

## Evaluation of the Implementation of Payments for Building Construction Projects using APBD Funds According to Contract Law

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### ABSTRACT

*Late payment is a common problem that often occurs in construction projects and can hinder project completion. Previous studies have stated that factors that influence late payment include the financial condition of the project owner and poor business management as well as delays in payment by the project owner and others. Previous studies only discussed the factors that cause late payment. This study aims to identify factors that influence late payment and find solutions to overcome them. The research method used is qualitative with in-depth interviews with parties involved in construction projects, such as PPK and Contractors. Data were processed using interview transcripts and analyzed with thematic analysis to identify emerging patterns or themes. The results of the study indicate that the procedures for implementing payments have been regulated in contracts and related regulations. Factors that cause late payment include poor communication, administrative negligence, empty regional treasury, and unclear regulations. The proposed solution is to conduct training for HR and hold daily or weekly meetings involving all related parties. This research is expected to contribute to increasing payment efficiency in construction projects. This study has limitations, namely the lack of quantitative data and local context, limited samples, focusing on internal factors.*

**Keywords:** *Late Payments; Construction Projects; Causes; Solutions.*

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### INTRODUCTION

Development in various fields is widely carried out by the community and government in Indonesia. From small to large buildings, all are built according to their needs, all processes of building a building or other infrastructure can also be called construction work. Construction work is described as all or part of the activities that include the construction, operation, maintenance, demolition, and reconstruction of a building [1]. In a construction project there is a letter or document containing an agreement between the contractor and the project owner. A contract is a written agreement between the Budget User (PA) / Budget User Authority (KPA) / Commitment Making Officer (PPK) with the provider of goods / services [2]. Construction work requires funds. Funds consist of own capital and external capital or debt from borrowing from other parties such as banks [3]. Many contractors experience delays in payments that are not known and predicted in advance [4]. Delays are one of the most common causes of disputes in construction projects, and quick resolution is very important [5]. Based on the majority of consultants and contractors, the project experienced delays in payments from the owner. According to various articles, late payments from the owner to the contractor resulted in delays in the contractor's work and caused several problems with productivity. This can also result in disputes between the owner and the contractor. All of this will affect the

overall success of the project [6]. The delay can come from the service user or from the service provider. If the delay comes from the service user, then the service user is obliged to pay the losses that have been borne by the service provider. While the delay comes from the service provider, then the service provider is obliged to pay a fine according to the initial agreement. One of the biggest problems, late payment, can result in disputes between parties, bankruptcy, project cancellation, and other things. Through good communication, careful scheduling, and knowledge of the contract agreement, the relationship between the parties creates the idea that payment must be guaranteed to avoid any complications in the project [7].

This certainly makes the contractor lose, because the cash flow is not sufficient to finance the construction costs, especially for contractors whose economic conditions are unstable, the progress of the work can be hampered by late payments from the client. Due to the lack of income to cover construction costs, late payments from clients can hamper the progress of work, especially for contractors whose financial conditions are unstable [8]. Commercial debt to contractors that is not paid on time is a significant problem in both industrialized and developing countries [9]. In construction projects, timely payment is very important for the financial sustainability of the contractor and the successful completion of the project [10].

In the construction world, late payment or non-payment of a contract is the main risk in the relationship between the contractor and the project owner. This problem has a major impact on project activities, especially in the construction phase where there are production, delivery, civil work, installation and testing activities. This certainly makes the contractor lose.

Therefore, the contractor needs to know the procedures for implementing construction project payments according to laws and regulations and whether the payment procedures in the field are in accordance with laws and regulations so that in the future they can take anticipatory steps to postpone payments in the future.

## **METHOD**

In this study, the method used is a qualitative method. Qualitative methods are research approaches that focus on an in-depth understanding of a phenomenon or problem through the collection, analysis, and interpretation of non-numerical data. The data collection method used is in-depth interviews. In-depth interviews are face-to-face or telephone interviews with individuals or groups related to this study. The analysis method used is thematic analysis. Thematic analysis is a flexible and interpretive method for identifying, analyzing and reporting patterns or themes that emerge in qualitative data such as interview transcriptions, observations and documentation. The informants or respondents were selected through a purposeful sampling approach, namely a deliberate sampling technique of 4-5 people who have experience in the field of contractors and commitment-making officials for more than 5 years and have experienced late payments on projects they hold. Data validation focuses on the data collected and the resulting interpretations. In this study, the validation used was using various data sources such as government regulations of the government goods/services procurement policy agency no. 12 of 2021. The implementation of interviews is regulated in interview guidelines such as determining the purpose of the interview, making a list of questions, preparing recording equipment and scheduling interview times with informants.

**Results and Discussion**

1. Payment Process for Building Construction Projects

The results of interviews with commitment-making officials and contractors related to the process of implementing building construction payments.

Table 1. Payment Process

No.	Theme	Conclusion
<b>1.</b>	<b>Payment Process for Building Construction Projects</b>	
	A. Contract	<ol style="list-style-type: none"> <li>1. In construction project work, SOP for Implementation and SOP for Payment have been issued</li> <li>2. Documents required for payment requirements include Tax Invoice, Maintenance Guarantee, Daily Report, Weekly Report, Minutes, Laboratory Tests if Any, and Documentation.</li> <li>3. The time required for the implementation of the payment process is 7-14 working days after the Contractor submits a payment request letter to the Commitment Making Officer.</li> <li>4. The payment methods commonly used are Termyn and MC</li> <li>5. The payment verification mechanism begins with the contractor submitting a payment request letter to the Commitment Making Officer, after which the Commitment Making Officer will create a team consisting of the Technical Team, Assistant Technical Implementation Officer for Activities, Supervisors and Commitment Making Officers to assess the contractor's performance, if in accordance with the specifications set out in the contract then the payment can be continued to the treasurer or finance, if not then the work must be repeated with the specifications set out in the contract.</li> <li>6. For additional costs during work, a contract addendum or contract CCO will usually be held.</li> <li>7. Incentives are usually only in the form of a good assessment of the work, the penalty in the contract has been explained that the fine for late work is 1/1000 per day of the contract value calculated from the day the work is late.</li> <li>8. Retention or deductions are usually 5% of the contract value if the contractor does not submit a maintenance guarantee to the Commitment Making Officer, if the contractor submits a maintenance guarantee, the payment will be paid 100% without deductions, all have been explained in the contract.</li> </ol>
	B. Human Resources	<ol style="list-style-type: none"> <li>1. Those responsible for assessing the quality of work are the Commitment Making Officer, Assistant Technical Implementation Officer, Technical Team, Supervisor and Surgeon</li> <li>2. Communication between the Commitment Making Officer and the Contractor must be good.</li> </ol>

No.	Theme	Conclusion
		3. To improve communication between the Commitment Making Officer and the Contractor, daily or weekly meetings must be held involving all parties related to the project.

From the interview results, it can be seen that the implementation of payments is in accordance with existing guidelines or regulations such as LKPP No. 12 of 2021. The construction project contract has also been explained in the clause on payments. It explains the payment documents, payment implementation time and payment document verification system. In table 1, it can be seen that the resources involved in the payment implementation process have been regulated in the contract such as the Commitment Making Officer, Technical Activity Implementation Officer, Technical Team, Treasurer and Supervisor. The interview results explain that incentives are usually given in the form of good work assessments, while for late completion of work, a fine of 1/1000 per day of the contract value is set starting from the extension time given by the project owner. For deductions or retentions, it has been explained in the contract as much as 5% of the contract value if the contractor does not have a maintenance guarantee, a deduction or retention will be imposed, if the contractor has a maintenance guarantee, the deduction or retention will not be issued. All of that has been regulated in the regulations and in the contract it has been explained in the clause. In previous research, it was also explained that the relationship between delay factors and the type of contract and payment system was only 3 relationships that had a strong level of relationship, namely: minor format errors that did not comply with the contract and payment procedures obtained with the monthly physical progress payment system for the project, slow processing of change order contracts with the monthly physical progress payment system for the project, and slow payment procedures due to too many stages in the payment process with the percentage of physical progress for the project [11].

## 2. Factors Influencing Late Payments in Building Construction Projects

In this sub-chapter, you can see and understand the factors causing late payment in building construction projects.

Table 2. Factors Influencing Late Payments in Construction Projects

No.	Theme	Conclusion
<b>1.</b>	<b>Factors Affecting Late Payments in Building Construction Projects</b>	
	A. Main Factors of Late Payments	<ol style="list-style-type: none"> <li>1. Commitment Making Officers and Contractors who were the sources in this study had experienced late payments on projects they worked on or supervised.</li> <li>2. Poor communication between the Commitment Making Officer and Contractor, Empty Cash on the Owner's side, incomplete payment requirement documents due to the lack of signatures from the Commitment Making Officer or Technical Activity Implementing Officer due to the Commitment Making Officer or Technical Activity Implementing Officer not being there, contractors who do</li> </ol>

No.	Theme	Conclusion
		<p>not understand the payment implementation process and messy contractor administration. As well as applications used to upload payment documents that often error.</p> <p>3. Specifications that do not comply with the initial agreement can also cause late payments, because the work being worked on will be delayed in completion, there will be a fine. Fines must be completed or paid off before carrying out the payment implementation process.</p> <p>4. Unclear or confusing regulations for all parties mean that the Commitment Making Officer cannot disburse or process payment for his/her work.</p>
	<p>B. Impact of Late Payment</p>	<p>1. The impact commonly experienced by contractors related to late payment is the delay in completion of work caused by disrupted contractor cash flow.</p>

In table 2 it can be seen that the factors causing late payments are lack of communication between parties involved in the construction project, contractors who do not understand the payment process, unorganized contractor administration and problems with government applications for uploading payment documents that need to be improved, as well as specifications or quality of work that do not match those agreed in the contract. In table 2, the results of interviews with several sources state that the impact or influence of late payments will disrupt the company's cash flow and cause delays in completing work on time. Many researchers explain that late payment is one of the internal and external factors that cause delays in the completion of construction work [12]. There are also those who explain that politics also causes delays in payment for construction projects. Complicated bureaucratic procedures and lengthy government agency approval processes often cause delays in payment [13]. This process involves several levels of review and excessive paperwork that causes administrative inefficiency and delays in payment disbursement. The construction industry is heavily influenced by inefficiency, corruption, and mismanagement, which contribute to the problem of late payment or non-payment [14]. Previous studies have explained that the factors for late payment consist of 3 main factors, namely: complex bureaucracy in submitting payments, incomplete payment document requirements from contractors, and poor quality of work [15]. And project delays are related to late payments [16].

### 3. How to Deal with Late Payments in Building Construction Projects

In the sub-chapter, the researcher not only discusses the factors causing late payment but also discusses how to overcome late payment in the future.

Table 3. How to Deal with Late Payments in the Future

No	Theme	Conclusion
1.	<b>How to Overcome If There is a Delay in Payment in a Building Construction Project</b>	
	A. How to Overcome Delays in Payment in the Future	<ol style="list-style-type: none"> <li>1. The Commitment Making Officer will take the initiative to remind the contractor regarding the preparation of payment documents that will be submitted to be completed as soon as possible.</li> <li>2. Good relationship between the Commitment Making Officer, Owner, and Contractor, as well as support from all parties to complete the project work on time.</li> <li>3. Steps that need to be taken by the contractor regarding the implementation of payments, namely preparing payment documents in advance.</li> <li>4. Clear contracts or regulations, as well as providing clear education to parties involved in the construction project and improving the application system that can facilitate the payment process.</li> <li>5. The role of technology in payments has a very positive influence, namely accelerating the payment implementation process, increasing payment transparency and reducing the risk of fraud.</li> </ol>

Table 3 explains how to overcome late payments in the future by reminding each other about the rights and responsibilities described in the contract, having a good relationship between the parties involved, clear contracts and regulations, improving applications that can be accessed by service providers and providing education related to payments to all parties involved. The results of the interview also explained that the person who serves as the Commitment Making Officer or Technical Activity Implementing Officer must be able to take action to resolve existing problems during the payment process or work implementation and also have a good relationship between the parties involved in the construction work. Several previous studies have explained that the success of project completion is greatly influenced by timely and effective payment practices in construction projects [13]. By simplifying administrative processes, enforcing prompt payment policies, increasing collaboration, and providing financial support, the government can help reduce payment delays and foster a more conducive environment for construction project implementation [17].

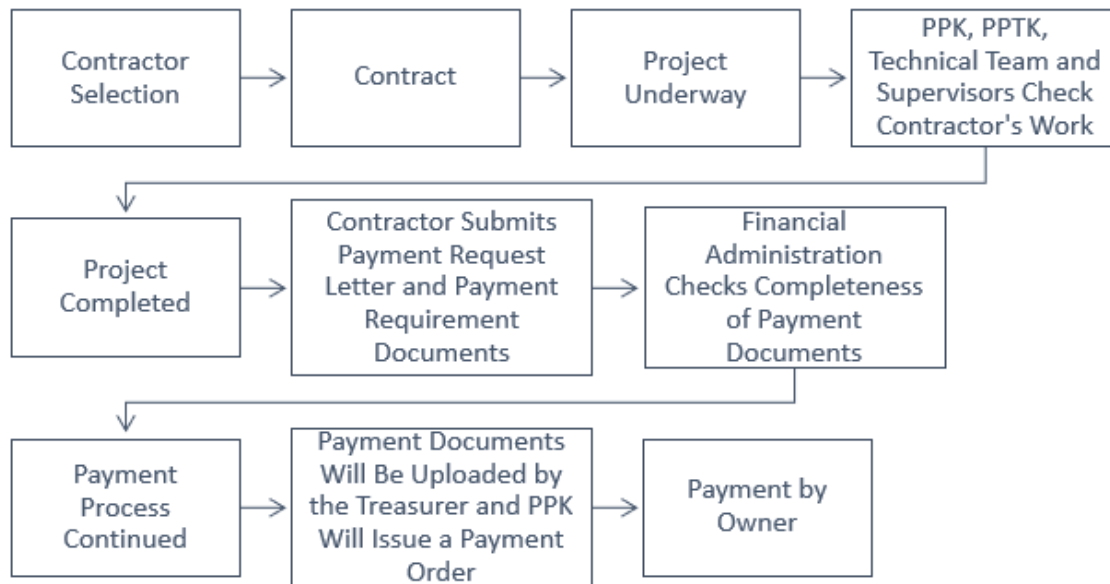


Figure 1. Research Result

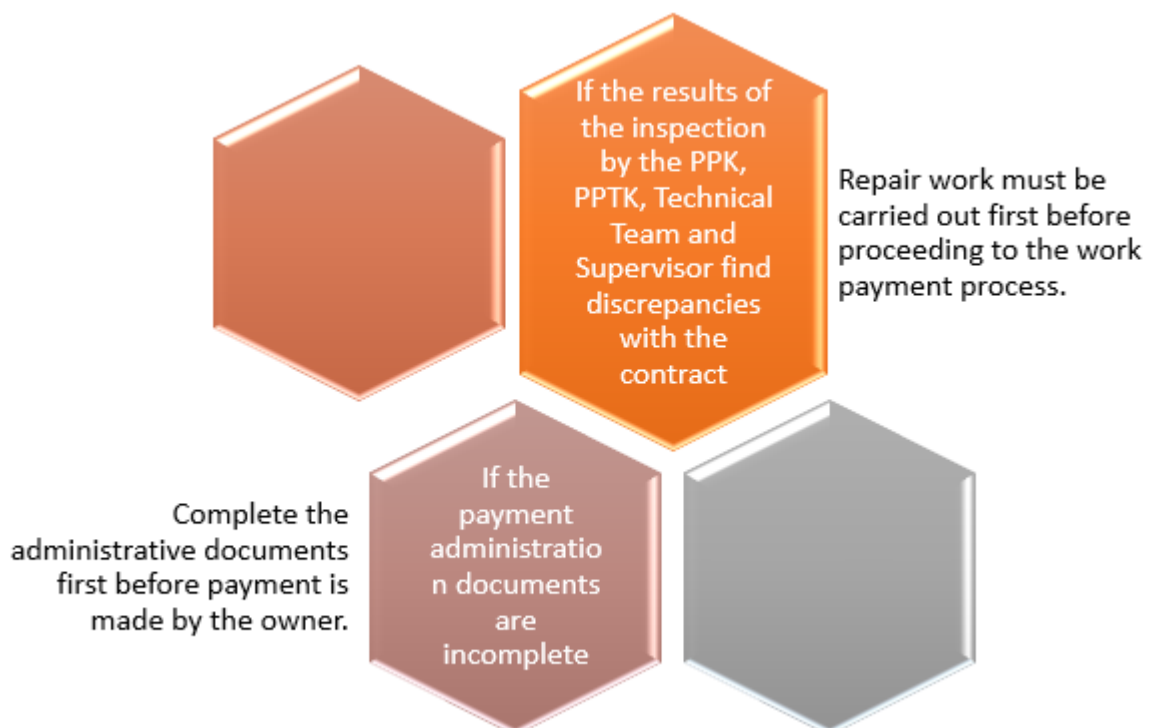


Figure 1. Research Result

The results of the study above state several important findings related to efforts to overcome late payments in construction projects. These findings can be linked to several relevant theories and concepts, including contract theory which states that contracts are the basis of the relationship between the parties involved in a construction project. A clear and comprehensive contract regulates the rights and obligations of each party, including provisions related to payment. The findings in this study emphasize the importance of a clear contract and provisions that regulate payment in detail. Communication theory states that effective communication is a key factor in the success of a construction project. Good communication between the parties

involved can help prevent misunderstandings, conflicts, and late payments. The findings in this study highlight the importance of good communication and mutual reminders between the parties involved. Furthermore, relationship theory states that good relationships between parties involved in a construction project can create a positive and productive work environment. Good relationships can facilitate effective communication, solid cooperation, and faster problem solving. The findings of the study emphasize the importance of establishing good relationships between the parties involved. Management theory states that good management is very important in construction projects, including financial and payment management. Effective management can help ensure that the payment process runs smoothly and on time. The study findings highlight the need for improvements in the applications used by service providers and education related to payments. The study findings are also supported by previous studies that have shown that timely and effective payment practices are critical to the success of construction projects. These studies provide empirical evidence of the positive impact of smooth payments on project completion, contractor satisfaction, and project financial stability.

## CONCLUSION

The payment process in construction projects is basically in accordance with the contract and applicable regulations. However, there are still several factors that cause delays in payment, including:

1. Negligence of contractor administration.
2. Lack of contractor understanding of the payment process.
3. Poor communication between the PPK and the contractor.
4. Technical constraints on government payment applications.
5. Empty cash at the project owner.

Based on these findings, some relevant suggestions to overcome late payments are:

1. Increasing Human Resources Capacity: Contractors need to improve their human resources capacity in terms of administration and understanding of the payment process through training or socialization.
2. Improving Communication: PPK and contractors need to establish better and more effective communication through regular meetings, discussions, or the use of efficient communication platforms.
3. System Improvement: The government needs to improve the application used to upload payment documents so that it does not often experience errors. In addition, the government also needs to ensure the availability of cash for project payments.
4. Contractor Motivation: PPK can provide motivation to contractors to accelerate the completion of work and preparation of payment documents.

This study has several limitations, including: the number of samples interviewed is limited, the research method only uses the interview method so that the data obtained is less comprehensive, and the focus of the study only focuses on internal factors that cause late payments, while external factors are not discussed in depth. From the results, it states that policies or practical implementations are the preparation of regulations, system development and training and socialization related to the payment process to contractors and other related parties.

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