



# INNOVATIONS FOR SUCCESSFUL SOCIETIES

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Interviewee: Robert Pakpahan

Interviewer: Andrew Schalkwyk

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SCHALKWYK: Today is the 16<sup>th</sup> of July. I'm with Robert Pakpahan, the Director of Business Processes Transformation at the DG (Directorate General) Tax in the Ministry of Finance in Indonesia. So if I could ask, as we start this interview, what your current responsibilities are in the Ministry of Finance and in the DG Tax Department.

PAKPAHAN: *Currently I am responsible to improve the existing business process, including the standard operating procedures for all of the process in the tax administration in Indonesia. Also developing new ones if we find out there are some processes that have not been spelled out or have not been standardized in standard operation procedures. So I am basically in charge of improving or developing current processes, mostly administrative aspect of these organizations.*

SCHALKWYK: How long have you held this position?

PAKPAHAN: *I started at the end of 2006, December 2006, two and a half years.*

SCHALKWYK: Were you brought in by the previous Director-General?

PAKPAHAN: *At this position, by the current Director-General.*

SCHALKWYK: And who is that at the moment?

PAKPAHAN: *The current Director-General is Darmin Nasution.*

SCHALKWYK: He was appointed by Sri Mulyani when she became Minister of Finance, correct?

PAKPAHAN: *He was appointed by the President, the Director-General is appointed by the President.*

SCHALKWYK: Right, I understand that the Ministry of Finance is undergoing a quite extensive bureaucracy reform program at the moment. What has the Director-General of Taxes involvement been in that?

PAKPAHAN: *In my experience, I think actually before the Ministry of Finance started its reform, DG Tax has started earlier, around 2002, our own reform which we call it Tax Administration Modernization. So that was the first time we established a new office, large tax-payer office, which is like a starting of a pilot project of an ideal office for the future. So we started in 2002 and then step-by-step, one by one, we add more and more offices to be modernized. We have certain criteria. So in my opinion actually, we kind of started first, and then the Minister of Finance made it more comprehensively across all echelon one, maybe around 2006 or 2005.*

SCHALKWYK: What prompted you to start the reforms in 2002, if you can remember back then?

PAKPAHAN: *It was part of a letter of intent with the IMF (International Monetary Fund). We had a crisis here in 1998, and we had difficulty—I mean the government of Indonesia had some difficulty with our economy. There is an agreement; I think we borrowed some money. There are, according to the Paris Club at that time, the IMF was kind of overseeing our reform. If I may say, the trigger is basically by the Letter of Intent or commitment with the IMF program. The IMF kind of proposed making this new office, because they are very concerned regarding our capability to generate revenue. I mean, at that time, the government of Indonesia has to be able to generate its own domestic revenue. Therefore the Tax*

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*Department is very critical at that time. And at that time, all of our taxpayers are administered equally. I mean, we don't have different treatment for different taxpayers such as big, small or medium, something like that. So IMF said that you have to pay attention to your large taxpayers. So we started with—we picked two hundred largest taxpayers across Indonesia, which two hundred of them actually represent, I don't know, almost 30% of our total revenues. We want to administer them differently. So it is a start of reforming—there are four areas that we touch every time we modernize an office. At that time, we think it is very important, the first one is the organization.*

*So the organization of this office structurally is very different. The IT, we imposed that automations are required in all activities at the office, so IT implementation. Human business process: there is a simplified business process, and then human resources have to be selected. So there are four aspects every time we modernize, we touch the organization structure, IT, business process and human resources. So that's why it is always different. Then this one office becomes our, what we call, our case study.*

SCHALKWYK: Where was that office?

PAKPAHAN: *It is in Jakarta, in [Indecipherable].*

SCHALKWYK: Okay, and how quickly did you roll out that process to other offices?

PAKPAHAN: *It is not very quick. I think after we roll out—2002 we roll out two offices at the same time, one with one hundred and one hundred taxpayers. I think we do not roll out next until I think at the end of 2003 or early 2004, one year after that another office is modernized. Basically, the whole set is completed at the end of 2008 from 2002, because we don't want it to collapse. It has been like a movement in the DG Tax basically.*

*Prior to modernization, our business process, our human resources and also the way of doing business, our tax administration is quite, what we call, is very unchecked, basically. Corruption and bribery seems like it is very loose, and we are trying to change it. When we start this office, we have been successful to make it an island of integrity and then another office, another office. We don't want to build at the same time because we don't want it to collapse. So that is the approach that we use. It takes six years.*

SCHALKWYK: Did you make any changes to the central DG as well, or did you just focus on these offices?

PAKPAHAN: *The central DG changed in 2006. So it started with this office, the central DG itself, is structurally modernized, and there is some business process changed in 2006, when my directorate actually is part of this central DG.*

SCHALKWYK: Why do you think people waited to change the DG, the central DG later after the offices in the field?

PAKPAHAN: *The source of revenue is from the field office, so it is more important than the central at the time. We are learning which one is the best structure, do more efficient way of doing things, business in our—so basically, I think the field office is more critical.*

SCHALKWYK: And the structural changes in the DG, were those linked to the bureaucracy reforms done in the rest of the Ministry of Finance, or were those separate?

PAKPAHAN: *After 2006, I think at the same time the Minister of Finance also restructured, and it becomes integrated at that time.*

SCHALKWYK: Okay.

PAKPAHAN: *But in my understanding, besides the organization and structures, the big thing in the Ministry of Finance in the change is requiring that every office must have standard, written, organized standard operating procedures, SOP (Standard Operating Procedure). I mean at the time, before the reform everybody had SOP, but it was just not spelled out; it was not very clear.*

SCHALKWYK: And your current position is involved in establishing those standard operating procedures?

PAKPAHAN: Yes.

SCHALKWYK: How do you go about establishing a set of SOPs?

PAKPAHAN: *In 2007, basically, I made an inventory. I mean even before, there had been some SOPs. I mean this office has been running; it was just not spelled out in a flow chart process. So I flow chart—made the inventory of all the processes. Making SOP. Modern office is a little bit different than non-modern office. Then after that, after we make inventory, then we improve one-by-one, the things that we need to improve. The objective is basically trying to simplify business processes at our office, trying to simplify for taxpayers to comply, make it easier for them. So that is the attitude.*

*For instance, we checked the way, what is the better way for registration, what is the better way to pay, the better way for them to report things. So that is the approach. Now is the time to improve, right? We have almost 2000 SOPs in this organization right now.*

SCHALKWYK: By this organization you need the DG Tax?

PAKPAHAN: *Yes, the DG Tax: headquarters, regional, and a lot at the field office.*

SCHALKWYK: Okay. I understand the Ministry of Finance has established excellent SOPs, that they think are particularly good and are expanding those across the Ministry of Finance. Were you involved in working with their SOPs?

PAKPAHAN: *Yes. I think what they mean, if I'm not mistaken, by excellent SOP, there are certain SOPs, a number of SOPs that relate to the public. And then we make it as an example to the public, and we monitor them together. For instance, we have at DG Tax eight SOP: registration, refund processing, objection processing, things like that. In the SOP, there is a standard of, for instance, registration must be finished in one day, things like that. So we put an example and everybody can monitor. I think we are involved in eight excellent SOPs.*

SCHALKWYK: Did the bureaucracy reform in the Ministry of Finance use the DG Tax as an example anywhere when it was establishing its own SOPs or in its own reforms?

PAKPAHAN: *I think its own reform a little bit. Some have copied us even though it is not exactly structural change; I think one did. They do it first, and then they kind of get together. SOPs, it is purely from the MOF (Ministry of Finance) headquarters, and remunerations, salary scheme I think, we started it when we started the 2002*

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*organizations. Every time we modernized an office, they got a better salary, take-home pay than the others. The Ministry of Finance reform, I think, also when they re-launched their bureaucratic reform, there is a different scheme of remuneration and salary.*

SCHALKWYK: So when you increased the pay for your modern offices as you rolled out the program, who had to approve the increases in pay and was that a difficult task?

PAKPAHAN: *It is difficult, I think the first approval of the government must be approved by the Minister of Finance because the Minister is the one that approved the budget. But then the total amount of budget of the Ministry of Finance must ask the approval from the Parliament. So I think the Minister of Finance and the Parliament.*

SCHALKWYK: Was there any resistance to that?

PAKPAHAN: *You have to convince the Parliament it is worth it. It is not very difficult, I think, but it is also a challenge, because if you don't succeed, it is embarrassing, things like that.*

SCHALKWYK: So what did you do, or what did people in DG Tax do to convince Parliament?

PAKPAHAN: *DG Tax is easy, by, we modernize these, we give them better pay, they will not be involved in bribery, we will check them very carefully, and the return is you will get a lot of revenue. We are not thinking about ten or twenty times, even more than that, especially with LTO (Large Tax Office) you are dealing with the largest taxpayers, tobacco companies, oil companies. We work very carefully and if our auditor is not engaged in any bribery scheme, you will get—tax compliance will improve, and you will get up to one hundred times. So it is very little. I mean, the pay, to the salaries is very little compared to that.*

SCHALKWYK: Do you think the pay increases were an important part of increasing the tax compliance?

PAKPAHAN: *Yes, I think it is. It is important, but also checking mechanism, also. This is Wki, who is also involved in modernization.*

SCHALKWYK: Is it possible to do the interview one-on-one? I don't mean to be rude, but according to the way we do our program, we like to do one-on-one. I'd like to get your e-mail address at the end. Thank you very much. Sorry about that.

PAKPAHAN: *That's okay.*

SCHALKWYK: So remuneration was very important.

PAKPAHAN: Yes.

SCHALKWYK: Could you just explain more why you think it was so important?

PAKPAHAN: *Because before that, I mean, bribery is something that is common in the administrations. If you want to ask them to stop, at that time, because the salary is very low, without that special scheme, if we followed just the regular civil servant salary, it is just extremely low and just difficult to ask people to comply.*

SCHALKWYK: So if you, with the tax increase, were you able to match the amount—sorry, with the salary increase, were you able to match the amount that people were making from bribes?

PAKPAHAN: *You never know the amount of bribes, but I think people make more money from bribery, but by this movement that we say we will give you the decent amount of take-home pay so that you can take care of your family or sick and things and then with a very clear message that anybody that will not follow will be penalized; this is the way to go to the future. That works. I mean, that helps. Without that, it would be difficult to maintain. The good thing about this reform is that DG Tax, like I said, it has been accepted as a movement. It was kind of, we were lucky at the time. When we modernized two offices, the modernization of the office was the beginning of everything.*

*When they saw that people here are very disciplined, they adhere to a code of conduct, nobody is playing with the taxpayers, the relationship with taxpayers is very clear. We will be very nice with taxpayers in terms of servicing them, but if we audit them—when we audit also it is very clear. We will not make up any finding, that we like to find mistakes. But if we find one, we will not sort of compromise. We are very clear, and the leadership of these two offices also has been very good in showing examples. So everybody—then they get a new salary scheme that kind of makes them more able to take care of their family; it's easy.*

SCHALKWYK: So as I said, leadership is very important in these reforms.

PAKPAHAN: Yes.

SCHALKWYK: Did you do anything to change the leaders of these two offices, or the people in charge of these offices?

PAKPAHAN: *People that are selected at these offices are selected carefully.*

SCHALKWYK: Because they were going to be modernized?

PAKPAHAN: *Yes, even at managers' level they had to be tested, interviewed before.*

SCHALKWYK: Before the modernization happened?

PAKPAHAN: *Yes, even auditors and things. That's how we did it at the beginning. Everybody that will be working in this office is selected very carefully. We are trying to find the best people and people with good intentions.*

SCHALKWYK: Could you describe some of the things that make one of the modern tax offices different from the other tax offices?

PAKPAHAN: *The organization is different. The other office, the old office, the structure is designed by type of taxes. So in an office, there are some boxes of organization, there is a box with sections for income tax, there is a section for VAT (Value Added Tax), etc. It is an old style of office. In this new one, the organization is structured by functions. We pay more attention to function, for instance audit. In the audit there will be a VAT content, collections, service, so we don't have [Indecipherable] tax anymore. Because [Indecipherable] taxes can create a duplication of work.*

*I mean, there is an audit in the income tax section, there is an audit in the VAT section, things like that.*

SCHALKWYK: Okay.

PAKPAHAN: *So that is the change in the organization structure. The second one is the use of the new IT technology. We cannot use it very smartly to keep the momentum of the reform, because in the old office, we have computer, but not every process, everywhere are to be done through computer systems. A lot of computers in the old office are stand-alone; it is not connected. So in the new office we create a new application, automation, that all the work has to go through the computer: letter, report payment is automatically—. People look at the computer and the assignment, who is doing what. For instance, there is a refund request comes in, and the manager will assign Mr. A. will do that; it is assigned in the computer. So it is monitored in the computer.*

*There is no assessment that can come out of the systems. In the non-modern office, an assessment can come out from a personal computer, so it is very traditional. In this, everything is recorded through this computer system, and then we can say all things, all of our work is recorded through the computer. We can trace back, who made mistakes. Or a complaint can be traced back. So we can now say, "Hey, we have a built-in control system here; now it is time to work very carefully, dedicatedly, everywhere is checked. So that is how we use computers to create built-in control to serve taxpayers, but at the same time to control our staff.*

SCHALKWYK: Did you create just the software yourself, or did you buy it from an external source?

PAKPAHAN: *It was built by a vendor outside, external source. We are working with it because it is not available.*

SCHALKWYK: You say it was built, custom-made for your offices.

PAKPAHAN: Yes.

SCHALKWYK: Did you encounter any problems in procurement.

PAKPAHAN: *Big problems.*

SCHALKWYK: Could you talk about those a little bit?

PAKPAHAN: *Yes, because we are in Indonesia, we don't plan very well, we don't plan very carefully. Strangely, the vendors are willing to build even though they don't have a written documentation of exactly what is the analysis document, what are the processes, sub-process, flow charts. No requirements. They are willing to do that. So this office, what we call more modern, eventually the system does not work very properly—. I mean, it works there, but then we have to work harder to improve it. It works at that time with very little quality, but there is no good documentation about it and even now we have problems after that.*

*But compared to previously, which an office can run without computer, this is much better, but we had big problems with that. There is now, that we have our reform pay still—basically, we will overhaul all of this with a new PINTAR (Tax Administration Reform) project, with the World Bank.*

SCHALKWYK: What else makes the modern office different from the old way of organizing the tax offices?

**PAKPAHAN:** *The structure, the IT, selected people. I think the example of our leaders at the time, basically. When the leaders saw that they are not working as usual, then everybody follows. It's very critical actually at these two offices, head of region, head of office, so it is an example. They are integrated, they are not—they don't work like usual and everybody follows. It is very critical at the time.*

**SCHALKWYK:** How did you go about tackling corruption in these offices?

**PAKPAHAN:** *We said that there is a code of conduct committee; the automation system it can be traced back, and we gave examples. We are not receiving bribes. We tell them if you audit, don't try, don't force yourself to find mistakes; sometimes they make up mistakes. They make up findings, audit findings. Don't make up audit findings, but if you find one, do not compromise with it. That's how we do it, basically example, and we said there is a built-in control.*

*In the non-modern office, often time it is systematic, it is common and people don't feel guilty doing, sometimes they share even among them.*

**SCHALKWYK:** But this is different in the modern offices?

**PAKPAHAN:** Yes.

**SCHALKWYK:** What has been the most difficult in terms of tax, ensuring tax compliance?

**PAKPAHAN:** *Database system of information. In Indonesia, it is not very fancy. Registration system in Indonesia is very weak. People, the registration of people, registration of corporations are very weak, basically, is not integrated. I can, somebody can have three, four IDs; you can have three, four passports. So the overall system registration is weak. Then in the case you have difficulty to chase it, if you find some taxpayers who don't comply. That's one weakness. So we don't have single identification numbers. So the second one, the database also is very weak, unlike in America the database is very good; you get a lot of information from a lot of sources, and there's a single identification number. So data and information systems.*

**SCHALKWYK:** I understand that when the new Minister of Finance came in, she was interested in replacing or in changing the DG Tax as one of the first steps of being in the position and to gain the trust of the public, What difference has that made having a minister who is very enthusiastic about building trust with the public and how has that affected the DG Tax?

**PAKPAHAN:** *I think the difference is felt by the people, by taxpayers, that we are sincere, that we are not reforming and then slow down. So the Minister of Finance, she is wholeheartedly to this reform. Us actually, we are happy there is a strong—because at the time, we were in the process; we had not completed modernizing our office. Sometimes the senior, from the boss, is very important, because at that time, it could go back to the old system. So I think at that time, when the previous Director-General is changed with the new one, Darmin Nasution, it's a very good sign to us.*

**SCHALKWYK:** Okay, and what, was there any resistance from people within the tax department to these reforms?

**PAKPAHAN:** Oh, yes. There are.

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SCHALKWYK: How did they show their resistance, and why did they resist?

PAKPAHAN: *They resist, especially some of the older people think that they are not respected, that they had been working in the past very rigorously to raise revenue. Now suddenly because they don't pass a certain test that we create, then they get a less important job. So the resistance sometimes, they don't work wholeheartedly in the office, and we detect that from the standards of productions.*

SCHALKWYK: How did you get around that?

PAKPAHAN: *We had difficulty to deal with this because we cannot fire our staff very easily. The only thing that we can do now, we transfer some of them to our new office, what we call the data processing center to key in tax returns -- I mean, we scan tax returns and sometimes you have to check for error, so some are sent to data entry positions, even though in the past, they had been in a little bit like a manager level.*

SCHALKWYK: How did you evaluate which people were not performing?

PAKPAHAN: *We rely on the head of office; they have a standard of production for each, and they can check that out.*

SCHALKWYK: Has that performance evaluation changed as a result of the reforms, either starting in 2002 or in 2006?

PAKPAHAN: *What do you mean?*

SCHALKWYK: Has there been a new performance evaluation system introduced?

PAKPAHAN: *No, not yet.*

SCHALKWYK: Was there a different promotion system in the modern offices versus the non-modern offices?

PAKPAHAN: *Now we have been all modern office and I think in our promotions, in the process before we cannot pay, we promote more carefully the people who are working in the modern office. Normally, people who are working in the modern office, they don't go back to a non-modern office. The way we promote also right now is more systematically, more standardized. The tax office now is different. The way we are doing business, we pay attention to the size of taxpayers, like I said, there is now, we have large taxpayers' office dealing with large corporations, and also higher individuals. We have a medium taxpayers' office; we have small taxpayers' office. There are three taxpayers offices, LTO, MTO (Medium Tax Office) and STO (Small Tax Office) for small.*

*The people who are more capable are at the top, working at the LTO and also working at the headquarters. MTO, medium. So that becomes the promotion scheme; those who are more capable. If they are currently working STO they can move to MTO. So modern office can affect the promotion scheme.*

SCHALKWYK: How do those offices, do they operate in different ways, or is it just that you've got more competent people working in the large taxpayers' office?

PAKPAHAN: *Like I said the large taxpayers' offices are dealing with more revenues, so they're careful. Those who are capable, they have been proven, we will place in that office. Medium tax office, also important at the region. MTO is like a small LTO*

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*but in certain regions. Also there are—because we only have 29 MTO. Right now, we have three LTO, four LTO offices and 29 MTO and then several hundred STO.*

SCHALKWYK: Are there different operating procedures or business processes in the different office?

PAKPAHAN: *MTO and LTO are similar, exactly the same. STO there are some differences, because in LTO, taxpayers in LTO are chosen by us. STO, everybody registers based on where they live. So a lot of individual taxpayers in STO, and there is also a land and building tax in STO, administered by STO, which is not administered in MTO and LTO. So LTO and MTO are the same, STO is different, even more complex actually.*

SCHALKWYK: Has anything changed in your office specifically as a result of the bureaucracy reform program in the Ministry of Finance?

PAKPAHAN: *You mean as a result? The revenue?*

SCHALKWYK: Have you had to change the way you do things as a result of the bureaucracy reform program, or have you been left to continue your own reforms?

PAKPAHAN: *I don't understand the question. What do you mean?*

SCHALKWYK: I understand that the DG Tax started their own reforms in 2002.

PAKPAHAN: *Yes.*

SCHALKWYK: But in 2006 and 2007, the Finance Ministry started their own reforms. I'm just wondering what effect those had on your reforms.

PAKPAHAN: *Then we wrote down all of our SOPs; we followed the guidelines from the Ministry of Finance. There is one change. The second one is I think in terms of—a lot of change in the reform are dealing with the human resources management, so I think there is a grading system. There is strategy planning with balances score card. We follow that one.*

SCHALKWYK: Have you had any direct involvement with the KPK (Corruption Eradication Commission), or has that mainly been at the ministry level.

PAKPAHAN: *I think there are some here, but we have, in our new organization, there is like an internal affairs directorate here, they deal with KPK. So it depends case by case.*

SCHALKWYK: What have been the most successful changes to SOPs and business processes?

PAKPAHAN: *There are a lot of successes.*

SCHALKWYK: Which do you think would be good examples for other countries?

PAKPAHAN: *Our registration systems are more simplified, and we can finish in one day. Our objections in the past, when taxpayers object, they had to pay 50%; now we say you don't have to pay. You can file your own objections and we will analyze it. So meaning, they will be—I mean, they don't have to pay trying to find justice. That's how we say it, that's in terms of objections.*

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*In terms of audit we simplified a lot of procedures even though in terms of VAT reform we still have some problems, but compared to the past, we had cut a lot of procedures which were unnecessary we think in the past. We have allowed SunSet Policy in 2008. We have kind of embraced people to register themselves, I think.*

SCHALKWYK: What were the most difficult reforms within DG Tax?

PAKPAHAN: *Do we have one same idea, because we are dealing with people, even boss or directors to make sure we have the same inspiration, objectives that we want. But luckily at the top level, we understand this is the way to go.*

SCHALKWYK: Is there anything you think other countries can learn specifically from the Indonesian example?

PAKPAHAN: *Indonesia is not the best administration, but I want to tell what can be learned actually to change the bad habits or misconduct in the tax administration, you don't have to replace all the people. We have proven that we can do that without replacing all of our old tax officials, because in the past it seems like we are hopeless. We say if you want to clean up this organization you have to scrap all the people and change with new people. We have proven that we can do that. We can, I don't say eliminate, but we can stop big portions, 80% to 90% of corruption practice, but still using the same people, it's possible.*

SCHALKWYK: Do you struggle to attract qualified people or good people to the tax office?

PAKPAHAN: *No, we struggle with the regulations. We are not allowed to recruit directly. We are not allowed to fire our weak, so we have to follow—. If I need more accountant, more auditors, then it has to be recruited by the Ministry of Finance. The Ministry of Finance must ask, I think, some allowance from MenPAN, how many they can recruit, things like that; this is just bureaucratic.*

SCHALKWYK: And does MenPAN generally help?

PAKPAHAN: *They help in the organizational structure change. Also even in recruitment, I think, they give some flexibility to us, but it is still lengthy procedures to recruit, until finally you officially recruit as a civil servant.*

SCHALKWYK: Is there anything you'd like to add before we finish?

PAKPAHAN: *I can say that we are lucky that in the two-three years when we started this, we still hesitate, we try to kind of maintain it, to make sure it won't collapse. That time is very critical, the example. Just to be honest, at that time, actually, the two, three years, not all leaders actually have agreed, but the majority, the Minister of Finance has approved. But then when the new minister comes, the new DG, it becomes very strong that we will move on. That is the—that helps, because sometimes, we can make changes but we cannot maintain.*

SCHALKWYK: Thank you very much, I appreciate your time.

PAKPAHAN: *No problem. Thank you.*