



INNOVATIONS FOR SUCCESSFUL SOCIETIES

CHANGING A CIVIL SERVICE CULTURE: REFORMING INDONESIA'S MINISTRY OF FINANCE, 2006–2010

SYNOPSIS

By the mid-2000s, Indonesia had recovered from a devastating economic crisis and made significant progress in transitioning from a dictatorship to a democracy. However, the country's vast state bureaucracy continued to resist pressure to improve operations. In 2006, President Susilo Bambang Yudhoyono tapped economist Sri Mulyani Indrawati to transform Indonesia's massive Ministry of Finance, which was responsible not only for economic policy making but also for taxes and customs. During four years as minister, Mulyani introduced new standard operating procedures, raised civil servant salaries, created a new performance management system, and cracked down on malfeasance. Her reforms turned what had once been a dysfunctional institution into a high performer. But ongoing resistance illustrated the difficulties and perils of ambitious bureaucratic reform in Indonesia.

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INTRODUCTION

In 1998, the Asian financial crisis pummeled Indonesia's economy. Rising unemployment and the increasing cost of imports triggered mass demonstrations, riots, and eruptions of communal violence across the country. When Suharto, leader of the country's authoritarian government, finally stepped down, after 31 years in office, it was unclear what kind of political system would fill the vacuum. Some feared that this sprawling archipelago, with more than 300 ethnic groups and the world's fourth-largest population, would split apart. But the nation held together, and, shaken by the popular uprising, political and military leaders

embraced reform. The era of *Reformasi*—a government-wide effort to transform Indonesia's centralized autocracy into a decentralized, democratic state—had begun.

The immediate priority was to salvage the economy. The crisis had brought 35 years of continuous economic growth to an abrupt halt. During a half-year period in 1998, gross domestic product (GDP) contracted by one-sixth, which represented the sharpest economic downturn experienced by any nation since World War II. Unemployment spiked, and the banking system collapsed. The International Monetary Fund (IMF)

loaned the government \$43 billion in liquidity aid—conditional on economic reform.

Emergency measures stopped the meltdown. But by 2001, growth was still tepid and international investors remained skeptical that the government could stand on its own financially.¹ Restoring confidence and spurring economic growth were the dual mandates given to Boediono, who was tapped to head the Ministry of Finance. (Like many Indonesians, he had only one name.)

A highly respected technocrat and former deputy governor of the central bank, Boediono put the economy back on solid footing. Policies he enacted stabilized the currency, increased foreign reserves, and slowed the rate of capital flight. He also boosted short-term state revenue by pushing modest reforms through the ministry—notably, by restructuring tax offices and improving efficiency in customs administration.

Though Boediono failed to enact bureaucratic reform at the Ministry of Finance, he did lay some groundwork. A wide-ranging 2003 economic policy package known as the White Paper called for, among other things, improving the transparency of public services, synchronizing regional and national regulations, and increasing the efficiency of government spending.² With the help of McKinsey & Company consultants, Boediono and his team drew up a plan for ministerial reorganization. And before leaving office, he secured a World Bank loan to fund future reform in the Ministry of Finance.

In 2004, for the first time, Indonesians went to the polls to directly elect their president. They chose former general Susilo Bambang Yudhoyono, sold on his promise to eradicate public corruption. Although the Suharto government had been spectacularly corrupt—by Transparency International's estimate, pillaging as much as \$35 billion in public funds during Suharto's rule³—state crime had become less formalized and more visible since his monopoly on it dissolved. The watchdog's 2005 Corruption Perceptions Index ranked Indonesia in the bottom eighth of the 159 countries surveyed, receiving the same score as Iraq and Liberia.

As part of fulfilling his pledge to voters, Yudhoyono wanted to reform the Ministry of Finance, which had an especially bad reputation for corruption. In a 2001 national survey, households and businesses alike said that of 33 public institutions, the ministry's customs authority was the second most corrupt—only slightly less odious than the traffic police. The tax directorate general ranked fifth worst on the same list.⁴ In 2006, local daily newspaper the *Jakarta Post* said the tax directorate had “long been seen as the country's most corrupt institution.”⁵ The first minister of finance the president appointed failed to implement Boediono's reform plan or take on entrenched interests, however. The president needed someone tougher.

Yudhoyono turned to Sri Mulyani Indrawati, a talented economist who had been an executive director at the IMF. As the head of BAPPENAS, Indonesia's National Development Planning Agency, she had built a relationship with the president and proved herself capable and bold. In 2005, Yudhoyono appointed Mulyani as finance minister and gave her arguably the nation's hardest job: the reform of a dysfunctional and highly resistant 64,000-person bureaucracy on which the economy of a still-fragile nation depended.

THE CHALLENGE

At the time that Yudhoyono appointed Mulyani finance minister, *Reformasi* had continued to march steadily forward. The country's police, military, and political institutions had all been revamped (see textbox 1). But so far, the vast state bureaucracy and its 4 million civil servants had blocked change.

Under Suharto, state bureaucracies had been extractive institutions whose employees often charged citizens extra for services, channeling some of this revenue to the head of state and his inner circle. When Suharto stepped down, the criminal and patronage practices incubated within that system were so engrained and so many people depended on the money the practices captured that it would be very hard to introduce new ways of working.

Textbox 1

Institutional Change and *Reformasi*

The first five years of *Reformasi* brought significant institutional change, though much still remained to accomplish.

The central government devolved significant authority to districts in a sort-of big-bang decentralization program: The police and military became separated from each another, made subject to oversight and extricated from most business interests and political functions (though informal links still existed). Leaders created an independent corruption eradication commission, one of the strongest in the world. Elections became free and relatively fair. Political parties other than Golkar, the former ruling party, gained power and new ones emerged. And the parliament became independent, establishing separation of powers.

The finance ministry reforms began in that context, but as public pressure diminished and the implications of clean government became clearer, entrenched interests began to push back.

Entry into the civil service was based on a single examination, after which an employee was essentially guaranteed a job until retirement. Rather than merit or ability, promotions were based on seniority, personal relationships, or, simply, willingness to pay. Regulations made it nearly impossible to fire a civil servant except in cases of criminal wrongdoing. Even then, an arduous appeals process made it difficult to remove employees who broke the law.

“You cannot just lay off nonperforming civil servants,” Boediono said in an interview. “It’s the baggage you have to carry.” According to a 2008 World Bank Ease of Doing Business report that surveyed 181 countries, Indonesia ranked 153 and 157 in ease of hiring workers and ease of firing workers, respectively.

Remuneration was another issue. Low-level civil service jobs paid well relative to comparable positions in the private sector, where most businesses were small informal enterprises. But regulation-set base wages for higher-echelon management positions were low, and pay did not increase commensurate with responsibility. According to survey data from 2007, the average monthly salary of private sector senior managers was 80 million rupiahs (US\$5,500) per month, whereas that of their public sector counterparts was only Rp5.5 million (US\$380).⁶

Cabinet ministers jokingly referred to themselves as the “G20” because their

compensation was only Rp20 million (US\$1,400) per month. Various “allowances” were tacked on to base salaries, but total compensation still fell well short of the private sector’s.

Those disparities helped drive corruption in the civil service. Fixing labor compensation at low levels relative to market prices had produced what was essentially a black market for remuneration, whereby civil servants sought favors, extracted bribes, and embezzled public funds to bring their pay in line with what the private market had determined their skills and seniority were actually worth. Although the civil service law was amended in 1999 to stipulate that remuneration of public employees should be comparable to that of private employees, in 2004 no ministry or agency had enacted substantial pay hikes.

When in 2005 Mulyani stepped in to lead the Ministry of Finance, she had to address those problems as well as others. The ministry was large, responsible for treasury, taxation, customs and excise, capital market management, budget, state assets, macroeconomic policy, and debt management. Its reputation for service delivery was poor. For businesses and regular citizens alike, interactions with the ministry typically involved long waits and requests for extra payments.

The ministry’s structure was convoluted. Overlap between administrative and policy functions generated confusion and inefficiency. Because roles and responsibilities were ill-defined,

many decisions and tasks landed directly on the minister's desk. "Everything was centralized in the minister," said Mulyani in a 2009 interview. "You would expect the minister to be a really superminister: thinking about fiscal policy but at the same time doing the tax, the customs, the capital markets, and all of the policy up to the administrative and bureaucratic level."

Coordination among senior personnel was also a problem. The ministry's 10 agencies and directorates general were largely autonomous. They had their own procedures and offices for analytic work, and a lack of communication and synchronization made ministerial policy making difficult. Mulyani said that when she arrived, each directorate general was running "its own kingdom" within the ministry.

Of all of the Ministry of Finance's directorates general, none was more powerful and imperious than taxation and customs and excise. Both were large (tax had 32,000 employees; customs, 10,000) and important for generating state revenue. "The people who ran these two institutions were very, very powerful—to the point they could actually defy the minister of finance," said Endy Bayuni, editor in chief of *The Jakarta Post* from 2004 to 2010. A leaked US Embassy Jakarta cable dated April 2006 recounted complaints from business owners and investors both foreign and local about "strong-arm tactics" and customs shakedowns.⁷

Across the Ministry of Finance, inconsistent and needlessly complicated regulations were major sources of inefficiency. Streamlining them, however, would be extremely difficult—in part because high-level ministry staff had a vested stake in that complexity. To do business amid Indonesia's regulatory environment, companies foreign and domestic hired consultants with insider knowledge, some of whom were former Ministry of Finance employees. These people stood to lose a lucrative source of future income if the ministry simplified its regulations.

FRAMING A RESPONSE

In 2005, when Mulyani became minister, there were two necessary conditions for implementing an ambitious reform program: top-level political support and resources. Indonesia's economy was again humming along, having recovered from the 1997–98 financial crisis. Boediono had restored confidence and a sense of normality. And thanks largely to Chinese demand for Indonesian resources, GDP was growing at 5 to 6% per year. Mulyani inherited a budget surplus and the \$80-million World Bank loan Boediono had secured, giving her fiscal space to implement reforms. She also inherited the plan Boediono had formulated. "I came here with a very good strategic program, as well as a mission and a vision already outlined by my predecessor [Boediono]," Mulyani said. "Now I'm thinking about how we should achieve them."

Mulyani quickly established three new executive-level bodies in the ministry: the Fiscal Policy Office, the Center for Policy Analysis and Harmonization (known as Pushaka), and the Ad Hoc Reform Team. The three units were essential for the reform project. They improved Mulyani's office's capacity, freed up her time, and took on the work of implementing the reform agenda.

The Fiscal Policy Office was to oversee long-term fiscal planning, macroeconomic analysis, and coordination of the ministry's macroeconomic policy—something previously done ad hoc. "We needed to establish a consistent fiscal policy framework," said Mulyani. With the Fiscal Policy Office on top of macroeconomic issues, Mulyani could turn her attention to reforming the bureaucracy.

To implement that reform, Mulyani created Pushaka to act as a delivery unit. Pushaka monitored policy implementation, tracked performance indicators across the agencies and directorates general, and took over a raft of administrative tasks such as scheduling, internal communication, cross-directorate coordination,

and meeting notes that had previously been ancillary—and, typically, neglected responsibilities of the ministry’s overburdened secretary-general. In Mulyani’s words, Pushaka was to be “the motor of reform.”

The unit was lithe, with a staff of only five or six young, capable employees plucked from various directorates. Nonetheless, Mulyani was aware that creating a new entity she described as “my right hand” could be perceived by others as a threat. “I had to negotiate with my secretary-general because I didn’t want to create something [that could be] seen as the shadow of the minister,” she said. To assuage that fear, she placed Pushaka under the secretary-general’s administrative purview and chose an apolitical technocrat to head it: Agus Suprijanto, an economist serving as the ministry’s director of foreign loans and grants.

In addition to the delivery unit, Mulyani needed a team to help her chart a strategy for reform. Of the 15 echelon I (highest-level) civil servants in the ministry, 6 lacked official portfolios and had ambiguous responsibilities. Their title was Expert Staff of the Minister, but they did little. “In the past, the expert-staff unit was a place for you to put somebody you didn’t want,” she said. “It didn’t mean that they were not good, but for whatever reason, they just couldn’t be used in a structural position.”

Mulyani saw an opportunity. Rather than let the skills and experience of these high-level staff go to waste, she labeled them the Ad Hoc Reform Team, tasked to work closely with her in conceptualizing and leading the reform effort. She removed the head of the customs and excise directorate, Eddy Abdurrahman, and placed him at the top of the team. Though Abdurrahman had allowed abuse and malfeasance to fester at customs, he was young and Mulyani believed under her close watch he would be effective. “He was very skillful, had strong leadership and lots of experience,” she said.

Mulyani devoted much time and attention to shaping the culture of the reform team and its goals. She instilled the belief that reform was real

and possible—“that nothing is too big, too fundamental, or too difficult to change”—and led the team through a three-month brainstorming and evaluation process to set reform priorities. Drawing on Pushaka’s analysis and analysis by World Bank consultants, they chose remuneration, corruption, human resources, and business practices as top reform priorities.

As head of national planning agency BAPPENAS, Mulyani had built a strong relationship with the president. “He had full confidence in me,” she recalled. When she became minister of finance and the reforms got under way, she made sure to cultivate and leverage that relationship. Unlike her predecessor at the ministry, she and Yudhoyono met regularly. “If you really trust me, and you want me to do such an important job,” she recalled telling the president, “you definitely have to spare time to discuss the situation with me.” She sought the president’s blessing when it came to all difficult decisions and initiatives. She knew major political actors such as parliament, other ministers, and even powerful officials within the Ministry of Finance would comply only if they knew a policy had presidential backing.

GETTING DOWN TO WORK

When Mulyani held her first meetings on reform, the high-level ministry staff were pessimistic. “They thought it was non-doable because the idea was just too big,” she said. But she convinced them that “the only way to eat an elephant was one bite at a time.” And she set out to score quick wins to prove that with fortitude and daring, change was possible—even change within the Ministry of Finance’s two most blighted institutions: the directorates general of tax and of customs and excise.

Building a Leadership Team

If reform was going to happen, the leaders of the two directorates had to go, said outsiders like *Jakarta Post* chief editor Bayuni. But replacing them would be difficult and risky. The tax director general had outlasted two presidents and four

finance ministers. “I believe that other ministers of finance had tried to remove him before, but they just couldn’t because he had friends in the right places to support him,” Bayuni recalled. “He had greater power than the minister of finance; put it that way.”

In April 2006, Yudhoyono—at Mulyani’s behest—issued a presidential decree removing both the tax director general and the customs and excise director general. The move sent a powerful signal: Mulyani was serious about reform. It proved the strength of her relationship with the president and her willingness to take risks.

The response from the public and the business community was overwhelmingly positive. “We thought she was very brave,” recalled Bayuni. “People applauded her because finally, someone had the guts to remove [the tax director].” Prominent businessman and chairman of the Indonesian Employers Association Sofjan Wanandi told the media, “We expect the new people installed will erase protracted mutual distrust between the business community and the tax and customs offices.”⁸

Mulyani requested Yudhoyono appoint two new directors with far better reputations and track records who were willing to work with her on reform. Anwar Suprijadi, who had broad experience in civil service management, became director general of customs. Economist Darmin Nasution, who had a close relationship with Mulyani, was moved from serving as head of the ministry’s financial institutions directorate to becoming the new tax director general. According to Rio Silaban, a former chief of staff to Mulyani, Nasution was a good leader and trusted by the minister. Mulyani also appointed a long-serving Ministry of Finance technocrat, Fuad Rahmany, as director general of financial institutions.

Increasing pay

Mulyani and her team knew that to deter corruption, they would have to reduce the vast disparity between public sector and private sector salaries. There were 27 pay grades at the Ministry of Finance, and Mulyani’s reform team sought to

at least double the compensation of all of them. For higher echelon positions, she sought raises of up to eightfold. The hope was that such raises would reduce the temptation for fraud, motivate better performance, and attract talent to ministry service. Higher pay would also raise the social cost of corruption. Members of the public might sympathize with an impoverished civil servant who demanded a payoff to make ends meet, but they would despise the same request from someone who was already enjoying a decent quality of life.

Mulyani’s proposed pay increases would require parliamentary approval—and therein lay a possible obstacle. Even a clean parliament—without the corruption and patronage practices that had long afflicted the Dewan Perwakilan Rakyat (People’s Representative Council)—might staunchly resist allocating funds for such a counterintuitive pitch: Why would we *increase* the pay of an ineffective and corrupt workforce? According to Mulyani, her executive-level staff jokingly mused about the possibility of pooling their private savings to bribe key parliamentarians to pass the pay hikes.

Stronger pressures pushed lawmakers to approve the request. For one, the plan had the president’s backing, and Mulyani’s popularity was rising. Average citizens desperate for anticorruption champions pinned their hopes on Mulyani and applauded her reforms. According to Bayuni, whom Mulyani briefed along with other Indonesian press editors on the proposed increases, most newspapers and many influential opinion leaders were supportive of her reform program, convinced of its credibility by her move to oust the tax and customs directors general.

And then there was the pressure Mulyani herself applied. The finance minister undertook a tireless campaign to educate parliament on the details of the plan and make her motives transparent. In numerous presentations and meetings, she hammered home a very practical point: that increased remuneration, which would increase the performance of tax collectors and thus tax compliance, could result in a net *gain* for the state budget.

The salary hikes passed. All 27 pay grades received substantial increases, with the lowest monthly salaries at the ministry increasing from Rp760,500 (US\$530) to Rp1.33 million (US\$920) for guards and office assistants and increasing from Rp5.5 million (US\$380) per month to Rp46.95 million (US\$3,200) per month at the highest levels.⁹ The pay scale reflected prevailing market wages and corrected earlier deviation between salaries and private sector compensation at the top. And the numbers would increase further in subsequent years.

Defining jobs, streamlining processes

After raising pay, the reform team created job descriptions and grades, implemented standard operating procedures (SOPs), and expanded the ministry's performance management system. Inadequate and incomplete job descriptions had contributed to civil servants' confusion and had prevented managers from holding workers accountable for what those workers did and did not do. Sylvano Damanik, managing director of Hay Group, a consulting firm that advised the ministry on civil service reforms, said: "The administrative staff is about 40,000, and that is where many questions around who should be accountable for what lies. While some top positions had clear job descriptions, the support staff didn't. The issue was how to streamline activities at the middle and lower levels within the ministry."

Mulyani took special note of a pilot project launched four years earlier at the Directorate General of Taxation. In 2002, under Boediono, the directorate general had begun to clarify procedures by developing specific task instructions for civil servants. Creating new job descriptions could take place in association with an expanded effort to streamline and standardize procedures.

In early 2007, the reform team surveyed ministry services and met with directors general to identify high-profile public services whose procedural improvements might produce a positive public response. The surveys asked questions about the customers for specific services

and the time required for delivery of each service. A team worked closely with the directors general to focus on high-demand services that stirred public ire because of slow or unsatisfactory delivery.

With input from the directorates general of Budget, Treasury, Customs and Excise, Taxation, and Asset Management and Capital Markets—offices that dealt directly with the public—Mulyani and her reform team identified 35 services that could be overhauled relatively quickly and would elicit the most public support.

For each of the 35 priority areas, the reformers set about creating so-called excellent or quick-win SOPs that established clear standards regarding timeliness and other important aspects of service provision. One target area, for example, involved the provision of tax identification numbers, because taxpayers often complained about the excessive time the application process required. The tax directorate divided into several distinct steps its process for registering taxpayers, starting with informing each customer about the application, related fees, and time requirements. The next steps would involve collecting required application information and supporting documentation from the customer, processing the application, updating internal records, and, last, notifying the customer that the registration was complete. Pakpahan, who was director of business processes transformation at the tax directorate general under Mulyani, said: "We made a promise to the public . . . that the tax office would have the tax identification number processed and completed in one day, as opposed to one week. In fact, Mulyani insisted that it take less than one day."

The 35 "excellent SOPs" centered on transparency and predictability and helped justify the pay increases Mulyani had won from the parliament through increased tax collection and improved customer service. The streamlined and standardized front-office functions also curtailed opportunities for fraud.

The ministry then expanded the initiative's scope. Each directorate general had its own SOP

manager, whose job was to document and review procedure. Led by Marwanto Harjowiyono, at the time the ministry's public relations head, the minister's reform team coordinated with SOP managers to standardize job descriptions, to grade jobs, and to set appropriate remuneration. With the help of an Indonesian consulting firm, the team completed 7,900 job descriptions in the first year. By June 2009, they had completed 19,970.

At Jakarta's Port of Tanjung Priok, through which two-thirds of the country's import-export traffic flowed, Mulyani's team tested and then implemented an electronic-based national single-window service system aimed at reducing dwelling times and minimizing opportunities for corruption. The system created a single online portal to which importers and exporters could submit various types of permits and licenses and thus satisfy all regulatory requirements. After testing and piloting the National Single Window program at Tanjung Priok, the system was brought online in early 2010.

Tracking performance

To improve performance at the individual and unit levels required a whole new way of working. Some changes could happen quickly, but others would take time. Improving employee discipline was a major goal. Ministry offices installed automatic time clocks, and staff who arrived late to the office or left early were penalized at rates of 0.5 to 2.5% of their daily pay per incident. Civil servants who received warning letters from the human resources office would see cuts in that month's paycheck. Severe infractions would lead to permanent demotions.¹⁰

The existing system of staff evaluation improved under Mulyani. The reform team gave input to the secretary-general, who was charged with setting ministrywide standards and rules for personnel. The directors general consulted those standards and then designed and administered performance evaluations for their directorates. Especially at tax and customs and excise—because of the new directors—expectations for personnel

rose and evaluations were conducted with greater fidelity.

In 2007, the ministry added another performance management tool. Working with international consultants, the ministry adopted the Balanced Scorecard, a system that enables managers to track staff activities and monitor outcomes toward achieving a strategic objective. Managers measured performance according to metrics the ministry created, assigned a score, and then compared the actual score with an expected value. As an example, one strategic objective introduced in the tax directorate was to maximize state revenue. The performance indicator was to be the ratio of tax revenue to GDP, and expected values were set as targets for each year; in 2007, 13.1%, and in 2008, 13.8%. Progress toward those targets was reported quarterly.

Pushaka—the ministry's reform delivery unit—began working with the various directors to establish key performance indicators (KPIs) for their directorates. With the help of an independent consultant, they identified and began tracking 119 KPIs across the ministry. At the first monthly monitoring meeting, the ministry's leadership expressed frustration with the poor ratings from the new KPIs. "They said, 'Oh, this indicator is not good or [does] not accurately measure the performance,'" recalled Mulyani. "If you are a top decision maker . . . you tend not to accept bad news." Mulyani and the ministry's consultants encouraged the leaders to treat a "red" KPI as an opportunity for improvement, as opposed to a cause for alarm or shame.

To help avoid embarrassment for the directors—because saving face is a major cultural value in Indonesia—Pushaka changed the format of the meetings so that the directors received the KPI reports beforehand and had time to prepare instead of being put on the spot. Then, at the meeting, they presented the evaluations to Mulyani with explanations. "[Adults] have the same instinct as children," Mulyani said. "They want to show something when they are good." This process built

a culture of praise and constructive criticism and helped performance evaluation take deeper root in the ministry's operations.

Finding the right indicators wasn't always easy. "At the beginning of this system, it is really messy," Suprijanto said. "Some people were too ambitious; some people wanted to be safe because mostly they didn't want to have so many red lines." Over time, he said, the team developed procedures for determining the KPIs. A director general who didn't like an indicator would have to lobby the minister directly for a change.

All of the changes to performance evaluation and operating procedure were innovative, but they also provoked resistance by disrupting career civil servants' practices and expectations. Said *Jakarta Post* former chief editor Bayuni: "There's a way they do things, right, and that's the way they build their careers. And the last thing they want is to see changes that would actually upset their career plans." The question was how to handle the resistance.

Cleaning house

In an effort to transform Ministry of Finance staff into a professional workforce, Mulyani and her reform team had raised pay, set higher employee standards, improved operating procedures, and implemented better ways to measure performance. Many officials, however, especially in tax and customs, were irredeemably corrupt or resistant to change. Acknowledging the scope of malfeasance in the two directorates, Mulyani did not punish staff for past sins. But she dealt harshly with those who refused to change.

Mulyani adopted a zero-tolerance policy toward corruption. In her words: "If you are corrupt, you are going to have to deal with me. I am not going to let you work here, and I will put you in prison." Past finance ministers had tolerated blatantly corrupt officials in part for fear of blowback from patronage networks. Mulyani, however, had top cover from the president and was willing to take risks.

The country's civil service regulations made it nearly impossible to fire state employees. So

Mulyani's strategy was to minimize the impact that problem civil servants could have by reassigning them to less important positions or to regional posts outside Java, the country's core island. She asked her new, trusted directors general—Nasution at tax and Suprijadi at customs and excise—to recommend replacements, whom she would often personally vet. Though it was difficult to find model employees, the quality of personnel in key positions did improve.

When investigators from the independent Corruption Eradication Commission (KPK) told Mulyani customs officials were soliciting bribes at Jakarta's Port of Tanjung Priok, she asked the KPK to set up stings to net offenders in the act. After several agents were caught red-handed, she reassigned the majority of Tanjung Priok's 800 officials to smaller seaports and trivial posts within regional customs offices. Rahmany suggested replacements for the managerial positions, and Mulyani confirmed them.

Mulyani also replaced hundreds of employees in the tax offices. As an example, evidence emerged that workers in the tax directorate general's human resources department were engaged in an age-old practice of taking bribes from employees in exchange for promotions and preferable job rotations. Nasution recommended making the safe play of just replacing the department head. But it was clear that graft was a deep-rooted way of doing business in human resources, so Mulyani replaced all 60 employees in the department. According to news reports, only the janitors remained.¹¹

To verify cases of corruption and send a powerful signal, the ministry began requiring lower-level, echelon IV managers in Tax and Customs and Excise to disclose their personal finances. The requirement rattled employees because in the past, only top-level leadership had to submit financial reports. The requirement was in part a bluff: Mulyani and her directors didn't scrutinize the disclosures to identify corrupters (there were a few thousand echelon IV staff in the two directorates). But if an official was suspected of malfeasance, the ministry could check the

person's financial report for irregularities to corroborate allegations.

With the help of Nasution, Mulyani relocated problem tax agents to far-flung regional offices where tax revenue was paltry and thus their impact limited. Some were corruption cases, but others were serial underperformers, as identified in evaluations. Erwin Ariadharma, a World Bank public sector management specialist who consulted on the reforms, estimated that when Mulyani became minister, 30 to 40% of civil servants were "not really productive in doing their jobs." Mulyani gave warnings and second chances. "I will give you every chance to prove to me that you are performing," she recalled telling employees. "But if not, within three or six months, I am going to replace you. And I really mean it."

It became clear to the public, the media, and the government that Mulyani meant what she said. "She was not going after big time corruptors, but she was actually reforming the Ministry of Finance," said Bayuni of *The Jakarta Post*. "She was actually breaking down the resistance. She was actually making headway there." She was also making a lot of enemies.

Breakfast at Mulyani's

Key to Mulyani's success were her tactics and qualities as a leader. She was tough, dedicated, and indefatigable. "Mulyani's leadership was very firm," said Robert Pakpahan, director of business processes transformation at the tax directorate under Mulyani. "That leadership stopped the resistance. When the leader showed the way and firm direction, staff read the signal and joined in."

Though demanding, Mulyani was also compassionate and engendered respect and admiration among many of her staff. Chatib Basri, who was minister of finance from 2013 to 2014 and served as one of Mulyani's advisers, said Mulyani created among the people who worked at the ministry a sense of "pride" and "esprit de corps" that persisted after she was gone.

When she first became minister and was formulating the reform agenda, Mulyani invited the Ad Hoc Reform Team to her private residence once a week for breakfast. For three months, they dined and discussed only reform. The meetings proved invaluable for developing the reform plan and building a sense of trust, ownership, and the pride Basri cited.

The breakfasts illustrated Mulyani's effort to maintain close and regular contact with her agents. The minister understood the value of building and sustaining relationships. "Direct meeting, physical presence is very important," she insisted. "There is no substitute."

Every month, Mulyani called all the directors to her office for a coordination and updates meeting. With 10 separate directorate offices scattered across Jakarta, Mulyani soon instituted a rotation by which each month's meeting would be held at a different directorate. The rotation injected an element of competition, as each host office attempted to showcase its comparative excellence. The meetings also provided Mulyani with regular opportunities to meet directly with all levels of ministry staff across departments and up and down hierarchies.

Mulyani met with Pushaka every two weeks to discuss progress on bureaucratic reform. If during one of the regular meetings the team raised a concern regarding a particular unit, Mulyani would personally speak with the relevant director general. Follow-up was consistent and effective. Under such a setup, it was nearly impossible for department heads to ignore the team's recommendations.

Though hands-on, Mulyani didn't micromanage her staff. She understood that she was only one woman and that to implement such expansive reforms, her staff would have to take control and feel a sense of ownership and pride. "In the first months [of the reforms], certainly I had to be there, physically present," she said. After she saw things were working and staff were on

board with the reform program, she handed the reins to her directors general. “I said you can reach me 24 hours a day, seven days a week. Call me or SMS if there is an emergency. But otherwise, I’ll leave you in charge.”

To ensure she could delegate, the minister devoted significant personal energy to high-level appointments. During the personnel replacements at the tax and customs directorates, Mulyani took the unusual step of personally interviewing echelon II staff. “I made the interviews quite in depth, very long, because I really want to make sure that they know I trust them,” she said. “You have to make sure those people have the same confidence in reform, although they may have past records that are not that good.”

Wherever she was in the ministry, Mulyani hoped her subordinates would feel the same support coming from her that she had felt from the president. “I think they knew the message, and they also knew it was coming directly from the president, who is very committed,” she said. “It was really encouraging to see the reaction—to see that confidence and trust are growing. They see it, they feel it. They saw the proof. It was just amazing.”

OVERCOMING OBSTACLES

Because its employees were part of the civil service, the Ministry of Finance had to go through the Ministry of Administrative and Bureaucratic Reform (MenPAN) to implement changes involving remuneration or personnel structure. MenPAN was the custodian of civil service rules. It was also the lead organization for formulating and coordinating civil service policies, and it had issued innovative papers and recommendations. “They are supposed to be a think tank that proposes a new, advanced methodology or mechanism for the rest of the nation,” said World Bank consultant Ariadharma.

In practice, MenPAN usually resisted new ideas and was doctrinaire in its interpretation of existing rules and regulations—for example, those

pertaining to civil service firings and remunerations. Contrary to what its name suggested, MenPAN was often a hindrance to reform, and Mulyani had to find workarounds to circumvent it. For example, MenPAN did not want to raise the base salaries of Ministry of Finance employees without changing the pay structure of the entire civil service. When she increased remuneration in 2006, Mulyani sidestepped that obstacle by making the increases supplemental, performance-based allowances that got added on top of base salary. Rather than a change of law, the step required only a MenPAN exemption from the standard regulation and a budgetary allocation from parliament. The level of allowances was adjustable, and even after Mulyani left office, the allowances continued to change.

MenPAN also regulated structure within each ministry, requiring that each ministry remain standardized—even down to the number of offices at each level of the bureaucracy. Given the size of the Ministry of Finance, that lack of flexibility was a major constraint. To create the new offices she needed, including Pushaka and the Ad Hoc Reform Team, Mulyani had to “circumvent a lot,” she said. “We had to reinterpret the law. We tried to find any article that could be used by us. We used a lot of presidential decrees.” To create the Ad Hoc Reform Team, for example, she repurposed the ambiguous preexisting group called Expert Staff of the Minister.

Mulyani’s typical strategy in dealing with the risk-averse MenPAN was to shoot first and ask questions later—metaphorically, of course. According to late Indonesian economist Hadi Soesastro, who was close to Mulyani: “She was the one that took the initiative to report to the minister for administrative reform what she had done and what she planned to do because she did this on her own. Other ministers would not dare. They would ask for permission from the ministry, but I think she did not. So she just introduced the reforms, and then she reported to the minister.”

The head of MenPAN would then say, in Soesastro's words, "Ah, that's exactly what needs to be done."

Though useful in the short term, Mulyani's workarounds were not optimal long-term solutions. For example, to skirt stringent civil service firing rules, she relocated deadweight tax officers off Java. But that meant that the regional tax offices' performance suffered. As long as civil regulations remained in place, comprehensive, nationwide bureaucratic reform would prove challenging.

ASSESSING RESULTS

The psychological benefit of Mulyani's reforms was huge. "She really set the tone for doing bureaucratic reform," said Basri. Mulyani took a large, intractable bureaucracy and demonstrated that incremental change was possible. "It was very tough to begin with, and I think she proved that the resistance within the bureaucracy can be broken down with the right approach and the right support," said former *Jakarta Post* chief editor Bayuni.

The reforms did measurably improve service and outcomes at the tax and customs and excise directorates general. The time to complete a tax identification registration application went from three working days to one. The time to process tax refunds went from a month to three weeks. Tax appeals went from a year to nine months.¹² The time for customs processing for red-line cases (in which the officers considered the shipment to be high risk) went from 48 hours to 12.5 hours.¹³ From 2005 to 2009, the number of Indonesians who paid income tax rose from 4.3 million to almost 16 million.¹⁴ World Bank consultant Ariadharma said, "MenPAN told me once—even the minister told me—that by doing the reform, state revenues actually increased by 30% due to [directorates general] tax and also excise and customs success."

Despite the amount of attention Mulyani and her team paid to the Port of Tanjung Priok, however, Indonesia's main gateway remained a nightmare. In 2015, five years after Mulyani

inaugurated the National Single Window, there still was no functioning one-stop system for processing permits at the port. Ongoing extortion by government officials and long delays in moving cargo continued adding costs to shipping.

The problem at Tanjung Priok was partly that change required coordination with other parts of government. Eighteen separate government entities were involved in managing the port. The National Single Window attempted to integrate their work through an electronic portal, but many refused to participate. The case underscored a fundamental obstacle to government-wide reform: each ministry or agency was a silo of vested interests. Without breaking down entrenched interests in each of them and coordinating policy objectives among them, comprehensive bureaucratic reform would flounder.

Mulyani's reforms created an institutional legacy at the Ministry of Finance. At least through 2016, those who held the post after her continued and deepened the bureaucratic reform project. Many of those who contributed remained in the ministry or in government, although they held different posts. Suprijadi became head of the Taxation Supervision Committee, created in 2010 during Mulyani's term to oversee both the tax and customs directorates.¹⁵ Rahmany moved over to head the tax directorate. Nasution became acting governor and then governor of the central bank—and later, coordinating economics minister under Joko Widodo, elected in 2014.

According to Basri, all of the organizational changes Mulyani made stuck. The Fiscal Policy Office and Pushaka continued to operate. The Ad Hoc Reform Team was institutionalized as the Chief Transformation Office, responsible for coordinating bureaucratic reform across the ministry. The SOPs and job descriptions created under Mulyani remained in place, and key performance indicators were continually updated and refined to bring them more in line with international standards.

The Ministry of Finance went from a poster child for dysfunction to a gold standard in the Indonesian bureaucratic landscape. Analysts cited

the post-Mulyani Ministry of Finance as the highest functioning of all government ministries. In 2010, Indonesia's independent Corruption Eradication Commission (KPK) used qualitative and quantitative metrics to assess how well 118 units within 18 government ministries discouraged corruption and reformed themselves. The four highest-ranking units were Ministry of Finance directorates (Treasury, Customs, Budget, and Tax). Of the 12 highest-scoring units in the assessment, 8 were in the ministry.

In 2012, Finance was the only line ministry and one of only 3 state institutions, out of 81 state institutions assessed, to receive MenPAN's top accountability ranking. Using the Ministry of Finance as the model, MenPAN began recommending appropriate pay increases in the form of performance allowances for as many as 18 other ministries and agencies. In addition, in 2014, the Paramadina Public Policy Institute, an independent university research group, ranked the Ministry of Finance Indonesia's second-most-transparent public institution, after the KPK.

The Ministry of Finance still had a ways to go before it could become what Basri called a "world-class institution," however. For example, each directorate and echelon I unit in the ministry still had its own information technology system, a source of ministrywide communication and coordination problems. Another KPK assessment, the Public Sector Integrity Survey, which uses the responses of more than 12,000 citizens to score perceived levels of integrity of public services, ranked Ministry of Finance services low in 2010. "Tax restitution" scored just above the minimal integrity standard, and customs service ranked below it.

Corruption remained disappointingly common. The early 2010s saw a few high-profile cases of fraud in the tax offices involving well-paid Ministry of Finance employees. The most startling of them was the case of Gayus Tambunan, a midlevel tax officer who accrued a fortune of upwards of Rp28 billion (US\$1.9 million) by embezzling tax payments and taking bribes to commit fraud on behalf of companies. To some,

Gayus and others like him were proof that the pay increases had been ineffectual. Others argued remuneration was never intended to be a panacea. "Increasing salary is necessary but not sufficient," said Basri. In his view, pay hikes are effective only if they get coupled with stricter monitoring and law enforcement and systemic changes that minimize opportunities for fraud.

Human resources at the Ministry of Finance remained weak. Speaking in 2009, Mulyani lamented that even with the new management and standards systems, performance was still subpar. "Reputation has become better, stronger. Confidence is there. Trust has been built. But if you talk about competence, productivity, I think we still need time."

Many mediocre workers—especially older ones—could continue coasting until retirement. Both Mulyani and Basri said they wished they could have given golden handshakes to force employees out early, but regulations forbade the practice. The ministry also struggled to attract young talent. Basri, an academician by training who returned to lecturing after his term as minister ended in 2014, said his students still overwhelmingly wanted private sector jobs because even with the Ministry of Finance pay hikes, corporate compensation and perks were better. "The best and the brightest, they go for the private sector; they go to the multinational company."

REFLECTIONS

Improving government often takes courage, especially when entrenched interests wield political power. As Indonesia's finance minister, Sri Mulyani Indrawati implemented disruptive reforms and had a blunt personal style that made enemies; and eventually there was a price to pay in an environment where patronage politics and self-dealing could still find safe harbors.

In 2009, Indonesian President Susilo Bambang Yudhoyono was elected to a second term. He reappointed Mulyani and added a function to Mulyani's portfolio: help spread the Ministry of Finance bureaucratic reforms to other ministries. With unclear mandates and overlapping

responsibilities, interministerial policy coordination was difficult, and Indonesia lacked ways to push widespread bureaucratic reform through the system and then implement it.

In 2010, the president created a National Bureaucratic Reform Team, and Mulyani agreed to serve as a key figure on it. Her tenure, however, was short-lived.

A fellow cabinet member, business tycoon Aburizal Bakrie, took offense when the finance ministry placed travel bans on several Bakrie company executives accused of tax evasion. Later, in 2008, amid the global financial meltdown, Indonesia's stock market started to slide, and trading was temporarily suspended. Bakrie, whose holdings were publicly listed, urged Mulyani to extend the suspension, but she refused.

An opportunity to push back against the reforms soon arose. During the 2008 global financial crisis, Boediono, then head of the Indonesian central bank, and Mulyani, as finance minister, decided to bail out a failing local bank called Century. The ghosts of the 1998 Asian financial crisis—with bank runs and an imploded financial system—still haunted both policy makers. Though Century was small, Mulyani and Boediono feared its collapse could trigger a similar panic and threaten the entire system.

Ultimately, Indonesia emerged unscathed from the crisis, and in hindsight, the bailout may have been unnecessary. But economists agreed Boediono and Mulyani's decision making was sound: "If you were a policy maker, it is better for you to be too conservative on that rather than speculate on something and end up with a banking crisis," said Chatib Basri, who was minister of finance from 2013 to 2014.

In October 2009, Bakrie became chairman of Golkar, the second-largest political party by Parliament seats in Yudhoyono's governing coalition. That same month, a Golkar-led parliamentary committee appointed none other than the tax director general that Mulyani had ousted to head the Supreme Audit Agency. The influential national auditor quickly released a report faulting the Bank Century bailout and the

decision making behind it. Parliament opened an inquiry seeking to prove criminal wrongdoing.

Fed with insider information provided by finance ministry employees opposed to the reforms, politicians grilled and pressured Mulyani and Boediono, who was then Indonesia's vice president, for five months.

Because Yudhoyono depended on the other parties to govern, his position was tenuous. He stood back. "Without the support of the president, [Mulyani] was powerless," recalled former *Jakarta Post* chief editor Endy Bayuni. "I think the coalition partners would have respected him if he had told them to back off," speculated Bayuni. "But the fact that he didn't raise the question about why he didn't use his power to stop the coalition partners from attacking his best economists: Boediono and Mulyani."

The day before parliament passed a resolution declaring the bailout illegal, Yudhoyono got on national television to say he stood behind the Bank Century decision. But by then it was too late. The resolution galvanized Mulyani's attackers and paved the way for a criminal investigation. During the six years that followed, no criminal charges were brought against her, but prosecutors continued to try to make a case.

In 2010, Mulyani resigned and became a managing director of the World Bank in Washington D.C. The day of the announcement, the Indonesian stock market fell nearly 4% and the rupiah 1% against the US dollar. One local headline read, "Indonesia's Loss, the World's Gain."

As a reform leader, Mulyani had all the right stuff: she had timing, resources, ideas, a talented team, and presidential support (for a time). She was an innovative and effective manager. Most important, she was willing to take risks. She was a maverick. "I think the bureaucracy's going to take a while. It's going to take someone like Mulyani to do the job," reflected Bayuni. "Unfortunately, there's only one Mulyani."

In 2014, Indonesians elected an improbable candidate named Joko Widodo as president. Born in a slum to a furniture dealer, Widodo had

excelled as the mayor of a small Javanese city before becoming governor of Jakarta. There he improved government service delivery and made Mulyani-esque changes to the Jakarta civil service by reassigning underperformers, cracking down on corruption, and implementing a merit-based open-recruitment system to determine promotions. After only two years as governor, he rode a wave of popular support to become Indonesia's first president not drawn from the military or political elite.

In July 2015, Mulyani met with President Widodo. After one year on the job, the president was struggling. Plagued with the same coalition-politics dysfunction as his predecessor, his cabinet had issued inconsistent and counterproductive policies. Few ministers were willing to take risks or stick their necks out for reform, and Widodo had to make some changes.

During their meeting, the president offered Mulyani a job on his economics team. She politely declined.

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