

Research Focus

Pioneering Public Sector Reform In Indonesia

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Indonesia's recent economic performance has been impressive, notwithstanding severe challenges posed by rising global food and energy prices and by all-too-frequent natural disasters. But there remains much room for improvement in the policy and regulatory environment for private sector business, on which economic growth depends. For example, Indonesia ranks only 123rd of 178 countries on ease of doing business in the World Bank's *Doing Business 2008* report, and 143rd of 180 countries in Transparency International's Corruption Perceptions Index for 2007. A bureaucratic reform pilot project now in progress in the Ministry of Finance is therefore of particular interest.

The ministry has offices spread throughout the archipelago, and employs around 62,000 civil servants. When Minister Sri Mulyani Indrawati took up her position in December 2005, she decided to push forward vigorously with reform, clearly signalling her intentions by replacing the heads of the notoriously corrupt tax and customs and excise directorates general within the first four months. Her most spectacular action to date was to remove some 1,200 individuals from the customs office at Jakarta's port, Tanjung Priok, and replace them with about

850 officials regarded as more trustworthy.

The aim of reform is to create a civil service whose personnel are 'clean' (non-corrupt), professional and accountable, and which is efficient and effective in carrying out its functions. Thus it is recognised that reform does not merely entail bringing corruption under control (seemingly the president's principal focus), but also involves improving the capacity of the bureaucracy to design and implement government policies.

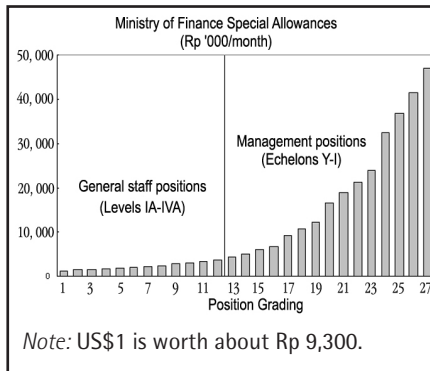
The most important component of the reform effort concerns the way human resources are managed. The changes being implemented are far reaching, reflecting the need to clear away decades of policies and practices that hinder efforts to optimise performance of the bureaucracy. They include: preparing detailed job descriptions for each position; grading each position on the basis of its scope, the competencies required and the risks that need to be managed by incumbents; determining a structure of remuneration that reflects this grading; and developing a system for monitoring performance and rewarding or penalising individuals accordingly.

The ministry has compiled a set of guidelines for improving discipline among its officials, together with a Code of Ethics for all top-level officials. More important in practice is the decision to introduce a more coherent, market-related structure of remuneration. Breaking from past practice, employees are

now to be remunerated on the basis of the job gradings just mentioned: the greater the skill requirements and responsibilities of the position, the higher the level of remuneration.

A specialist multinational consulting firm commissioned to advise on official levels of remuneration in the ministry found that pay at lower levels was comparable with that in the private sector, but that the increase in remuneration with increasing levels of responsibility lagged behind. Formal remuneration of officials at the highest levels was far below that of top executives within the private sector, which was seen as detrimental to the goal of optimising the performance of such officials—and thus the ministry itself. The pattern of remuneration has now been brought more closely into line with that in the private sector through the payment of Special Allowances over and above the standard basic salaries.

Reports that overall remuneration has increased four-fold mean little, because the allowances have not been applied evenly across all levels. In keeping with the heavy emphasis on differentiating between positions and tying remuneration to their grading, proportionately much higher allowances are paid at higher levels (see chart). Officials at the highest grading now receive a special allowance of around US\$60,000 annually. This still leaves them well behind their private sector peers, but this is a dramatic departure from established practice, nevertheless.



A further important and closely related change concerns the filling of vacancies. Whereas in the past individuals waited patiently until seniority brought them to the top of the list of those eligible for promotion to higher positions, under the new arrangements vacancies are advertised internally, and anybody within the ministry who meets the job specifications is encouraged to apply. Still in its initial phase, this shift to merit-based competition for promotions is currently limited to Echelon II positions. Since promotions previously have depended heavily on seniority and also on the backing of one's superiors, the new approach is experiencing some opposition from Echelon I officials—uncomfortable, presumably, with losing their capacity to dispense patronage to (and thus ensure the loyalty

of) their subordinates. In order to minimise favouritism, the ministry is emphasising 'key performance indicators', to differentiate between applicants for vacant positions.

More generous remuneration levels should provide a stronger incentive to employees to work hard, and to act with integrity and discipline. New regulations stipulating sanctions that can be imposed on those that do not live up to these expectations might not have much impact, however, in an organisational culture averse to imposing them. Conscious of this, the ministry has enlisted outside assistance to suppress corrupt behaviour. At its request, the Corruption Eradication Commission raided the Tanjung Priok customs office at the end of May 2008, discovering quantities of cash, presumed to be bribes, hidden in the desk drawers of a number of customs officers. Nevertheless, the reported 48 per cent year-on-year increase in tax collections during January-May 2008 strongly suggests that reforms are having the desired overall effect. Apart from the understandable reluctance of the ministry to push remuneration even closer to parity with the private sector, the

other obvious shortcoming of the reforms is the unwillingness to open job vacancies to applications from the private sector, except for limited hiring to fill 'functional' positions—that is, those that require specific technical skills. The bureaucracy would certainly benefit from an influx of individuals with private sector experience and with certain skills in critically short supply in the civil service.

Minister Mulyani's recent appointment to the additional post of Coordinating Minister for Economic Affairs reflects the high esteem in which she is held. It is to be hoped that the reforms she is implementing will be followed in other ministries, although this is unlikely to occur until after the presidential elections in 2009.

This article draws on the author's 'Survey of Recent Developments', forthcoming in the August 2008 issue of the *Bulletin of Indonesian Economic Studies*.

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