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## Building relations

### Corruption, competition and cooperation in the construction industry

Building things has been the essence of development in Indonesia, at least since the oil boom began in the mid-1970s. Indeed, the word *pembangunan*, a central trope of the New Order regime, means both 'development' and 'building' (Heryanto 1988). But the very large construction industry is plagued by poor standards and corruption. It is widely known that money is routinely skimmed off construction contracts to pay off tendering committees, public works bureaucrats and other officials with influence over the allocation of public construction contracts, reducing the quality of the material and work. Construction contractors are an important part of the politico-business elite, especially in the regions, and it is often their political connections rather than their construction expertise that lands them the most lucrative construction contracts.

The approach in the recent wave of expert reports by multilateral agencies is to view problems of corruption and standards in the industry as public policy issues amenable to improved regulation. Beginning with a set of 'international best practice' norms, they develop sophisticated indices showing where Indonesian institutions fall short, and conclude with policy recommendations. But this normative approach lacks explanatory power. The present chapter aims to explain rather than prescribe. It seeks to account for the resilience of corrupt practices by viewing the construction industry ethnographically, namely as a set of social actors who strategize to promote their interests.<sup>1</sup>

In the 1980s and 1990s, multilateral agency reports on the sector traced its problems to developmental issues such as a shortage of technical skills, organization, capitalization and legal protection (Kaming et al. 1997; Kirmani 1988; World Bank 1984). Over the last decade, the emphasis has suddenly shifted to the issue of corruption (Kenny 2007; Pranoto 2005). A World Bank study on the public procurement system (mostly construction) argued:

<sup>1</sup> Some work along these lines already exists. Most focus on the informality of construction at the bottom end of the market, for example, Van der Erve 1989; Hermanto et al. 1983; Sannen 1986; Thung Ju Lan 1989.

'[T]he public procurement system in Indonesia does not function well. It is not market driven, has been prone to misuse and abuse, and reduces value for money for public funds' (World Bank 2001:1). Not surprisingly, reform of public procurement has been a major target of post-Suharto reforms.

Part of the sudden shift in emphasis was externally driven. A broad ideological shift took place in Washington after the end of the Cold War. More or less sanguine behavioural analyses influential in the 1960s saw corruption as good or bad depending on context (Leff 1964; Scott 1969). But in the 1990s the language became pathological. World Bank president James Wolfensohn in 1996 spoke of corruption as a 'cancer'. He and other influential voices in international agencies began to portray corruption as, in the words of another senior World Bank official, 'a great obstacle to economic and social development'. They depicted corruption as a distortion in the orderly functioning of markets, caused mainly by excessive government interference and regulation, which increased opportunities for public officials to extract resources from market players. In keeping with the neo-liberal mood of the times, corruption was thus seen as something that could be corrected by the right policy settings, including by rolling back the responsibilities of the state in the economy. The ideological shift resonated in Indonesia among liberal-oriented sections of the growing middle classes, which made opposition to corrupt favouritism central to the agenda of the movement that ended Suharto's New Order regime in 1998. Responding to pressures from both international agencies and large segments of public opinion, post-Suharto governments have introduced anti-corruption measures of varying effectiveness, including in the area of government procurement.

However, since the collapse of the regime in 1998, it has been all too obvious that patterns of corruption and predatory behaviour that grew and consolidated under the New Order have persisted into the new era of democratic and decentralized politics. Neo-patrimonial networks linking politics with business have been both resilient and adaptable, especially at the local level. Observers have noted the important place that the construction sector occupies in the corrupt nexus between business and politics, especially in provincial areas (Clark and Palmer 2008; Sulaiman and Van Klinken 2007). In the regions, construction is often a dominant part of local economies, construction projects are a major focus of collusive and predatory behaviour, and *kontraktor* (contractors) are often prominent not only in business but also in politics. Provincial and district parliaments are full of contractors who live on building projects they themselves decide on. Contractors are prominent in the campaign teams for directly elected district heads and governors.

Thus Indonesian contractors are now the bad guys in two relatively new agendas: one international, focused on making government procurement more competitive; the other domestic, focused on making government more

accountable. This chapter will show that they have not been very responsive to either agenda so far. Our question will be: how can we explain this resistance? We do so by combining detailed case study research one of us (Aspinall) has done in the province of Aceh, with broader national and historical research conducted by the other (Van Klinken).

Corruption in the government-funded construction sector is a matter of worldwide concern. In China, for example, one author refers to the sector as a 'quasi-criminal domain' in which widespread official corruption leads to shoddy building standards and fatal building collapses (Ding 2001:180). In Japan, corruption in the construction industry is a lynchpin connecting the worlds of business and politics. The country has been described as a construction state (*doken kokka*) in which 'money flows through the system guided by the bureaucrats to benefit those who form part of the privileged national grid of politicians, bureaucrats, and business people' (McCormack 1996). A study of 'everyday corruption' in West Africa describes a world of public procurement and construction based on 'a triangle composed of corrupting contractors, corruptor officers and intermediaries, [giving] rise to real chains of complicities' (Blundo 2006:260).

Government-funded construction is a site of predation in part because discretionary spending is vulnerable to corruption in every type of economy. It becomes especially vulnerable when there are few other sources of cash for provincial middle classes in an underdeveloped, otherwise agrarian and trade-based economy. In such societies, construction can become a major driver of a corrupted political process. According to business perceptions measured in a 15-country survey by Transparency International, construction is the most corrupt industry, exceeding even the arms industry and oil and gas (Stansbury 2005:36). A large international survey of company-state interactions in 22 transition countries (Business Environment and Enterprise Performance Survey, BEEPS) reported that:

It appears that construction firms in the sample think it is more common to pay bribes in their industry than do firms in other industries, that firms like theirs spend a larger percentage of revenues on bribes, and they bribe more frequently to get licenses, deal with taxes and get contracts. [...] It appears (unsurprisingly) that private construction firms where the state is the largest customer are likely to report particularly high corruption in their industry. These results are highly statistically significant (Kenny 2006:14-5).

Kenny reports a common estimate that 5-20% of construction costs are being lost to bribe payments, with the average reported payoff for a government construction contract being around 7% in a range of transition countries. For government construction work in Indonesia in 2004 this would correspond

to a range of US\$0.3-1.4 billion, with the 7% figure equalling US\$0.5 billion. Indonesian politicians quote much higher losses than this.<sup>2</sup> Indeed, bribes are not the only problem. A poorly constructed or sited project, for example, may result in economic losses many times greater than the bribes.

The problems in the construction sector have long made it the object of reforms. In Indonesia, as the sector became increasingly linked to the twin problems of corruption and the collusive provincial politics after *reformasi*, these reforms moved closer to the centre of the Indonesian good governance agenda. The first presidential instruction governing procurement was issued in 1979, and since then there have been improved presidential instructions in 1980 (twice), 1984 (twice), 1988, 1994, 2000, and finally 2003 (Keppres no. 80/2003). The first law on construction was implemented in 1999 (UU no. 18/1999).<sup>3</sup> All the regulations have striven to balance two competing demands: on the one hand, to ensure efficient use of state funds by improving competitiveness, and on the other hand, to ensure social equity and employment creation and to nurture an indigenous, and state-dependent, business class. The former goal led over the years to the gradual professionalization of technical qualification criteria, tendering procedures, contract provisions, and the like. The latter goal led to such protective measures as reserving smaller contracts for 'weaker' groups on the grounds that they were indigenous, small-and-medium, or local.

The tension between the free market and the protectionist impulses in the regulatory framework reflects not simply official 'lack of capacity' but a political struggle. Big Indonesian and international companies have a comparative advantage in the free market. They support the reforms that promote competitiveness. Smaller provincial operators know they cannot survive without protection, so they argue that the government has a responsibility to protect the weaker players. In their world, profits are not made by lone entrepreneurs fighting for market supremacy, but by well-connected people who know how to build political alliances to keep out rivals. If we want to know more about this political struggle, however, the otherwise highly informative public policy documents only take us so far.

<sup>2</sup> Vice President Jusuf Kalla told an Indonesian business conference in 2006 that the introduction of open tendering for public works projects would save the state budget 30-50% a year, though he presumably meant that at least some of this saving would be made by the effects of competition (Gajah Kusumo, 'Tender terbuka hemat nilai proyek hingga 50%', *Bisnis Indonesia* 4-8-2006).

<sup>3</sup> A convenient summary of the history of regulation is in footnote 3 of World Bank 2001. Most of the current laws and regulations, as well as more detailed implementing regulations, are available at a website of the Public Works Department ([http://www.pu.go.id/bapekin/produk/produk\\_statuter.html](http://www.pu.go.id/bapekin/produk/produk_statuter.html), accessed 8-12-2008). Technical evaluation of the procurement system is in chapter 6 of World Bank 2007.

*Why construction?*

We begin by distilling some of the central facts about the construction industry readily available in the multilateral agency reports, which are nothing if not well-stocked with figures. Worldwide, the construction industry contributes about 5% in value-added to the GDP of middle income countries like Indonesia, and capital formation in construction makes up about 10% of GDP. These percentages tend to rise as an economy develops (Kirmani 1988:141). Combined government and private infrastructure investment in Indonesia ran at 5 to 6% of GDP before the 1997 crisis, but fell to below 2% in 2000. Since then it has slowly recovered (World Bank 2007:75), and by 2006 it had reached 7.5% or US\$24 billion (Wongso 2007). The building sector employs 4.5 million workers, or almost 5% of the Indonesian workforce. But over 60% of them are unskilled or semi-skilled.<sup>4</sup> The high-tech end of the industry is dominated by oil and gas facilities, highways and other large projects built by private global companies such as Bechtel, Brown and Root, McDermott, and Leighton, as well as by large Indonesian companies such as Trans Bakrie and majority state-owned construction companies like PT Adhi Karya Tbk and PT Wijaya Karya Tbk.

The much more pervasive lower end of the industry is engaged in building infrastructure such as roads, irrigation systems, water supply, local power stations, telecommunication networks, hospitals, clinics, offices, shops, and housing. Collectively, this sector is very large: about one quarter of all construction in Indonesia involves building bridges and roads.<sup>5</sup> A large proportion of this lower end is government-funded. The World Bank (2007:79) estimates that actually expended government infrastructure investment (not counting operation and maintenance) in 2004 amounted to Rp 62 trillion (approximately US\$6.8 billion). This amount has increased considerably since then. Decentralization means that over half of this government money is now spent by provincial and especially district governments. According to the 2003 Asia Foundation Rapid Decentralization Appraisal (Satriyo et al. 2003:25-6), local governments spend most of their development funds on building basic facilities in the areas of transportation (24.7% of development budget), housing and settlement (7.46%), regional development and settlement (7.31%), and natural resources and irrigation (3.50%). Little of it is spent on education and culture. It is estimated that 80% of building contractors depend entirely on government work (World Bank 2001:21), and out in the provinces this could be even higher.

The construction sector is of central importance to Indonesia's economic growth. It is also a major and growing employer. As we will see, however, the peculiar characteristics of the industry make it a regulator's nightmare.

<sup>4</sup> 'Dep. PU, Depnakertrans, dan LPJKN tingkatan tenaga kerja konstruksi', *Business News* 9-1-2008.

<sup>5</sup> Indonesian Bureau of Statistics figures at <http://www.bps.go.id/sector/construct/table2.shtml> (accessed 14-5-2008, archived at [www.archive.org](http://www.archive.org)).

Here we focus not on the grand corruption practised by the big few,<sup>6</sup> but on illegality in the dense web of relationships between government officials and building contractors in the provinces.

### *A history of corporatism*

The construction industry in Indonesia inherits a history of massive infrastructure work developed by the Dutch in the late nineteenth and early twentieth centuries. Built with taxes on agriculture, the roads and railways initially had mainly an imperial purpose, but later the emergence of a developmental aim led to the construction of extensive irrigation works.<sup>7</sup> The grand phase of infrastructure development came to an end around 1930 and did not resume for another half century. The worldwide economic depression, the predatory Japanese occupation, the national war of liberation, and the political and economic chaos of the first two decades of independence, left infrastructure in ruins. Furthermore, with independence came democracy. When construction work resumed, the new government had to take account of domestic politics. Previously disadvantaged groups demanded that business wealth be redistributed as a matter of justice. A brief history of the construction industry illustrates a growing conflict between protectionists and free-marketeters.

Unlike the unfailingly apolitical multilateral agency reports, Indonesian construction contractors have written their own history in openly political terms (Gapensi 2004). This history describes how aspiring Indonesian entrants to the building sector relied less on their technical skills than on their political leverage to gain advantage over economically stronger European and ethnic Chinese rivals. When Indonesia became independent there were only a few indigenous contractors. Most were very small, graduates of trade schools in the 1930s. Their best hope was to lobby for government work on the basis of their indigenous, nationalist credentials. In January 1959, city-level associations in the three biggest Javanese cities of Jakarta, Surabaya and Bandung joined together in the All-Indonesia Association of National Construction Implementers (Gabungan Pelaksana Konstruksi Nasional Seluruh Indonesia, Gapensi). Six months later the organization's first chairperson, Dipokusumo, became Minister of Public Works.<sup>8</sup> It was the end of party politics and the beginning of Guided Democracy. The new minister recognized Gapensi as the sole organization for building contractors, and

<sup>6</sup> Such as Bechtel's controversial role in the construction of the Freeport mine in Papua (Perlez and Bonner 2005).

<sup>7</sup> Mrazek 2002; Ravesteijn and Kop 2008.

<sup>8</sup> *Pekerjaan Umum*, or PU, was successor to the colonial era Civic Public Works, or *Burgerlijke Openbare Werken*, BOW.

eliminated their Dutch rivals by nationalising all Dutch construction businesses, as part of the broader process of nationalization then underway. By its own rather honest 2004 account, Gapensi was somewhat thuggish especially out in the provinces, but its members now found themselves partnering with experienced engineers in the nationalized companies.<sup>9</sup> However, monopoly access to the government was difficult to achieve in the ramshackle state that was Indonesia in the late Sukarno years. Many non-affiliated local contractors continued to win work from local military commanders, government departments, banks, and other state agencies. Rival groups of contractors emerged, and political shifts favoured now one, now another. By 1961 Djuanda, the powerful coordinating minister in charge of the Economic and Development Council (Dewan Ekonomi dan Pembangunan), himself an engineer, insisted on another umbrella organization for building contractors, Consultative Body for Private National Entrepreneurs (Badan Musyawarah Pengusaha Nasional Swasta, Bamunas) and Gapensi was asked to join that. The Minister for Funds and Forces (!) asked them to help raise 'revolutionary' funds for the government by buying shares in development banks. Their reward was juicy construction plums in the newly Indonesian province of Irian Jaya in 1963, and in Jakarta (such as the Asian Games stadium at Senayan and the giant Conefo – Conference of the New Emerging Forces – facility that later became the national parliament house).<sup>10</sup>

From that time on, construction contractors were increasingly integrated into the state via formal corporatist organizations. A key construction industry broker in the militarist corporatism that began to crystallize in the 1960s and 1970s was the indigenous entrepreneur Edi Kowara Adiwinata (1919-1996). He had grown wealthy during the national revolution.<sup>11</sup> Close

<sup>9</sup> Some of these nationalized construction companies still exist and are among the giants of the construction scene today. PT Adhi Karya was apparently formerly *Associatie*, PT Hutama Karya was *Hollandse Beton*, PT Waskita Karya was *Volker Stevin*, and PT Nindya Karya was *Nedam* (Van der Erve 1993:141).

<sup>10</sup> The innocuous-sounding term 'national' deployed by Gapensi actually meant, in effect, non-Chinese, while ethnic Chinese were described as 'foreign' even if they had been born in Indonesia. Gapensi contractors for decades continued to pressure their ethnic Chinese rivals by deploying racist propaganda against them. The supposedly anti-social, anti-national character traits of the Chinese were constantly cited as a good reason to exclude them from government contracts. On Gapensi's urging, the President issued decrees in the mid-1990s (Keppres no. 16/1994 and no. 24/1995) giving special protection to small contractors on the grounds of expanding employment opportunities. These decrees were also thinly-veiled anti-Chinese measures (Gapensi 2004:65; Thung Ju Lan 1989).

<sup>11</sup> Starting work in the Dutch state company BPM that ran the Cepu oil field in East Java just before the Second World War, Kowara got a break when the Japanese placed him in charge of the state oil company working the Indramayu field in West Java. He used his own company to do the construction work required. At the end of the war, under the cover of a revolutionary militia he commanded called *Laskar Minyak Divisi III* that was later integrated into the *Siliwangi Division*, he simply seized the oil company for himself (*Tempo*, *Apa dan Siapa*, <http://www.pdat.co.id/hg/apasiapa/html/E/ads,20030617-15,E.html>, 2003, accessed 4-4-2009; Aditjondro 1998; George J. Aditjondro, 'Kisah sukses yayasan-yayasan Suharto (bagian I)', *Apakabar* mailing list, 19-8-1997 (<http://www.library.ohiou.edu/indopubs/1997/08/19/0008.html>, accessed 4-4-2009).

connections with the military helped him survive the transition to the New Order. His son Indra Rukmana married Tutut Hardijanti, the daughter of retired general President Suharto, his golfing buddy. He expanded into livestock feed, life insurance, machine parts, Coca Cola bottling, coconut oil processing, rubber plantations, and a steel factory. His family became one of the three wealthiest indigenous entrepreneurial families of the New Order, alongside the Suharto and Djojohadikusumo families. Starting as the Jakarta chapter chairperson of Gapensi in 1959, he served on the national board of all its various incarnations throughout the 1960s and 1970s.

Unfortunately for domestic contractors, the New Order also threatened to reopen the doors to their foreign capitalist rivals. In 1966 a new team of powerful technocrats – Radius Prawiro, Ali Wardhana, and Wijoyo Nitisastro – met the contractors to explain that Indonesia was changing from a ‘national economy’ to a ‘liberal economy’. There would be no more megaprojects for the moment, and ‘foreigners’ would be allowed to compete for construction work. The president dissolved Bamunas in 1967. However, the protectionists had the last laugh. Ten years later, after many organizational permutations, Gapensi emerged stronger than ever. Together with two other associations – one for big construction firms based in Jakarta (Asosiasi Kontraktor Indonesia, AKI), and one for construction consultants (Ikatan Nasional Konsultan Indonesia, Inkindo)<sup>12</sup> – it set up a Joint Secretariat in the office of Public Works Minister Radinal Mochtar in 1977. Five months later it was awarded a big contract to build cheap government housing for soldiers. Edi Kowara had already begun in 1974 to help Gapensi set up an intimate collaboration at provincial level with the Indonesian Chamber of Commerce (Kamar Dagang Indonesia, Kadin). Most Kadin provincial chapters were apparently run by Gapensi people. For 20 years from the mid-1980s, the Gapensi-Kadin link in Jakarta ran through Agus G. Kartasasmita, a Gapensi office-holder from 1983 and its chairperson continually from 1992 to 2008. Kartasasmita had been brought in to the organization by 1950s-era Public Works minister and engineer, Prof. Roosseno Soerjohadikoesoemo, known at the time as ‘Mr Concrete Indonesia’ (Bapak Beton Indonesia).<sup>13</sup> He always held a Kadin deputy chair for construction and real estate (Gapensi 2004:53). The Kartasasmita family grew wealthy under the New Order. Kadin became the only association of Indonesian entrepreneurs to be recognized in law (UU no. 1/1987) and this gave it a strong though not exclusive place in the Indonesian state’s corporatist scheme.

<sup>12</sup> AKI is Asosiasi Kontraktor Indonesia, Indonesian Association of Contractors; Inkindo is Ikatan Nasional Konsultan Indonesia, National Union of Indonesian Consultants.

<sup>13</sup> Budianta 2008:195-202. He was re-elected to a (strictly speaking illegal) fourth term in 2004 (‘BPD Gapensi gugat ketua umum terpilih’, *Suara Merdeka* 23-4-2005).

The 1980s were the golden era for the corporatist construction sector. Flush with oil money, the New Order was firmly in the saddle, and the government's Five Year Development Plans, called Repelita, were the contractors' lifeline. In 1986, the Public Works Minister decreed that only members of AKI, Gapensi and Inkindo would be permitted to do construction work for the department. The Interior Minister sent a similarly worded letter to all provincial governors in 1987.<sup>14</sup> Together, the department of public works and the interior ministry, under which were located the regional governments, were the two most lucrative sources of government construction work. These rulings led to a large influx of under-qualified local construction contractors into Gapensi, where they were graded according to their financial and technical capacities. Membership was open to private companies as well as those controlled by state-owned enterprises and cooperatives. It grew steadily – membership stood at 21,000 in 1987, reached 38,000 by 1993, and 41,000 by 2000. The great bulk of membership always consisted of the least qualified small operators (Gapensi 2004:121-44).

We can gain a glimpse of the intertwining of Gapensi, Kadin, Golkar and local government from the provincial executives list that Gapensi published on the internet in 2000.<sup>15</sup> The chairman of Gapensi in Aceh, to take one random example, was Lukman C.M. This man served at the same time as deputy chairman of the provincial chapter of Kadin. He was also on the provincial executive of Golkar as the link with private business.<sup>16</sup> His first deputy chairperson in Gapensi was Armen Desky, who was at the same time a member for Golkar in the newly democratic national parliament (Dewan Perwakilan Rakyat, DPR). Armen Desky cut short his parliamentary career in 2002 when he was elected chief (*bupati*) in his home district of Southeast Aceh. There he immediately faced controversy over a local airport whose construction, evidently to be paid by the European Union, was delayed.<sup>17</sup> Another example from the Gapensi list is the oil-rich province of Riau. Chairing Gapensi here was the building contractor Rusli Zainal. He was at the same time district chief of Indragiri Hilir. Three years later he was elected governor of Riau. His own party Golkar at first failed to support him in this bitterly fought contest because it had made a deal with the then-governing party PDI-P. But newspapers reported that the outcome improved for Zainal after large

<sup>14</sup> Surat Keputusan Menteri no. 187/KPTS/1986 of 24 April (p.64-5); Surat Edaran Menteri no. 230/766/Bangda of 13 April 1987 (p.69).

<sup>15</sup> Gapensi's website [www.gapensi.or.id](http://www.gapensi.or.id) for the year 2000 is archived on [www.archive.org](http://www.archive.org) (accessed 19-6-2003).

<sup>16</sup> 'Firmandez ketua kadinda NAD', *Serambi Indonesia* 10-7-2003; Daftar nama personalia DPP Golkar, masa Bhakti 1993-1998 ([www.golkar.or.id](http://www.golkar.or.id), archived for the year 1998 on [www.archive.org](http://www.archive.org), accessed 6-2-2003).

<sup>17</sup> 'Anggota dewan perwakilan rakyat Republik Indonesia, periode 1999-2004', *detik.com* 23-9-1999; 'Rp 50 M bantuan MEE diduga dilego UML', *Waspada* 18-4-2002.

amounts of money changed hands.<sup>18</sup> Sparser electronic news archives for the late New Order period make it difficult to be certain, but our experience leads us to think that, apart from the greater political uncertainties after 1998, the picture was much the same throughout the 1990s. In sum, the construction sector was organized along classic New Order corporatist lines. Corporatism has been defined as 'a pattern of state-society relations in which the state plays the leading role in structuring and regulating interest groups, organizing them along functional rather than class lines (in order to minimize both collaboration and conflict), and typically granting official recognition to only one representative body in any given sector' (MacIntyre 1991:1).

International pressure on Indonesia to liberalize the construction sector grew during the New Order. It was exercised through the International Federation of Asian and Western Pacific Contractors' Associations (IFAWPCA). Edi Kowara himself was big enough to play along and thus earn the chance of working with big international corporations at the top end of the market. In 1969 he initiated the association of large contractors called AKI specifically to join IFAWPCA. But Gapensi's large number of provincial members were not ready to compete on international terms. AKI agreed with Gapensi that it would confine itself to Jakarta, where its members would compete with international firms for international and domestic work, but it would not form provincial branches. The understanding was that Gapensi members would do the smaller domestic government work, especially in the regions outside Jakarta (Gapensi 2004:56-7).

Bribes were routine in the corporatist system in the provinces. They were known as 'wild retributions' (*pungutan liar* or *pungli*), but were quite institutionalized. Gapensi members did not like paying them, but they also saw them as a normal part of doing business, and they complained rarely. In 1996, as the New Order was beginning to fray, some did complain. A Gapensi bulletin in East Java reported that *pungli* amounted to 20-30% of the value of projects, and in some districts it reached 35%. The largest amount, up to 10% of the project value, went to the government project leader (*pimpinan proyek* or *pimpro*), which could be the departmental head, the district secretary, or even the mayor or district chief. The *pimpro* would visit the contractor at home to make sure he got his share. The cashier at the State Treasury Office (Kantor Perbendaharaan Negara, KPN) got an 'envelope' as well. Smaller payments went to other relevant officials in the public works department, the offices of the governor, district head or city mayor, and to relevant legislators. Visiting officials needed to have their trips paid and be entertained. Other people called on the contractor to make 'social contributions' to various causes.

<sup>18</sup> 'Zainal, champion of Riau development', *The Jakarta Post* 30-10-2003; 'Buntut pemilihan Gubernur Riau dugaan politik uang mulai terungkap', *Kompas* 6-11-2003.

Towards the end, thank-you gifts were made for the final handover and for a smooth report from the government's internal audit agency.

[F]or a road construction project of one kilometre, for example, when the supervision team came to visit just before the work was handed over to the owner, the team filled an entire bus, there were up to 30 supervisors. 'From the section chief up, from the provincial down to the district level, they would all be there. As oriental people how could we refuse to provide accommodation, transport, food,' he [the Gapensi report author Somingan] said. Pocket money for the supervisors was normally Rp 200,000 per person [at that time US\$40], Somingan added. ...Far from paying only to be allowed to join the tender, Somingan said, even just to know that there is a project at all, the contractor has to prepare grease money for the individual bureaucrat in the government office owning the project.<sup>19</sup>

The contractor knew these costs would occur and recouped them by marking up the project cost above market prices as well as by cutting corners on construction materials. We shall see that this system remains essentially unchanged even after the recent reforms.

### *Reforms*

Regulatory reform has picked up pace since 1998, but change on the ground has been less impressive. The multilateral agency reports acknowledge this, as the following paragraphs will show, but they explain it in terms of institutional 'weakness'. Our own ethnographic work, on the contrary, sees remarkably successful organizational assertiveness rather than failure. An explanation of the resilience to reform must start by recognizing these realities, not by ignoring them. Like the reforms that had come before them, the 2003 Presidential Decree (Keppres no. 80/2003 on 'Guidelines for the Implementation of Government Procurement of Goods and Services') sought to enforce more competitive and transparent tendering procedures, while at the same time protecting smaller businesses. It addressed serious deficiencies in the system and promoted international 'best practice' principles of procurement: transparency, open and fair competition, economy and efficiency. It came after a period of both public and private pressure by major international agencies for reform to Indonesia's public procurement (see especially World Bank 2001, 2003:31-9). The World Bank (2003:31) explained its context as follows:

<sup>19</sup> 'Pungutan terbesar 'fee pimpro'', *Kompas* 14-4-1997.

Looking ahead to the emergence of an Asian Free Trade Zone and the implementation of future WTO provisions that would require member states to allow access to government procurement for companies from Indonesia's trading partners, it well behoves Indonesia to develop a world class public procurement system rather than one that has a poor global reputation for encouraging corruption.

The decree set tight tendering standards for large projects, relaxing them for smaller ones (the cut-off limits have shifted downwards over time). It graded contractors according to their technical and financial capacities, allowing only the larger ones to take on big jobs, while reserving smaller jobs for smaller companies. Tendering committees now also had to be certified.

The implementation of these and other rules is another matter, however. A 2007 UN study measuring Indonesian public procurement practices by a set of OECD 'benchmarks' still gave the country poor marks on every indicator. For example Indonesia scored only 33.3% on the 'functionality of procurement market' (PCDC 2007). One problem is that the budget process actually stimulates corruption in the government building sector. Budget discussions involve many different departments and legislators, making them so drawn out that, every year, 50% of total capital expenditure is spent in the final quarter (World Bank 2007:98). This results in the routine use of a regulation permitting tenders for certain government contracts to be bypassed under 'emergency' conditions. Budget discussions often focus on specific project inputs – parliamentarians taking a particularly close interest – rather than broader program outputs (World Bank 2007:100-1).

Auxiliary institutions also remain 'weak'. Abuses should be picked up by the various government audit agencies (World Bank 2007:96). But low staffing levels, overlapping responsibilities, and corruption in the auditing bodies themselves mean that little is uncovered. The mess of contradictory regulations in a decentralized environment (World Bank 2001:1, 2007:103) is another reason why reforms are difficult to implement. A unifying National Procurement Office, to be located in the national development agency Bappenas, is still under construction. Administrative oversight is particularly anemic at the provincial and district levels. A World Bank report (2007:126) concluded: 'Overall, public financial management systems at the sub-national level are weak and risks of corruption are very high'.

In our view, contradictory, overlapping regulatory institutions are the sedimentation of political struggles within the state. On the one hand, the state budget is balanced centrally, so the pressure for reform comes mainly from Jakarta, especially from particular state agencies more committed to economic reform and, from further afield, from the international political economy and the neo-liberal currents and agencies that populate it. Since the 1998 economic crisis and political *reformasi*, governments in Jakarta have

more frequently sought the technical advice of multilateral agencies on governance techniques. Local governments, on the other hand, derive nearly all their income from the centre and thus experience pressure to economize and regularize mainly as an external force. Internally, their need for local political support encourages collusive behaviour. In the following section we look at some actual examples of such struggles.

*How the system works: the view from Aceh*

Here we examine the construction sector from below, not as a set of institutions open to technocratic tinkering but as a set of social actors strategizing to promote their interests. Our field experience and reading of press reports indicate that the post-1998 regulatory reforms have so far had little impact on the informal practices that underpin construction contracting at the grassroots. Outsiders to the system still make the same complaints, reporting familiar types of abusive practices. Particularly out in the provinces, the system represents an informalized version of the New Order corporatist one described above. The corporatist organizations have lost the dominant position they once maintained, but they still act as important venues through which influence and information is traded. More importantly, the informal and collusive practices that underpinned the old corporatist system remain intact. From the individual contractor's point of view, success is all about the double strategy of building cooperation with allies and keeping out rivals.<sup>20</sup>

Aceh does not seem like a typical Indonesian province. Its long-running armed separatist revolt, the resulting military operations, and the terrible December 2004 tsunami created a degree of disruption not experienced elsewhere in Indonesia. The combination of a peace accord in 2005, tsunami disaster relief, and regional autonomy brought about an unparalleled flood of reconstruction money. However, the way this money was disbursed to local construction contractors – full of what the World Bank (2001:2) likes to call 'non-economic influence on public procurement' – looked much like that in any other province, only more extreme. Many of the former combatants of Free Aceh Movement (Gerakan Aceh Merdeka, GAM) rapidly transformed themselves into construction contractors, showing how easily political influence and coercive muscle power can be leveraged into business success in the sector. Aceh's construction industry thus turns out to be a rather useful window on that in the rest of Indonesia.

Construction takes up a large part of Aceh's post-tsunami economy.

<sup>20</sup> The analysis of contracting in Aceh is partly derived from Aspinall (2009), and a more detailed discussion of the situation described here may be found in that publication. We thank the journal *Indonesia* for permission to re-use this material.

According to the head of the Aceh branch of the Institute for the Development of Construction Services (Lembaga Pengembangan Jasa Konstruksi, LPJK), Nova Iriansyah, in 2007 alone the total money circulating in Aceh from the national budget (APBN), regional budgets (APBD) and the post-tsunami Reconstruction and Rehabilitation Agency (BRR) was approximately Rp 30 trillion, of which about Rp 12 trillion (approx US\$1.2 billion), or 40%, was allocated to construction activities.<sup>21</sup> Little wonder that the number of players is considerable. According to one experienced Department of Public Works official, there are about 5,000 contractors in Aceh.<sup>22</sup> The website of the LPJK puts the total at 3,800.<sup>23</sup> Construction contracting, however, is a steeply hierarchical world, and less than one percent of Acehnese contractors are in the highest grades and so entitled to bid for the largest contracts. According to the same informant, locals win only 30–40% of the big contracts, with the remainder typically being won by big companies from Jakarta (often state-owned enterprises known as BUMN) or by foreign construction companies cooperating with Indonesian firms. At the lower levels of the scale, contracting is virtually an Acehnese-only affair.

Most of the attention of corruption watchers in the construction industry has focused on the tendering process. But in fact illicit payments are routine at every turn, from conception to completion of a contract, as some lists have shown.<sup>24</sup> In theory the whole process is open and transparent. In reality, it is an open secret in Aceh – as in other parts of Indonesia – that it is shot through with manipulation. The central dynamic is between those bidding for contracts, the contractors, and those offering them. The latter constitute a large network of public officials that includes, at its core, the tendering committee (*panitia pelelangan*) that assesses the bids and awards the contracts, the bureau heads (*kepala dinas*) and officials who appoint them and, ultimately, the local government head – the district chief (*bupati*), mayor or governor – who is at the apex of the system. It also includes budget officials and parliamentarians who can influence local government budgets. Payment of fees and the trading of political influence are virtually ever-present ingredients. At the same time, because of the highly political nature of the contracting world, virtually any actor with political influence is able to claim a stake in it.

The process begins with the budget proposals for construction that go

<sup>21</sup> '60 persen dana rekonstruksi Aceh mengalir ke luar', *Serambi* 13-4-2007. Of this money, Nova Iriansyah estimated that about 60% ended up leaving Aceh because contracts were won by outside contractors, or because of the need to purchase material and employ consultants and labour from outside the province.

<sup>22</sup> Confidential interview, Lhokseumawe, 23-8-2008.

<sup>23</sup> [http://www.lpjk.org/modules/statistik/badan\\_usaha/2008/propinsi\\_golongan.php](http://www.lpjk.org/modules/statistik/badan_usaha/2008/propinsi_golongan.php) (accessed 4-4-2009). This is with a breakdown of 3,189 categorized as small, 597 as medium and 14 as large contractors.

<sup>24</sup> One list occurs in a 2004 report by the Habibie Center, which described local governments' handling of development projects as a massive effort to divert public wealth into private pockets (The Habibie Center, 'Desentralisasi korupsi melalui otonomi daerah', *Tempo Interaktif*, 4 November 2004, <http://www.tempointeraktif.com/hg/narasi/2004/11/04/nrs,20041104-01.id.html>, accessed 4-4-2009).

into the draft provincial and district budgets (APBD). It continues through the local parliamentary discussion process, which, as noted above, tends to revolve around individual projects rather than aiming at a broad policy level. Legislators in the Regional People's Representative Councils (Dewan Perwakilan Rakyat Daerah, DPRD), at both the provincial and district or city (*kabupaten/kota*) levels, help executive officials set the regional development budget and spending priorities. They have leverage over the executive. Obstreperous legislators can make life difficult for local government heads and *kepala dinas*: they can alter budget allocations and so block favoured programs, they can delay budgets and other legislation, or launch investigations into government mismanagement. One way the executive tries to buy off legislators is by awarding projects to favoured contractors. Thus, Acehnese legislatures – as in other parts of Indonesia – have attracted large numbers of people with backgrounds as contractors. For example, after the 2004 election, 20 of the 25 newly elected South Aceh DPRD members – 80% – turned out to be contractors.<sup>25</sup> One of Aceh's largest contractors estimated that about 20% of all DPRD members in Aceh have a contracting background; a Department of Public Works staff member said he thought it was more like 60-70%.<sup>26</sup>

Executive government officials themselves often favour contractors of their own: sometimes they are relatives, more often their political backers and financiers. Such people can be assured a steady stream of construction contracts. Other persons able to stake a claim are from the police and military. During the conflict years in Aceh, it was widely known that the military (TNI, Tentara Nasional Indonesia) extracted massive rents from all manner of legal and illegal business in the province (McCulloch 2005). Since the 2005 peace agreement, the police are now more prominent in business, at least according to the daily gossip in the coffee shops where contractors, government officials and former combatants gather to swap stories and strike deals. Some contractors and government officials interviewed for this research mentioned cases where police were able to claim projects for themselves by launching corruption investigations at a suspect government agency, with the investigations being ended once new projects were directed their way. All players know that it is important to keep on side all actors with the power to punish. (Judges and, especially, prosecutors fall into the same category.)

For every departmental planning and tendering meeting the contractor pays compulsory 'fees' and 'commissions'. There are more players than contracts to go around. In order to keep everyone happy, the government will often break down large projects into smaller ones, in the name of creating employment and protecting small and medium enterprises. Next comes the pre-

<sup>25</sup> '80% anggota DPRD Aceh Selatan didominasi kontraktor', *Waspada* 4-9-2004.

<sup>26</sup> Confidential interviews, East Aceh and Lhokseumawe, 25 and 28-8-2008.

qualification and qualification for tender participants, which involves payments to the contractors association and the local government department for permits. This results in a lucrative trade in forged business permits (Sertifikat Badan Usaha, SBU). When, at last, it is time to actually award a contract, it is possible to do so without a tender (direct appointment, *penunjukan langsung*) only for very small contracts, or in the case of an 'emergency'. Both rules create loopholes for abuse. Large projects are sometimes split up into smaller ones that each fall below the limit. And a common emergency is the looming end of the budget year, when money must be spent quickly, as noted above.

Tendering is a key moment in the process. Tenders are announced publicly in newspapers. The tendering committee (*panitia pelelangan*), whose members must be properly certified public servants, rank the bidding companies on the basis of price and quality. In practice, collusion is the rule at this tendering stage. Sometimes the strongest participant pays the others to agree on one winner while compensating the losers. For instance, a group of companies might bid for the same project and end on the tendering short list, then all but one will withdraw, with the winner either making payments to the others or striking an agreement that they will take turns in future. In some provinces, the agreement is known as *arisan*, in reference to a popular neighbourhood social gathering where participants contribute a small sum each week and give a 'prize' to an agreed member at every meeting. The losers in the tender are promised 'withdrawal money' (*uang mundur*). The phrase used for this in Aceh is 'accompanying the bride/groom' (*intat linto: antar pengantin*). Another technique to prevent an open tender is for a big player to put forward several of his private companies, their ownership thinly disguised through relatives, as 'competitors' in the same tender. These are known as 'flag companies' (*perusahaan bendera*) because they have nothing but their flag – usually not even an office, let alone equipment. They might all put in exactly the same tender and allow the tender committee to decide between them. Another common technique is the lending and borrowing of companies to allow poorly qualified constructors to bid for projects at a higher grade. Most of these techniques comply with the letter of the law. No one complains.

The primary axis of collusion, however, is between the contractors bidding for projects and the government officials in charge of awarding them. Winning contractors routinely pay fees to those on the *panitia pelelangan* or to their superiors or associates. These fees are often called *jatah pimpo* (the project leaders' 'share': *pimpro*, or *pimpinan proyek* was the term used in the past for the officials in charge of commissioning and overseeing projects). Various anti-corruption NGO activists, businesspeople and junior bureaucrats interviewed in Aceh made estimates of the amount that is usually paid by the winning bidder as *jatah pimpro*. Most fell in the vicinity of 5-10% of the project cost. Usually this money is paid by the winning company via an intermedi-

ary. Part of that money is 'deposited higher up' (*disetor ke atas*), that is, the receiving officials make payments to their superiors, who in turn pass part of it up the chain. Some ends up with the *kepala dinas*, some is passed higher to the regional government head. In exchange for such fees, the officials' superiors provide those lower down with political support and assist their promotion through the hierarchy.<sup>27</sup> Bureaucrats involved directly in awarding contracts can also secure their positions by granting other favours to their superiors, notably by directing contracts to their relatives or associates.

Although it is accepted wisdom in Aceh that direct payment of *jatah pimpro* occurs in most tendering process, few of the informants who were directly involved in deciding on or bidding for tenders and who were interviewed for this research admitted directly that this was how the system works. Instead, they typically described a looser set of exchange relations, using terms like lobbying (*melobi*) and building relations (*membangun relasi*). Big contractors typically said that being able to 'mix with all kinds of people', having wide social relations (*pergaulan luas*) and being able to 'bridge all sides' are keys to their success. In short, this is a world where to be successful a contractor must invest not only funds, but also considerable time and energy in getting to know all manner of bureaucratic and business players who might one day be useful, and distributing petty and informal favours to them. To the extent that most contractors admit making direct payments to officials, they typically talk about paying for entertainment or travel.

One successful contractor on Aceh's east coast explained the system in very direct language:

We don't give *jatah pimpro*. There's no rule of that sort. But in reality it's not so much different. Instead it's lobbying. It just depends on how clever we are at making promises to him, that's all. You have to have insiders, people in the tendering committee or among the *kepala dinas*. You approach the people in the committee. As the Batak people say: 'to know someone is to love him, if you don't yet know them, you won't yet love them'. You have to know them. The key is you have to know the character of the people there. For example, if one likes girls on a Saturday night, then we'll take him to Medan on Saturday night. We'll take him to a hotel and give him a woman so that tomorrow he'll love us. If he likes entertainment, we'll give him entertainment. If another one likes fighting cocks, I'll go out and buy him a big rooster in a cage and bring it round to his house on a Sunday. If another likes to eat venison, we go and find venison and bring it to him. The key is that we must be able to read the character of other people. He won't

<sup>27</sup> Two *bupati* interviewed for this research – former separatist fighters with no previous experience in government – explained that they were puzzled early on in their terms when *kepala dinas* began to make unexplained payments to them. They said they refused them. They presumed these monies were derived from project allocations in this way.

ask for it: we need to be able ourselves to know what he likes. That's the general pattern. And how much does all this cost? Well if the project is 1 billion, then 100 million is pretty reasonable. That's not a written rule but, yes, it's about 10 %.<sup>28</sup>

Another big contractor was a little more philosophical:

Actually there's no such thing as a set fee, say 10% of the contract cost. That's not how it works. Instead, if they [that is, government officials] have a meeting, then we have to support them, if they want to go to Jakarta, then we support them. The philosophy of the entrepreneur is we have to be close to the government leaders. There must be synergy.

One expression of this synergy is that contractors in Aceh, as in other parts of Indonesia, often play an important role in supporting candidates for executive office in direct election (*pilkada*) campaigns, often as members of their 'success teams' (*tim sukses*). Contractors fund district head or legislative election campaigns in the expectation of rewards to follow. Samuel Clark and Blair Palmer (2008:27) in their study of Aceh's 2006 *pilkada* note the prevalence in *tim sukses* of 'contractors and businessmen, people who were already enmeshed in neo-patrimonial networks with government figures, and used to pragmatic deal-making'. The *tim sukses* members expend their own financial resources in building networks and distributing material incentives down to the village level to build support for their candidate, with the hope 'that their assistance would be repaid by political or material favors' (Clark and Palmer 2008:28).

Once a contract is awarded there is no guarantee it will actually be filled by the company that won it. In fact, a well-established system exists in Aceh for 'borrowing' companies during the bidding process and the sale of contracts that follows. Sometimes, small contractors will 'borrow' a higher grade company to make a bid for a contract for which they would not be qualified to bid directly. At other times, the process is reversed and a well-established contractor with expertise, equipment and capital, but lacking the political access required to win, will purchase a contract that has been won by a better-connected, but less capable, contractor. This happened a lot in Aceh after GAM-affiliated candidates won a series of elections for local government heads from December 2006. Suddenly, with GAM members dominating local governments, former GAM fighters began to win many construction contracts, but they often lacked the capacity to do the work properly. As a result, many of them simply sold these contracts on to others, usually for a fee of about 6 to 15% of the contract value.

Once construction work finally starts, regular payments are made to all the officials concerned. Especially important in the system established under

<sup>28</sup> Confidential interview, 26-8-2008.

Keppres no. 80/2003, which aims to reduce corruption in government procurement, is the role of supervisory consultants (*konsultan supervisi* or *konsultan pengawas*). These are employed to check on the progress of a project and ensure it is running on time and in accordance with project specifications. The government agency commissioning a project will pay each instalment to the contractor only after receiving positive reports from the *konsultan supervisi*. Such consultants are typically paid 10% of the project cost to perform this task, and in large projects these roles are also awarded by tender. However, according to one local leader of an anti-corruption group, such consultants' reports are '80% lies', because the consultants receive side-payments from the contractor working the project.

Because so many fees and commissions are pulled out of the project cost at every stage, very few projects are completed well. To pay for all the fees, contractors skimp on material and equipment. Sometimes the project does not need to go any further than the paper stage to make money for those involved. The media regularly expose so-called 'fictive projects', which are completed only on paper but paid for with real money.

In sum, despite Keppres no. 80/2003, the world of contracting is still one in which a great variety of actors from the executive government, security and law enforcement agencies, the legislature and business are bound together by tight webs of mutual dependence, exchange of resources and of favours, and of the potential threats they represent to each other. This, in short, is the world of 'building relations', *membangun relasi*, where rivalries and competition are suppressed in order to build the wide networks of influence and familiarity that are the key to business success.

That success brings rewards. The system we have described makes the contractors prestigious members of provincial society. One Acehnese observer described their social status perceptively:

Most contractors I know look rich, especially the young ones. They have a nice car, at least a 'Sabang' [second-hand luxury car imported through Aceh's free port Sabang]. Big house. They wear the latest fashion brands. Travelling to Medan or Jakarta, or these days even to Malaysia and Singapore, is nothing out of the ordinary for them. No surprise that many people admire the *kontraktor*. Older contractors adopt a simpler lifestyle, often just wearing an old T-shirt and sandals, even if they travel by plane overseas. Many girls love contractors. Potential mothers-in-law dream of getting a contractor for their daughter. A friend of mine complained because he lost the 'beautiful flower' he wanted to a contractor. 'Capital shortfall!', he said. Lots of people are proud to introduce themselves as a contractor, the family of a contractor, the friend or even just the neighbour of a contractor.<sup>29</sup>

29 Saiful Mahdi, 'Kontraktor', Aceh Institute, [http://id.acehinstitute.org/index.php?option=com\\_content&view=article&id=326:kontraktor&catid=25:kolom-oase](http://id.acehinstitute.org/index.php?option=com_content&view=article&id=326:kontraktor&catid=25:kolom-oase) (accessed 29-11-2008).

*Exclusion and violence in the contracting industry*

The discussion in the preceding section suggests that political influence and corruption in the sector are peaceable, cooperative affairs. But competition for contracts produces losers as well as winners. Contractors say their system is based on 'building relations', but equally important is the exclusion of rivals, whether by means of gaining and defending privileged access to sources of government contracts, the 'manipulation of information' (Blundo 2006:238) (such as by tailoring bids to supposedly confidential information about tenders) or, sometimes, by executive fiat or violent intimidation.

The Aceh situation also illustrates this exclusionary and coercive side of contracting well. After the 2005 peace deal, former GAM combatants flooded into the construction industry, and their particular skills brought them dramatic success. Former GAM fighters did well not because they were skilled as contractors, but because they had privileged political access, especially after their allies won local government elections in December 2006, and because they deployed violence and intimidation against both officials who awarded contracts and rivals who competed with them (see Aspinall 2009 for more details). There have been numerous reports of former fighters threatening violence against officials responsible for awarding tenders, or kidnapping or beating them or rival contractors. GAM actors often violently threatened other contractors in order to force them to withdraw bids from tenders that they themselves were interested in. More importantly, the GAM network continued to control what they call 'access to the field' (*akses ke lapangan*) through much of Aceh, with a network of former fighters present in most villages. These men were willing and able to take action against any economic activities in their villages that were not authorized by local GAM leaders – for example, by attacking or threatening staff, burning or otherwise destroying equipment, or by stealing material. The result is that any construction entrepreneur who wants to carry out work in areas where GAM is strong is required to offer sub-contracting work to local GAM leaders, employ local GAM men, or simply pay fees to the network. As a result of such methods, what on the surface passes as respectable contracting activity by former GAM fighters often involves little more than extortion and stand-over tactics, through which the movement extracts money.

We have less data on violence, extortion and intimidation in other provinces, but exclusion has long been a central dynamic in the contracting industry. During the New Order, exclusion was legislated by the state, which gave Gapensi members a monopoly on government contracts in the provinces. Gapensi used this monopoly to keep out foreign capitalists and ethnic Chinese rivals. Internal discipline was strong because ejection from Gapensi was a career-killer. One of the more important innovations in the 1999 law on construction (UU no. 18/1999) was therefore to break the Gapensi monopoly.

The 1999 law provided for a 'forum' for the industry that took over some of the certificatory roles previously assigned to Gapensi, and allowed 'one or more' contractors' associations to be represented on this forum. The forum was the LPJK.<sup>30</sup> Its task is to professionalize the sector through research, training, and (most interestingly) accreditation. Initially LPJK awarded Gapensi the sole right to accredit contractors. But alternative contractors associations began to emerge from late 2000, such as Gapeksindo, Aspekindo, Gabpeknas, and Gapeknas.<sup>31</sup> The new entrants successfully challenged the Gapensi monopoly on certification, and managed to persuade the national parliament to allow every association to certify its own members.<sup>32</sup> The result has been a free-for-all. Increased local authority over construction budgets also meant each new organization had to persuade district and provincial governments it was acceptable to do business with them too.<sup>33</sup> Formal organizational pluralism is now a fact in every province. Nevertheless, by 2003 a new, less formal, corporatism had begun to re-emerge in the form of provincial 'forums' of contractors' associations. And LPJK membership statistics for its members organizations show that Gapensi remains the biggest organization in most provinces.<sup>34</sup> The only exceptions are Southeast Sulawesi and the new province of West Papua, where Gapeksindo dominates.

In the interim, the breakdown of monopoly on information caused severe distress to those who had done well out of the old system. In South Sulawesi, matters came to a head with a murder in the island district of Selayar, near Makassar, on 18 July 2001. The rival association was the Association of National Construction Entrepreneurs (Gabungan Pengusaha Konstruksi Nasional, Gapeknas). One of the Gapeknas board members in Selayar was Chiwang, and its chairman was Chiwang's brother-in-law Hasrun. Chiwang's father Alwi Hasan was a Golkar member of the district parliament – a rather typical combination in the construction business. It was the time of year when tenders are called, and the Selayar district chief was about to decide on up to Rp 12 billion (US\$1.2 million) worth of projects including road improvements, schools and

<sup>30</sup> <http://www.lpjk.org>.

<sup>31</sup> Gapeksindo is Gabungan Perusahaan Konstruksi Nasional Indonesia, or Indonesian National Association of Construction Companies; Aspekindo is Asosiasi Pengusaha Konstruksi Indonesia, or Indonesian Association of Construction Entrepreneurs; Gabpeknas is Gabungan Perusahaan Kontraktor Nasional, or National Association of Contracting Companies; Gapeknas is Gabungan Perusahaan Kontraktor Nasional Indonesia, or Indonesian National Association of Contractor Companies.

<sup>32</sup> 'Sertifikasi perusahaan konstruksi teruskan friksi', *Bisnis Indonesia* 28-2-2001.

<sup>33</sup> For example, Gapeknas demonstratively visited the Yogyakarta local parliament late in 2000 to complain about the Gapensi 'monopoly' on gatekeeping construction contracts. Gapeksindo led a protest delegation to the local parliament in Garut, West Java, in mid-2006 to complain about being excluded from tendering for a road project ('Gapeknas berantas monopoli Gapensi', *Bernas* 5-12-2000; 'Asosiasi perusahaan minta bantuan DPRD', *Pikiran Rakyat* 22-6-2006).

<sup>34</sup> [http://www.lpjk.org/modules/statistik/badan\\_usaha/2008/asosiasi\\_golongan\\_propinsi.php](http://www.lpjk.org/modules/statistik/badan_usaha/2008/asosiasi_golongan_propinsi.php) (accessed 4-4-2009).

mosques. The Selayar branch of Gapensi, led by H. Anwar Ali, had repeatedly warned the district chief not to allow Gapeknas members to tender, since they were not in possession of a business permit. When the district head signaled he was about to do so anyway, the Gapensi chairperson placed an advertisement in the local newspaper threatening to take the district head to court for breaking the rules. Seeing the advertisement, Chiwang, his father and about 20 thugs went to the district Public Works office and threatened to blow it up with molotov cocktails unless they were allowed to tender. They then called by the Gapensi office and issued threats. The next day Chiwang and his father, who was wearing his parliamentary uniform, returned to the Gapensi office armed with knives. A shouting match ensued, followed by a frenzied attack that left Anwar Ali dead with 27 stab wounds to his body. By the end of the day hundreds of men had gathered at their respective Gapensi and Gapeknas offices. They were about equally matched and ready for war. The police took several days to calm the situation, while the district head threatened to stop all project work unless the two sides agreed to lay aside their differences.<sup>35</sup>

This example of violence in the construction industry is extreme but it is not unique, as the Aceh example also illustrates. In other provinces of Indonesia, rumours of violence and intimidation often swirl around the construction industry, and *preman*, or small-time thugs, typically play a role in running protecting rackets in the industry and, often, in working construction projects themselves.<sup>36</sup> The direct use of violence is only the most obvious form of exclusion in an industry where rivals are more often kept out by the assiduous construction of intimidate relationships of mutual benefit between businesspeople and politicians, relationships that yield privileged access to the most business opportunities and which therefore must be jealously guarded.

### *Conclusions*

The neo-liberal fantasy of competition, in which there is a perfect market of entrepreneurial individuals who participate and succeed only according to their technical abilities, cannot be easily enforced in Indonesian provincial towns. There, emerging indigenous middle classes have made getting rich by

<sup>35</sup> 'Pembunuhan: rebutan proyek berbuntut maut', *Tempo* 30 July-5 August 2001; 'Diduga dibunuh anggota DPRD setempat: ketua Gapensi Sulawesi Selatan tewas dibunuh', *Tempo Interaktif* 19-7-2001; 'Gapensi-Gapeknas kisruh, proyek di Selayar ditunda', *Kompas* 21-7-2001.

<sup>36</sup> For example, the Central Java branch of Gapensi described the behaviour of rival contractors associations in 2001 thus: 'These 'cowboys' terrorize anyone who don't do as they say'. Exclusionary tendering practices for a multi-million dollar project led to a riot between Bugis and Dayak in the small town of Nunukan, East Kalimantan, in July 2007 (Charles Siahaan, 'Antaretnis bersitegang di Nunukan', [www.kabarindonesia.com](http://www.kabarindonesia.com), posted 8-7-2007 (accessed 7-12-2007); 'Cuplikan Munas Khusus Gapensi: problem kontraktor tiada berujung', *Suara Kontraktor*, no date (2001), [http://www.suarakonstraktor.com/lip\\_beton.asp](http://www.suarakonstraktor.com/lip_beton.asp) (accessed 16-6-2003).

political means into an art form since the national revolution of 1945. The techniques they have developed – some of them are analysed in the present chapter – are part of their wider provincial struggles to seize state funding (known by economists as political transfer rents, see Khan 2000). Achieving political control not only gives them access to state budgets, it also allows them to keep out rivals. At the same time, in order to secure political dominance, they need to redistribute money and business opportunities to supporters, allies and, to varying degrees, potential rivals. In the construction sector they have done this by different means down the years. During the New Order years, state-dominated corporatist organizations were a principal arena through which redistribution took place. Since the collapse of the New Order, a much messier system of ‘building relations’ has evolved, in which contractors and political decision-makers are connected by intricate webs of influence and exchange. In both periods, there was still plenty of competition between rival contractors, but this was never competition in which decisions were made on the basis of ‘rational’ market considerations of efficiency and pricing. Instead, political connections and payments were always the key to success.

The provincial building contractors now must wage a defensive struggle. The technocrats who threatened to open the doors to foreign competition in 1966 have come to haunt them again after the reforms of 1999. In the long run they may prevail. In the meantime, the mess of contradictory regulations in the construction sector reflects slowly shifting trench warfare between provincial interests and stronger players in the centre and overseas, who push their agenda under the cover of anti-corruption regulations. The international pro-market agenda, increasingly being adopted by the government in Jakarta also in relation to the building industry, plays into a long-running social tension between what we may call a provincial intermediate class, consisting of an intermeshed amalgam of private entrepreneurs and public government officials, and metropolitan big business. Metropolitan actors, or at least some of them, are also more interested in satisfying pressures for reform imposed by multilateral agencies that ultimately determine the government’s international credit rating. The larger construction companies based in Jakarta are relatively open to reform because they have superior skills and technology and would be able to compete in more open markets.

The provincial business and political class, by contrast, is interested above all in redistribution along clientelist lines and in buying political stability. It is access to state budgets which determines business success, ensuring that there is no clear boundary between the private world of business and the public world of the government official. In part, this is because provincial actors neither pay nor collect taxes, but only spend them.

The kind of networking provincial business players in Indonesia do, with each other and with government, is typical of smaller entrepreneurs all over

the world, from India to Italy (Rutten and Upadhy 1997:13-43). Consider, for example, the following scene:

The waiting rooms of town halls are thus crawling with a multitudinous microcosm composed of subcontractors, artisans and canvassers seeking to see the mayor, his assistants or the technicians of urban planning, in the hope of obtaining a small construction contract or an order for supplies. For these small contractors, the simple fact of walking the corridors, reminding the authorities of their existence and 'showing oneself' represents the chance of being called one day or, failing that, of meeting big contractors likely to give them a subcontract (Blundo 2006:239).

This description is from West Africa, but it is striking how it perfectly captures the atmosphere in government offices in provincial and small-town Indonesia. Visit almost any Indonesian district head's offices today and you will find a similar diverse mixture of small-time operators, milling around in an atmosphere steeped in ambition, obsequiousness and anxiety. This is the social world of the construction contractor. Across the developing world, construction is a major earner for small-town dwellers who have risen above agriculture and petty trade. Almost everywhere, gaining privileged access to local government is the path to success.

In Indonesia's building industry, corruption is thus part of a clientelistic system that has been in operation for a long time, and that is woven into the very fabric of social and political life in the regions. The agenda against it has been motivated by a neo-liberal push to reduce government powers. In fact clientelism has some advantages. It keeps wheels turning, ensures a degree of redistribution to small and medium entrepreneurs (albeit at the cost of efficiency), and it thus helps ensure political stability. Unbridled competition without the institutions to underpin it can increase uncertainty and instability by encouraging violent informal enforcement practices, as has happened in China and Russia (Ding 2001; Volkov 2002). It could even undermine existing institutional arrangements for guaranteeing property rights and personal security (Beeson 2001). If the globalizing anti-corruption agenda does prevail, it is by no means certain that Indonesia's construction industry would look as benign as the agenda's ideologues portray it. Instead of a better deal for average provincial contractors, it might spell their displacement by big and mainly foreign building companies.

Perhaps a more likely scenario than the wholesale dismantling of the existing clientelistic system, however, is the more familiar one of adaptation. Recent work on clientelism suggests precisely this outcome. Piattoni (2001) observed that democratization in Europe caused a reversal of the bureaucratic professionalization established in the nineteenth century era of modern state

formation. Kitschelt and Wilkinson (2007) write that new forms of clientelism emerge out of the interaction of democratic competitiveness and economic development. Roniger (2004), in a review of recent literature, points out that the post-authoritarian transition in Brazil caused a 'reclientelization' of business and politics. In fact, adaptation is the result we have so far seen in Indonesia. Democratic change and attempts to overhaul government procurement have far from eliminated clientelism in the system. The relatively centralized corporatist system for the allocation of construction contracts that developed during the New Order regime has been eroded. A new shell of open bidding for, and competitive assessment of, construction contracts has been put in place. Yet the real world of construction contracting is no less clientelistic (though it is perhaps slightly more chaotic) than that which it replaced.