor insisted on stopping e-procurement in 2008 (Yudiatna 2008a; 2008b).

¹⁶³ Ibid.

This discontinuation further indicates that implementation of e-procurement was never intended to prevent procurement projects from being captured by contending local predatory elites. The discontinuation served the interests of both the mayor's and the local secretary's allies in the local business community, especially those represented in the local Chamber of Commerce (KADIN), which urged the government to stop the implementation. Kadin's response specifically represented the interests of contractor associations such as GAPENSI. According to two informants—one from the business community and the other from the city mayor's team--GAPENSI and KADIN were closely connected in Bogor since both shared the same membership and business networks. Presumably, KADIN's protests and requests to stall the e-procurement reforms also related to the fact that a head of division in the local KADIN, Erik Suganda (who was also the son of an influential figure in KADIN and GAPENSI during the Suharto period), directly participated in the local election as a deputy mayoral candidate running with Dody Rosyadi. Indeed, the discontinuation of e-procurement made the candidates easily direct the procurement process to favour their investors in their campaign. According to an informant who worked as a member of the procurement committee, in 2008, contractor appointments heavily exposed competition between the mayor and the local secretary, featuring the increasingly 'pre-ordered' projects dedicated to business alliances of both candidates.¹⁶⁴

7.4.2. Diani Budiarto's Second Period as Mayor (2009-2014)

Following Diani's re-election in 2008 (and inauguration in early 2009), e-procurement was re-implemented. Apparently, Diani was also in need of

¹⁶⁴ Interview, Jakarta, February 2016.

marketable programs to build his popularity, including realizing promises he had made during the campaign to re-implement e-procurement.¹⁶⁵ The reintroduction of e-procurement coincided with a massive campaign by the national government to promote e-procurement as one indicator of a reformed district or city. In addition, the fact that the city's neighboring district, Bogor District, had already implemented e-procurement, added further pressure on the mayor to execute e-procurement. In the city, the public often compared their leadership to that of Bogor districts using the latter as a benchmark.¹⁶⁶

Another potential political incentive was the need for the mayor to protect himself and his bureaucratic allies from being criticized by individuals using public procurement cases as evidence of corruption. As indicated in the previous chapter, there was increasing fragmentation within the bureaucracy during Diani's second term as mayor. This related to Diani's policy of demoting those who were not on his side during the election. The marginalized groups then built links to groups outside the bureaucracy, including the media and civil society and leaked internal information on collusive and corrupt practices.¹⁶⁷ Diani and his allies which also linked to the local Attorney General's Office and local police officers were strong enough to circumvent the cases. Nevertheless, he needed to sustain his popularity by claiming that he mitigated collusive and corrupt practices through e-

¹⁶⁵ It was publically promised that in response to the critics surrounding the implementation of e-procurement, in 2007, the postponement was only for one year, and it would be re-implemented in 2009 with more stable and well-established IT systems and software (Yudiyatna 2008a).

¹⁶⁶ Interview with Rizky Argoebie (Bima Arya's team circle), 20 September 2014.

¹⁶⁷ Interview with Usmar Hariman, Bogor City, 22 December 2014.

procurement. Indeed, the reimplementation of e-procurement did not imply that genuine reform was in place.

The reintroduction of e-procurement went hand-in-hand with stronger connections between the bureaucracy and the local business elites aimed at ensuring a broader distribution of local budgets within the elite. These connection entailed an effort to avoid friction among business elites and their associations, to protect competitors from outside the city and to help to protect bureaucrats from being accused in corruption cases. The latter were concerned about fulfilling administrative requirements and ensuring that the qualities of the project met the audit standards. In February 2009 (following the mayoral election) KADIN proposed the establishment of a coordination mechanism involving business associations, the local Attorney General's Office, and the local government. The proposal was introduced to avoid friction among the service providers and promote cooperation among related local institutions to maximize the benefits of public procurement processes and project implementation for.....(Kompas 2009). It indicates that in the second period of Diani's power, behind the implementation of e-procurement and the PSU (established later in 2010), the common agenda of local elites was to share benefits from procurement in the interests of all parties.

Accordingly, according to local informants, in practice, during Diani's second period as mayor, there were fewer conflicts which occurred related to the procurement business. Appointments of service providers were mostly implemented through so-called '*pengaturan*' or 'pre-arrangement' mechanisms, which meant that government officials appointed the service providers or contractors that should win in the selection. The arrangement could include stages

from setting up various requirements for the applicants that could only be met by government partners to coercing the committee to select favored applicants.¹⁶⁸

Especially in the goods provision projects, the practice of pre-arranged bidding took place with fewer complications. The competition among bidders was also weak since there was not much room to make big profits. This is because most of the procured goods were tangible, straightforwardly auditable, and their market price references were publically available. There were thus fewer incentives for the service providers to fight over the jobs. Importantly, there was also a requirement for goods and services bidding that could impede competition, i.e., a ‘letter of guarantee’ from the product’s original producers or their primary distributors. The latter could only be issued to support one service provider at once. Hence only providers who had obtained the letter of guarantee from the targeted label could meet the requirement. To further limit the participants, the procurement committee often specified that the tendered goods should narrowly target one or two brands. Such a situation reduced the incentives for the local businesses to compete.¹⁶⁹

A more complex arrangement, however, occurred in managing the distribution of infrastructure projects. Typically, infrastructure projects are the most competed for government projects as they involve bigger project budgets. The quality of infrastructure projects was readily corrupted, since a lot of materials and labor used were unseen, providing an easy way to use underqualified materials and underpaid labor costs. Beside the nature of the projects, as noted earlier, there was heightening competition and fragmentation among business elites in the city due to the growth of new associations. Friction amongst business unions did occur, raising local

¹⁶⁸ Interviews, Bogor City, September and December 2014.

¹⁶⁹ Ibid.

business concerns as to how the government should distribute the projects to local entities and protect them from competitors from outside the city.

In 2010, there was a contractor communication forum that informally established and solicited commitments to avoid friction among businesses so as to avoid triggering investigations from oversight institutions (i.e. the Local Attorney General's and Police's offices). The forum established an informal agreement between the government and business associations that all the projects must be distributed to members of existing associations under the coordination the forum. In exchange, the forum agreed to ensure the quality of the projects and to fulfill the formal procedures to help government officials to establish sound project administration using audit standards. The forum would also collect all the kickbacks from every project and assist the local governments in collecting reserved 'slush funds'.¹⁷⁰

In practice then, according to three well-informed informants, in the early period of every financial year, the government disclosed all the available projects to the forum, so that the forum could distribute the projects to their members. The shared projects constituted all those valued at IDR 200 million or more, except for those designated as 'political projects' (that is, projects that were under particular political negotiations, requests, and lobbies). The forum then shared all the projects among the 28 associations represented in the forum, with each association's portion depending on their number of active members. Indeed, they also agreed on the portion of reserved kickbacks. The informants also pointed out that such practice

¹⁷⁰ Ibid.

was also given the unwritten consent of the local police and the local judiciary, which also took benefit from the system.¹⁷¹

These informants further described that, technically, each company was only allowed to participate in bidding for the project dedicated to it. Since e-procurement would ask for three or more participants in procuring the project, the dedicated company asked their colleagues or their business counterparts to apply as his/her panel competitors. This served to narrow the chances for businesses that were not a member of or coordinated by a business association, as s/he would be treated as the common enemy of other businesses. Within this mechanism, e-procurement and the PSU merely administered the 'pre-arranged appointment.' The forum also built strong communication and coordination with the PSU to make sure all selection results reflected the arrangements made outside the formal system. This also included their coordination to block free rider participants from outside the city.¹⁷²

The above consolidation through the forum, however, does not mean that it represented the interests of all business in the city or empowered smaller firms. Rather, business elites held the greatest stake in the system. According to a head of a business association and two other service providers, from more than 500 registered corporate entities, in reality, only around 100 businesses existed in the city. From that number, no more than 10 business elites captured most of the projects in the city, all of which had the most capital capacity and ability to implement the projects in the field. Other than those ten contractors, other small businesses mushroomed in the city but with a relative lack of financial capacity. They established their businesses so as to utilize their networks with local political

¹⁷¹ Ibid.

¹⁷² Ibid.

agents and bigger business companies to catch a small portion of government projects. They then usually traded the projects they had obtained to the bigger businesses for a small amount of compensation in return.¹⁷³ Some informants from the business sector also believe that this market structure allowed the accumulation of government projects to only a few big businesses. Outside the 100 real businesses, the other entities were actually ‘shadow businesses’ established by those linked to the business mafia, bureaucrats or politicians.¹⁷⁴

The relationship between small businesses and the ‘shadow businesses’, on the one hand, with bigger businesses, on the other, was loaded by mutual interests within the patronage system. Most of the small businesses made money by trading the projects they captured to larger businesses. The bigger businesses benefited from this mechanism as it allowed them to manipulate the procurement guidelines that limited the number of projects to be acquired by one company. In short, the mechanism allowed the bigger businesses to take as many as projects as they wanted. Ironically, the owners of large companies were the elites of the existing 28 associations in the city. Some of them actually controlled and funded more than one organization. In this way, the contractor forum managing the distribution of government projects was no more than serving and facilitating big business elites. These elites also reinforced their domination in the forum through breeding the above mentioned ‘shadow companies’ registered under their associations so as to get a bigger share from the forum.

¹⁷³ Interview with Erik Suganda, (Head of the Local Chamber of Commerce (KADIN), Bogor City, 5 August 2014.

¹⁷⁴ Interviews, Bogor City, September and December 2014.

Furthermore, some informants from businesses and the bureaucracy also agreed that the corrupt system within the city government has enabled the local business mafia to extend their influence through distributing what is called '*Ijon*'¹⁷⁵. This refers to a mechanism by which a contractor or service provider buys up future projects from public officials or politicians. These informants believe that considering the tendency of Diani's leadership to serve all the competing interests in the city including the DPRD, police officers, attorney general's officials, civil society and media, not to mention the individual needs of the city's bureaucrats, large reserves of slush funds (extra budgetary funds) became inevitable. One source of collecting slush funds was through *ijon* sourced from mafia contractors.¹⁷⁶ From the funds they raised, they were required to allocate some of the next year's projects to their creditors in return.

Politicians in the DPRD seem to have taken benefit from the system since their political interests were also entangled in the collusive public procurement arrangements. According to three well informed informants from the business and bureaucracy, there were informal agreements between the executive and the DPRD that the executive should allocate projects dedicated to the DPRD through so-called 'Aspiration Funds'. This mechanism allows all the DPRD members to manage programs, including appointing the service providers, so as to obtain kickbacks. The 'aspiration funds' varied with each DPRD membership, based on their position, with IDR 2 billion for the lowest rank and higher up to the head of the DPRD at the

¹⁷⁵ The term derives from the purchasing paddy system in Indonesian culture. Under this system, a peasant could 'mortgage the crop (for money) before it harvested' (Stevens & Tellings 2004, p. 377)

¹⁷⁶ Usually the value of 'debt bonded' fund was 10% of the projects dedicated to the creditors. . For example, if an official from a government agency bureaucracy asked for IDR 100 million, they should allocate sums of next year's projects up to IDR 1 billion for the creditors (Interview with two informants, September, 2014).

top who got IDR 3 billion, in 2014. This aspiration fund was distributed through various government agencies' projects, which were commonly split up into small projects under IDR 200 million so as to avoid e-procurement processing in the bidding selection.¹⁷⁷

In the implementation, however, the DPRD had to trade their projects with the big contractor mafia in the city who funded their campaigns during their election. Apparently, contractor mafia made strategic investments in the legislative campaign by distributing *ijon* to all candidates and asked them to pay off the debt through allocating 'aspiration fund' projects to the investors. A well-informed source in an interview estimated that most, if not all, DPRD members were already so trapped in the *ijon* system that they had to go along with their debt masters for the five-year period of their membership of the DPRD. The informant also believes that such mechanisms would continue in the next legislative election, resulting in the never-ending dependency of local politicians on clientele patronage relationships with the local contractor mafia.¹⁷⁸

Thus, in the second period of Diani's administration, the collusive and corrupt system become stronger, given the tendency of the leadership to share the captured local budget with all contesting interests, especially elite businesses and politicians in the DPRD. When all the elite agents were well consolidated, and their economic interests were well distributed among predatory elites, there was no room for good governance to emerge, especially when civil society and the media were too weak to break the system. As a consequence, rather than improving governance in public procurement the re-establishment of e-procurement and PSU facilitated the corrupt

¹⁷⁷ Confidential interviews, Bogor City, September 2014.

¹⁷⁸ Interview, Bogor City, September 2014.

and collusive agents to being in line with the formal procedures required by related procurement regulations. E-procurement and PSU functions were used to administer the decision-making process, outside the legal system.

7.4.3. Bima Arya's Early First Period as Mayor (2014-2015)

As indicated in the previous chapter, Bima was a typical reformist leader. Ironically, though, he could do nothing to bring about change due to a lack of support from within the bureaucracy and also civil society. In the context of procurement reform, apparently, nothing has changed under Bima's leadership regarding policies focused on procurement structures and corrupt and collusive practices. However, there was a potential break in the local political economy of public procurement resulting from his leadership style. Unfortunately, due to the given local political structure, he failed to translate the momentum of this into substantial reform.

Bima's campaign on corruption eradication in his early days in office apparently sent clear messages that he would not support and protect any corrupt practices. Despite being unclear about his commitment to reform, the leader revealed his desire for change in his political interactions with his bureaucrats, the local government counterparts such as the DPRD, the attorney general's office, and the local police offices and with non government agents, especially the media and civil society groups. He knew that all the above-mentioned players were well nurtured by the previous mayor through the provision of financial support or through various other corrupt means. Bima warned his bureaucrats about not allocating any financial support for him unless it was formally budgeted in the local budgets. Bima also rejected lubricating his relationships with the media, civil society, politicians

and many local Attorney Generals and police officers through the provision of unbudgeted financial support.

The mayor stood against corrupt and collusive relationships with other local agents; he consequently attracted resistance from his political counterparts from both within and without his administration. This was particularly the case for the actors outside the bureaucracy. As Bima cut off their flow of financial support, so there were increasing pressures from outside his government, which were designed to denigrate his popularity. An informant from within the bureaucracy, for example, suggested that, as a response to Bima's unfriendly approaches, oversight authorities in the city, especially the local Attorney General's office, intensified their oversight activities. They aggressively carried out investigations for any emerging issues and followed up any rumors exposed by local civil societies and the media, both of which were motivated to pressure the mayor.¹⁷⁹ There were also times when groups of people claiming to be civil societies carried out intense street demonstrations almost every single day, and the media fortified the pressure through extensive publication of the details of their demonstrations.¹⁸⁰

Within the bureaucracy, Bima's anti-corruption message produced even greater consequences. An interviewed bureaucrat reported in the interview that there was growing worry and uncertainty among the local political apparatus. They saw that Bima's decision not to lubricate the local government and oversight bodies with a slush fund put them in a vulnerable position, given the fact most public officials in the city remained committed to corrupt practices and therefore could be easily

¹⁷⁹ Confidential interview, Bogor City, September 2014.

¹⁸⁰ Interview with Iwan Kurniawan (Paguyuban Bogor City and Bima Arya's team) and Rizky Argoebie (Bima Arya's team), Bogor City, 8 September 2014.

targeted for investigation at any time by the Attorney General's office. This uncertainty demotivated local bureaucrats from supporting their mayor. Some informants also suspected that they also built collaborative relationships with agents outside the government to intensify street demonstrations and criticism through the media.¹⁸¹ The most critical consequence, according to the mayor, was that his bureaucrats did not support the mayor's quick win programs, which were focused on road maintenance, park development, smart city implementation, pedestrian improvement, traffic control and the removal of illegal parking and street vendors from public areas. The situation worsened since the mayor was inaugurated in the middle of the financial year, leading to most of the mayor's quick win program budgets being uncovered in the local budget documents. This lack of budget availability provided an excuse for the local apparatuses to avoid following up the mayor's orders.¹⁸²

Fundamentally, the above accumulative circumstances put the mayor into a big dilemma, especially considering his failure to rotate his corrupt bureaucrats, as noted in the previous chapter. According to the mayor, he had to choose between strongly supporting his idealistic visions about clean governance whilst lacking support or stalling his anti-corruption agenda to speed up publically tangible developments to help his popularity. In the end, he took a middle way by approaching his bureaucrats to support this development agenda, while indicating that he would not formally carry out his anti-corruption agenda. He, however, clearly underlined that he would never give consent to any act against the law and

¹⁸¹ Interviews, Bogor City, September and December 2014.

¹⁸² Interview with Bima Arya (The city mayor, 2014-2019), Bogor City, 5 September 2014.

would not protect and defend any officials from the Attorney General's office's investigations.¹⁸³

This mayoral indecisiveness offered an opportunity for his inner expert team (outside the government) to collaborate with bureaucrats in effecting the mayor's quick win programs. According to an informant within the team, they had to implement the programs, despite the unavailability of local budgets to do so. There were efforts from the team to source funds from private sectors through corporate social responsibility (CSR) programs in collaboration with the government's programs. However, since the CSR funds from the private sector were very limited, most of the projects were sourced from local contractors through *ijon* mechanism; meaning that they asked local mafia contractors to fund the quick win projects, with a promise of appointing them to implement various projects in the next year's budget allocation.¹⁸⁴

The good governance agenda became further impeded by his expert team's approach, aiming to stabilize the local political situation, especially by confronting those agents outside the government. The team used a cross cutting mechanism to control critical agents outside the government through distributing financial support using the funds that had at least in part been collected suspiciously from their contractor networks, again by trading the next year's projects using the *ijon* mechanism. According to informants within the mayor's team, there was an argument within the team that the only way to protect the mayor from criticism and to maintain the mayor's legitimacy in public was through distributing financial support to all contesting interests in the city, including the media, civil society

¹⁸³ Ibid.

¹⁸⁴ Confidential interviews, Bogor City, September 2014.

organizations, the police and judiciary officials. They had to be realistic that they also had personal needs to fulfil through their daily operation of the team, including their own salaries, which could not be covered by the local government budgets.

Apparently, in the city, there were no powerful forces to block such a corrupt and collusive system. As indicated in the previous chapter, civil society in Bogor City with an interest in good governance was unavailable. Rather, the domination of civil society in the system of public procurement featured the hostile group known as *Pemuda Pancasila* (Pancasila Youth), a thug based youth organization that in the New Order regime was subsidiary to the Golkar Party. Its elite members within the group were active contractors. According to an informant, it is the case that whenever conflict related to bidding processes involved this group, they established mass mobilization forces called '*Forum Kontraktor Bersatu* (the Unity of Contractor Forums) to express their views. They carried out street demonstrations to pressure government agencies, including PSU that did not accommodate their interests. In many cases, they also served local elite contractors by deploying their thug members to intimidate and block other bidding participants, based on requests from their clients.

Thus, from this point, the mayor's political strategy to follow the path of populist leadership facilitated the continuation of collusive and corrupt public procurement reform. Bima's efforts to pursue his populism agenda at the expense of his good governance agenda entangled him in the political and economic interests of local predatory agents, who had seized control of procurement reform since the beginning. Within the above political state, surrounding the implementation of e-procurement and the PSU, there was no room to expect that the mayor would have the capacity to repeal existing corrupt and collusive practices. This is especially

justifiable, given the fact that the pro- democracy forces required to back up the mayor's challenge to the predatory elites were not available in the city. There were also no signs of their likely emergence at the time of the field study.

7.5. Conclusion

This chapter has analysed the extent of procurement reform in Bogor and the role of political economy factors in shaping this outcome. The broad structure of power in the city, which was characterised by the continued domination of predatory politico-bureaucrats inherited from the New Order era imposed constraints on the prospects for procurement reform. In Bogor, procurement reform was implemented when 15 years of democratic decentralization had failed to remove the old predatory elite agents from the local institutions. As a result, rather than protecting the government's projects from being inefficient and corrupt, the institutional reforms of the procurement sectors facilitated the continuation of corrupt and collusive practices and exploited the legal instruments to shield the predatory politico-bureaucrats. Such a situation to some extent confirms the notion of social conflict theory in that the immense domination of old predatory elites in the post New Order local politics has impeded democratic decentralization in promoting good governance.

It is marked in the city that government projects were subject to local predatory elite interests, combining the interests of local politico-bureaucrats. The fact that, in the city, big projects were distributed by the contractors' forum explains how the predatory elites were able to adapt the emerging reform agenda, through working in collaboration with the bureaucrats to sustain their shared interests, notwithstanding fragmentation among them. Such collaboration became possible

given the local procurement business structures that allowed only a few contractors, so the biggest mafia with a sturdy clientele and patronage network within the bureaucratic structure through the formation of a cartel system, controlled the distribution of the projects. It is also evident that the new players in local politics were entangled in the business structures formed by the politico bureaucrats and the politico businesses, considering that local politicians in the DPRD, the local Attorney General's office, civil society groups, and local media were also partaking in sustaining the system for their own interests.

Meanwhile, pro-democratic forces were absent in the local political constellation and made an emerging reformist leader with a reform agenda, Bima Arya, not have enough support (either through pressure or back up) to direct procurement reform. In this case, Bogor City provides an obvious contrast with the elite leadership's theoretical propositions, that the agential factor of leadership, whatever his political incentives, was not high enough to determine change. Similarly, elite competition theories might also fail to explain the Bogor City context since elite competition in the city did not encourage the political agents to promote any reforms. The case of Bogor City, however, indicates the absence of well-consolidated and idealistic pro-democratic forces has enabled the domination of the predatory elite in the local political power distribution and structure, without any challenge.

So, in the case of Bogor City, unless there are emerging, strong progressive civil society alliances that can enable the local political structure to be more supportive of a good governance agenda, procurement reform in the city will fail to achieve the intended outcomes.

CHAPTER 8

CONCLUSION

This dissertation has examined the impact of democratic decentralisation on the quality of local governance in Indonesia since the fall of the authoritarian ‘New Order’ regime in 1998, focusing on the role of political economy factors in shaping this impact. It has used procurement reform as a case study because procurement has long been a major source of corruption in Indonesia, and procurement reform has consequently been a crucial battleground in the struggle for better local governance in the country.

Like previous studies on democratic decentralisation in Indonesia, this dissertation has argued that predatory elites have exercised a powerful, enduring, negative influence over the quality of local governance and that this has been ameliorated to some extent by the incentives that democratisation has created for local elites to promote populist policies. In contrast to these studies, however, it has provided evidence to suggest that the existence/non-existence of progressive forces in civil society and reformist bureaucrats at the local level have also been a significant influence on the nature of local governance.

Progressive forces in civil society, it is argued, have been significant in challenging predatory elites’ dominance of the local political system both by directly opposing these elites and supporting rival reformist leaders and public officials to bring about good governance reform. Leveraging this support, reformist leaders and bureaucrats have been crucial in promoting governance reform from within the state

by introducing reform initiatives to accommodate demands advocated by progressive forces, especially for better service delivery and cleaner governance. Where progressive forces are weak, there has been much less scope for reform. This has been the case even when reformist leaders have come to power on the back of popular support. The absence of well-organised progressive forces has meant that such leaders have lacked the political support required to successfully confront entrenched predatory elites and reform areas in which these elites have a vested interest.

The case of procurement reform illustrates these outcomes and dynamics well. In Surabaya, procurement reform has progressed well, contributing to improvements in the quality of local governance. The city has boosted its effectiveness in managing bidding processes, strengthening budget efficiency, and making tendering processes more transparent, cleaner and genuinely competitive. Corruption and collusion in procurement have been reduced. Such results have been possible because progressive activists (notably NGOs, university academics, and local media) successfully challenged the political dominance of predatory elites and energized reform-minded leaders and bureaucrats. This created a political environment in which the latter could adopt and roll out wide-ranging procurement reforms.

By contrast, in Bogor City, procurement reform has been limited, facilitating the continuation of corrupt and collusive practices. Rather than protecting government projects from being inefficient and corrupt, new procurement institutions (e-procurement and PSU) have been captured by predatory elites and new political and business actors who have integrated themselves into networks of corruption and patronage. This outcome has reflected the fact that predatory elites nurtured

under the previous regime have continued to control local politics and policy-making in Bogor City. Progressive forces lacked the strength to challenge the dominance of predatory elites. The election of a reformist leader in 2014 produced little real change because he lacked the political base to push aside entrenched predatory elites.

This analysis has implications for the way in which we theorise local-level politics in Indonesia. It also holds lessons vis-a-vis the strategies we employ to promote improved local governance in the context of democratic decentralisation in developing countries.

With regards to the former, this dissertation suggests that we need to reappraise the major scholarly approaches used to understand local-level politics in Indonesia, namely, the social conflict, elite competition, and elite leadership approaches. These approaches capture the roles of predatory and populist elites in shaping the nature and quality of local governance but they obscure the role of progressive civil society actors such as NGOs, intellectuals, and the media and reformist public officials. As this dissertation has shown, progressive civil society actors and reformist bureaucrats can play a crucial role in shaping the local political landscape and, in turn, determining the fate of governance reform. In this respect, this dissertation provides an argument in favour of an eclectic analytical approach and, specifically, one that combines the insights of the social conflict, elite competition, and elite leadership approaches with those of the pluralist approach employed by scholars such as Aspinall (2013), Antlov, Brinkerhoff and Repp (2010), and Tans (2012). Only by combining these approaches, can we get a complete picture of the

political dynamics that have shaped and continue to shape local-level governance reform in post-New Order Indonesia.

At the same time, this dissertation suggests that, in applying this approach, we need to be mindful of the potential for civil society actors and reformist bureaucrats to go beyond successful oppositional politics to engineer change from within the state. Much analysis of local-level politics in Indonesia—whether informed by the social conflict, elite competition, elite leadership, or pluralism approaches—has assumed continued oligarchic or predatory rule. To the extent that progressive elements have entered the analysis, they have been viewed as a force that operates from outside the state to chip away at oligarchic or predatory rule. However, this dissertation has shown that in the case of Surabaya at least, good governance reform occurred because well-organised progressive civil society forces—in the form of NGOs, intellectuals and the media—forged an alliance with reformist leaders and bureaucrats enabling the latter to gain a significant degree of control over the state apparatus and engineer change from within. This indicates that, given the right conditions, progressive civil society forces can mount a more formidable challenge to entrenched predatory elites than existing accounts typically allow, even those that are set within a pluralist analytical framework.

With regards to strategies for promoting improved local governance in the context of democratic decentralisation in developing countries, this dissertation suggests four points.

First, supporters of good local governance such as international development agencies, INGOs, and major national-level NGOs should seek to promote the development of progressive civil society actors at the local level. They can start by

identifying groups, actors, and organisations that have the potential to bring about better local governance in the relevant region. Following this, they should build the organisational and human resource capacities of selected organisations. This can help them to initiate activities and programs of engagement in local politics such as advocating a policy reform, or carrying out program monitoring and oversight. This in turn will entail the provision of technical assistance, financial support, and expertise. Such support will facilitate a learning process among progressive civil society actors related to the diagnosis of local problems and, especially, the political roots of these problems. It will also enhance these actors' sense of responsibility for addressing local problems; develop their experience in communicating, negotiating and lobbying for change; enhance their political networks; and, most importantly, build their confidence to interact with other actors including the local elites. In addition to such support, proponents of better local governance such as donors, INGOs, and major national-level NGOs should help progressive forces in local civil society to make their voices heard more widely and, in particular, by policy makers. In this respect, they can provide assistance to local progressive civil society actors to help them make better use of the local media to disseminate their opinions, protests, and input. This, in turn, will enhance the 'popularity' of civil society activists and widen their chances of participating in local electoral politics by, for instance, providing party candidates and forming alliances within local political institutions.

Second, proponents of good local governance should explore ways of facilitating coalition-building amongst progressive civil society forces at the local level. By working in coalitions, these forces can exercise much greater influence over local politics than would otherwise be the case. But whether such coalitions form or not

depends on the extent to which they forge a shared democratic agenda, binding the different actors' and organisations' activism together. Progressive forces in civil society can do this by having a shared understanding of the root causes of governance problems, having shared sets of strategies for combatting these problems, and building networks that enable them to work together. Proponents of good local governance such as donors, INGOs, and major national-level NGOs can assist in this process by equipping the progressive forces with skills in political analysis, helping them to undertake collaborative research on local issues using these skills, helping them develop strategies based on this research, and widely disseminating and communicating the results to broader audiences, so that the results become a basis for initiating coalition activities. Such proponents will also need to provide direct financial and technical assistance to individual influential actors and progressive civil society organisations to facilitate these processes. Priority should be given to interventions that combine activism, academic analysis and media pressure for effective outreach in implementing the chosen strategies.

Third, local progressive forces need to develop more effective strategies for advocating for local governance reform. This includes supporting potential reformist politicians to win elections and, in so doing, becoming prospective channels for articulation of their agenda within the state apparatus. This is vital because local election results will determine which elite actors and coalitions take control of local political institutions. This strategy may end up with progressive forces in civil society supporting competing figures or parties at election time, resulting in a split among these forces, but this should not be overly problematic provided that each fragmented group holds the same agenda and is able to force the

supported reformist politician to pursue the demanded reform in exchange for the group's political support.

Fourth and finally, since few, if any, politicians rely solely on the support of progressive forces in civil society to win elections, and political pressure from predatory elites will continue beyond elections, progressive forces should maintain their pressure on local politicians after elections to ensure that they do what they have promised. Simultaneously, members of progressive coalitions should develop their capacity to provide technical advice in relation to policy-making, program implementation, and overseeing processes to further ensure that their influence does not wane in the post-election period.

Overall, this dissertation offers some hope with regards to the future of democratic decentralisation in Indonesia. Local politics in some parts of post-New Order Indonesia have been more democratic and produced more progressive outcomes than much existing analysis would suggest is possible. This in turn suggests that it may be possible to protect the *Agenda Reformasi* unleashed with the fall of the New Order from simply being co-opted by predatory elites.

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