

## **IMPLEMENTATION OF GOOD GOVERNANCE PRINCIPLES IN PUBLIC PROCUREMENT FOR EMPOWERMENT OF MICRO SMALL ENTERPRISE: EMPIRICAL STUDY IN BITUNG CITY NORTH SULAWESI PROVINCE, INDONESIA**

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### **ABSTRACT**

This study is aimed to know about the application of good governance principles as an effort to empower micro small enterprise as stated in Republic of Indonesia Presidential Regulation number 54 year 2010. In addition, it also aims to understand the worthiness level and formulate empowerment strategy for small micro enterprise as supplier of public procurement. The result shows that average compliance level of Regional Working Unit (SKPD) in the research area is high, reaching 81.93 %. This compliance level consists of 82.25% efficiency, 84.25% effectiveness, 80.21% transparency, 83.44% openness, 81.91% competitiveness, 79.15% fairness/nondiscriminatory and 81.82% accountability. Analyzing 50 small micro enterprise respondent shows low result. By means of 24 worthiness variable values that must be fulfilled by small micro enterprise to qualify as supplier for government goods and services like stated in Republic of Indonesia Presidential Regulation number 54 year 2010, only 7 variables exhibit more than 50% worthiness score. While the other 17 variables show below 50% worthiness score. By means of Focus Group Discussion, micro small enterprise empowerment strategy can be done through 6 aspects. They are Business Aspect, Technology & Information Aspect, Human Resource Aspect, Lobbying Aspect, Stakeholder Role Aspect and Micro Small Enterprise Worthiness Aspect.

**KEYWORDS:** Good Governance, Public Procurement, Empowerment, SMEs, Bitung City, Indonesia

### **INTRODUCTION**

Micro small enterprise empowerment can be one of the effective programs to solve with unemployment and poverty problems by giving more access to micro small enterprise to participate in government projects, especially in the government goods and services procurement which is conducted every fiscal year. To optimize the role of micro small enterprise in the procurement activity which is one of the indicators to observe economic growth of a certain area by the performance of its Regional Working Unit (SKPD), that is through its expenditure for capital spending (BM) and goods & services spending (BBJ). The rise of those two types of government spending year after year is a successful indicator of Regional Working Unit performance. One which is Regional Working Unit (SKPD) spending that is requisitioned to provide goods and services procurement packages to be handled by micro small enterprise as mentioned in Law number 20 year 2008 about Micro Small and Medium Scale Enterprise (UMKM) and Republic of Indonesia Presidential Regulation number 54 year 2010 and its amendment regarding public procurement.

Bitung City Government Regulation that sides with small micro enterprise are among which the Bitung City Law number 6 Year 2006 on Empowerment of Cooperatives and Small Medium Enterprise (UKM), Bitung City Law

number 1 on Long Term Regional Development Plan (RPJPD) of Bitung City 2005-2025. Bitung City capital spending and spending of goods and services has been continuously increasing, both on value of money as well as procurement packages for micro small enterprise, which in turn is a constructive signal to micro small enterprise player. For illustration, the number of procurement package on capital spending in 5 out of 47 Regional Working Unit (SKPD) taken for sample was 45 packages in 2011, and went up to 170 packages in 2012, showing equivalent of 277.78% rise. Whereas for procurement package on goods and services was 90 packages in 2011 and increased to 164 packages in 2012, reflecting 82.22% increase.

Bitung City government efforts to empower micro small enterprise through public procurement however, are challenged by numerous difficulties concerning implementation of relevant law. Early stage of this study found that low qualification and lack of knowledge of government officials and administrators as well as problematic conditions of micro small enterprise such as insufficient qualification to bid and other internal and external problems have added the hardship. In addition, some micro small enterprises are still lack of business deed and license, tax identification number (NPWP), banking account and inability to access information from the Regional Working Unit (SKPD) due to unskilled resources with still traditional management and unfamiliarity of bidding knowledge, also short of accessibility to primary financial institution and related executive and judicative officials. Failure to comply will influence effective implementation of law. High compliance shows high effectiveness and vice versa. Unsuccessful implementation on procurement policy according to Suliantoro (2012) is related to its process, practices that do not follow principles of good governance often happen. As stated by Udoyono (2012) minimum monitoring of the implementation in the field, abuse of authority in the procurement process, breach of contract, collusion between officials and supplier, manipulation, and incompetent human resources as well as inability of micro small enterprise players to fulfill technical requirement as supplier for public procurement and yet still burdened by its internal and external problems have caused empowerment efforts more difficult to put into action.

Turpin (1972) said that public procurement will significantly affect growth, competition and efficiency of an economy. World Bank (2002) implicitly stated that public procurement has positive impact on both social and economic aspects of a country. In European Union for example, public procurement has significant impact on social and economic development, local and nationwide (Peck and Iqnazio Cabras, 2008). And in Kenya, according to Amemba, *et. al* (2013) public procurement has played major role in the utilization of government resources and accomplishment of economic development agenda. According to Callender & Matthews (2000), and Trionfetti (2003) all countries in the world [advance-industrial and developing], public procurement activities has taken government finance between 10% until 30% of its *Gross National Product* (GNP). Therefore, public procurement has an important function to the government (Thai 2001). In advance countries like England and Denmark, according to Peck and Iqnazio Cabras (2008), public procurement has contributed between 11% until 18% in England, and 25% of the GDP in Denmark. While in the developing countries such as Kenya (Ondick, B. Alala and Frederick O.D, 2013), Ghana (Tutu, *et. Al*, 2011), Nigeria (Auriol, 2006) each has 9%, 14% and 18.4% of their GDP. In Ghana, Malawi, Uganda, and Nigeria spending on goods and services reached 40% until 80% of total government spending (Tutu, *et.al*, 2011: Development Assistance Committee, 2005; and Attah, 2009 *in* Adebisi, *et al*, 2010). In Indonesia, according to the Ministry of Finance (2010) and Udoyono (2012), total spending on public procurement reached 347 billion Rupiah or around 33.4% of total government spending, distributed into 180 billions Rupiah or 51.87% of national spending and 167 billions Rupiah or 48.13% of local spending.

Micro small & medium enterprise (UMKM) has proven to be the last fortress when global crises hit monetary world in the past, including Indonesia. However, micro small & medium enterprise (UMKM) in its development, which influence the empowerment on itself, still face many obstacles caused by internal and external factors and that affect UMKM in and out of the country as well as UMKM in general and those in goods and services procurement in particular. For example, lack of capital, unqualified human resources, outdated technology, limited product marketing, poor administrative management, inadequate managerial skill, short of training opportunity, low productivity, limited access to businesses, information and networking either to other UMKM or large enterprise players, unskilled UMKM players, short of insight and knowledge about enterprise, and lack of development from concerned institutions and non conducive enterprise climate (Jasra, et al, 2011; Victoria, et al, 2011; Suyono, 2006; Tambunan, 2002; Munizu, 2010). Aside from that, micro small & medium enterprise (UMKM) receives bad behaviour from officials and policy makers. Many times, defiant conduct of procurement administrators emerges and possibly, similar conduct exists within the suppliers. Therefore, the most important feature in the public procurement system to function well, it must follow principles of good governance; transparency, accountability and integrity (Thai, 2001; Wittig, 1999). It must also be effective and efficient (Ondick, B. Alala and Frederick O.D, 2013; Jeppesen, 2010). All of that added to government main principle of procurement, that is to achieve value of money. In other words, principle of good governance is the main pillar for every procurement system. Neglecting the principles is a non compliance of the regulation and law that are established to be followed.

## DATA AND METHODE OF ANALYSIS

This study uses qualitative and quantitative data collection method. The qualitative method are interview and focus group, while the quantitative method is survey, questionnaire and documentation study. The samples are first: 47 Regional Working Unit (SKPD). Second: selected 50 out of 218 micro small enterprise players in government public procurement. Third: 10 key person samples for deep interview and *focus group discussion* (FGD) taken from SKPD and micro small enterprise players. Sample of micro small enterprise players is collected by multistage sampling using purposive sampling. Key person for focus group discussion is selected by purposive sampling, that in this study are knowledgeable and skilled individuals in their fields and whose job are related to micro small enterprise. Their insights are expected to give genuine input for this study. Whereas FGD is conducted by 15 individuals consist of 2 academic personalities from university, 5 micro small enterprise players in public procurement, 2 representatives of finance and banking institution and 6 individuals from Cooperative and SMEs, Industry and Trade regional office, Regional Planning and Development Agency (BAPPEDA), and Integrated Licensing Service and Investment Agency (BP2TPM), City Spatial Planning Agency and Electronic Procurement Service (LPSE).

This study is a research on the implementation of good governance principles in public procurement in conjunction with the empowerment of micro small enterprise in Bitung City. This study employs statistic descriptive analysis with qualitative approach as well as *focus group discussion* (FGD) as its method of analysis. To establish the objective on implementation of good governance principles to empower micro small enterprise as mentioned in Presidential Regulation number 54 year 2010, Regional Working Unit (SKPD) in Bitung City are analyzed using principles of good governance: efficiency, effectiveness, transparency, openness, competitiveness, fairness/nondiscriminatory and accountability. Indicators of each principle are determined based on Expert Panel Method through questionnaire in Mailing

List of Association of Public Procurement Indonesia (IAPI) run by Policy Institute for Government Procurement of Republic of Indonesia (LKPP-RI). In this phase, the analysis also covers compliance level of Bitung City SKPD in implementing Presidential Regulation number 54 year 2010, article 100, verse 1, 2, 4 and 5 about micro small enterprise. Respondent scoring on the questionnaire is done using conventional scale; that is scoring on one's perspective over an object on the scale from 0 until 10. It is scored high when the result is over 50% and vice versa, low when below 50%. (Susilowati, et.al, 2004).

To accomplish research objective on level of worthiness of micro small enterprise as supplier for public procurement according to the criteria required by Presidential Regulation number 54 year 2010. Samples of micro small enterprise are also analyzed then scored with conventional scale. When the result is more than 50%, the enterprise is said to be worthy. That means the said enterprise has fulfilled the requirement as stated in Presidential Regulation number 54 year 2010. On the other hand, when the score is lower than 50% it means the enterprise is unworthy to be a supplier for public procurement. Empowerment strategy is determined through focus group discussion and analyzed on its Business aspect, Information and Technology aspect, Human Resources aspect (SDM), Lobbying aspect, and Stakeholder Role aspect. Each aspect (variable) has 5 indicators.

## RESULTS AND ANALYSIS

Research result indicates that compliance of 47 Regional Working Unit (SKPD) in implementing good governance principles that are efficient, effective, transparent, open, competitive, fair/nondiscriminatory and accountable as required by Presidential Regulation number 54 year 2010 is high, 81.93%. This finding corresponds with State Auditor Award (BPK-RI) to Bitung City as small town with excellent financial management or unqualified (WTP). Compliance level consist of efficiency 82.25% (high), effectiveness 84.25% (high), transparency 80.21% (high), openness 83.44% (high), competitiveness 81.91% (high), fairness/nondiscriminatory 79.15% (high) and accountability 81.82% (high). Highest application of good governance principles in public procurement is effective principle that is 84.25%, with highest indicator is procurement provides benefit, where planned goods and services procurement has been 84.75% beneficial to the administering of Bitung city government. Lowest score is on the implementation of fair/nondiscriminatory principle, that is 76.20% with lowest indicator is not rejecting outside Bitung city supplier, that is not refusing enterprise from other region.

In providing satisfying solution to a miscarriage of tender process as one of administrative system revamp program in various sector and aspect, since 2012 Bitung city has been operating electronic procurement system (LPSE) as mandated by Presidential Regulation number 54 year 2010. Furthermore, it is obligatory for every Regional Working Unit (SKPD) to publicly announce General Procurement Plan (RUP) through electronic procurement system (LPSE) that is directly connected to National Portal run by Policy Institute for Government Procurement of Republic of Indonesia (LKPP-RI). The efforts to restore government administrative system to be in accordance with principles of good governance has brought Bitung city to become a small city with the best financial management in 2013 and received title of unqualified (WTP) by the Republic of Indonesia State Auditor (BPK-RI).

Research result regarding worthiness level of 50 analyzed micro small enterprises as supplier to government public procurement is very low. Employing 24 worthiness scoring variables as prerequisite by Presidential Regulation number 54 year 2010, only few variables show worthiness level over 50% like fulfillment of legal requirement such as in

possession of Notary Deed, Tax Identification Number (NPWP), not under legal court investigation, business is not under suspension/owner is not a criminal offender et cetera, the business is not included in the *blacklist* and business owner is not a civil servant (PNS) as shown in table 1 appendice. The other 17 variables reveal worthiness level below 50%. The result therefore demonstrates that Bitung city micro small enterprise of government public procurement suppliers are still not qualified to execute projects or procurement jobs available at every Regional Working Unit (SKPD) due to low worthiness level as required by Presidential Regulation number 54 year 2010. This also indicates that Bitung city micro small enterprise will not hold competitive power against their contenders from outside Bitung city. In this manner, it shows that procurement packages available for micro small enterprise are executed by enterprises from outside Bitung city and possibly by medium and large scale enterprises.

Empowerment strategy for Bitung city micro small enterprise as government public procurement supplier are determined through focus group discussion (FGD) by means of 6 aspects: Business Aspect (6 indicators A1-A5) of 18%, Technology and Information Aspect (B1-B5) of 15%, Human Resources (SDM) Aspect (C1-C5) of 20%, Lobbying Aspect (D1-D5) of 13.5%, Stakeholder Role Aspect (E1-E5) of 16%, and Worthiness of Micro Small Enterprise as Supplier Aspect (F1-F5) of 17.5%. Empowerment strategy through afore mentioned 6 aspects in priority scale is necessary to firmly establish micro small enterprise position.

## CONCLUSIONS

- Level of compliance in Bitung city Regional Working Unit (SKPD) in the implementation of *good governance* principles in public procurement as required in Presidential Regulation number 54 year 2010 is high (compliance). Nevertheless, further improvement should be promoted to achieve higher standard public services.
- Level of worthiness of micro small enterprise to participate in public procurement provided by Regional Working Unit (SKPD) is still very low.
- Empowerment of micro small enterprise in Bitung City di Kota Bitung can be accomplished though Business Aspect, Human Resource Aspect, Technology & Information Aspect, Lobbying Aspect and Stakeholders Role Aspect.

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## APPENDICES

**Table 1: Scoring Worthiness Level of Micro Small Enterprise and Small Cooperative to Participate in Government Goods and Services Procurement Tender**

No	Scoring Variable of Worthiness Level	Low < 50%	High > 50%
1.	Fulfilling legal requirement such as, Notary Deed.		√
2.	In Possession of Business License (SIUP, SIUJK)		√
3.	In Possession of Tax Identification Number (NPWP).		√
4.	Submitted Latest Annual Income Tax (SPT Tahunan).	√	
5.	Last 3 (three) months of Periodic Income Tax Return Article 21 (SPT Masa PPh pasal 21)	√	
6.	Last 3 (three) months of Periodic Income Tax Return Article 23, if transaction occurs. (SPT Masa PPh pasal 23).	√	
7.	Payment of Income Tax Article 25/29 (PPh pasal 25/29).	√	

Table 1: Contd.,

8.	VAT Periodic Tax Notification (SPT Masa PPN).	√	
9.	Skillful.	√	
10.	Experienced.	√	
11.	Having Technical And Managerial Capability.	√	
12.	Awarded at least 1(one) job in the last 4 (four) years.	√	
13.	Having Human Resources.	√	
14.	Holding Capital.	√	
15.	Having Equipment and Tools and other facilities.	√	
16.	Expert in its field.	√	
17.	Not under court/legal supervision.		√
18.	Not Insolvent/Bankrupt.	√	
19.	Business not in suspension/Owner not a Criminal Offender.		√
20.	Not included in the <i>Blacklist</i> .		√
21.	Having Permanent Address.	√	
22.	Owner Is Not Civil Servant.		√
23.	No <i>conflict of interest</i> .	√	
24.	Remaining Capacity To Handle Project (SKP) (only for Construction Work and Other Services).	√	

**Source:** Research Primer Data and analyzed, 2014

**Legend:** Score 0 – 24% or 1- 2.49 = extremely not worthy

Score 25 – 49% or 2.50- 4.99 = not worthy

Score 50 – 74% or 5.00- 7.49 = fairly worthy

Score 75 – 100% or 7.50- 10.00= worthy