



INNOVATIONS FOR SUCCESSFUL SOCIETIES

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DEVLIN: Today is July 14th, 2009. I'm here at the Ministry of Finance in Jakarta, Indonesia with Minister Sri Mulyani. Minister, thank you very much for taking the time to join us.

MULYANI: *You're welcome.*

DEVLIN: I thought I might begin our conversation by asking you to remember back to the earlier days of your tenure here at the ministry. Perhaps you could comment on the individuals or groups who you could count on to back your proposals for reform here in the ministry, the coalition that supported you and your innovations here.

MULYANI: *Well certainly the individual who played a very important role was the President who appointed me to become the Minister of Finance and gave me his full trust as well as confidence to lead this very big department. Second, as a group of people, is the top echelon of the Ministry of Finance. They were not actually really keen or excited with the idea of reform, because at that time, as I remember from the first meeting with them, I asked and challenged them why the department or the Ministry of Finance or government in general was not trusted by the public, was always seen as a corrupt institution, and how could we live in an institution that was perceived by the public in such a very humiliating way.*

So it was more of a motivational meeting for me to discuss with them what kind of institution I really want to work for, as well as for them to really see how we can achieve that goal. Their response was, that the idea of reform was good, it was always very important, but they thought it was undoable. Because the idea was just too big. They just could not translate this into something which was workable and can be programmable. So then, I said if we think that the problem is so big, but even if you talk about an elephant, or you can talk about anything, the universe, if you really start by dividing or cutting into pieces so it becomes digestible. I think first off we should talk about describing the problem first, because without describing the problem, we do not know how to cut, and then digest and so on.

So then I started brainstorming with them, and I started to discuss what they thought we were lacking, what was the goal as you already mentioned. Because I came here with a very good strategic program, a mission, and a vision, already outlined by my predecessor. So I said, I'm coming here, I'm not bringing any new vision or mission. The current program is a very nice one. I think it's okay. Now I'm thinking about how can we achieve it.

So we started by discussing and describing the problems of the Ministry of Finance, for about two or three months, actually. Then we started to say that, well then, we have to start doing it. I said, because reform is so important, it's so big, it's so significant, it cannot be done with just a trivial effort. At that time, I started to establish the team. It was an ad-hoc team. But that team is what we call the reform team now, it is actually in the structure of the Ministry of Finance, we call them the expert staff of the minister.

They [the Expert Staff of the Minister] were not in a structural position; they were usually picked up, or in Indonesian historical and cultural situation, those people who were put in the reform team were actually the ones who were not used in a structural position. In the past, this could be because they were unwanted by the minister because they did not fit, but you cannot downgrade them [according to standing regulations], so they usually were not really an expert team like what

you can really pick the expert. So this is like a residual echelon, if you can call it that way.

But I said, I don't want that, if I have a structure of fifteen top echelon staff, the first echelon in the Ministry of Finance, I cannot afford not to use six of them, to let them enjoy the salary, facilities, but you're not doing anything. It's unfair for me. I'm the minister, I have to work very hard, I have to take all the responsibility, and you still are holding the position as the first echelon of the Ministry of Finance, and you're not doing anything, that's not suitable for me. So I gave them a new assignment: you become the reform team, I will give you a mandate, and you are going to do it. I think that the team now has become a real unit.

I said I would use this team to challenge the structural positions, the echelon, those people who feel established in the directorate-general units, which are usually like silos, and have their own little kingdom within the Ministry of Finance. It was designed as well by the people who influenced the creating, made progress, implemented, and delivered all the ideas that we had or I had at that time, and who I convinced that we could have the same vision. It is actually the team that was ad hoc. We generated some excitement because I said as a minister, I want to see the Ministry of Finance really work like the Central Bank, with predictability, and in terms of meetings, I suggested we should meet regularly.

So I said, every Friday morning, we should have a breakfast. I am going to serve you breakfast. I don't care about the budget, I will invite you to my official residence, and we are going to discuss only reform. That way I will make sure that you have the ownership of this, because it is not my program, it is your program. So we set up this regular Friday meeting.

SCHALKWYK: Can I ask when you decided, when you established this reform team in your group of experts, did you have a clear idea of who you wanted to be in that team?

MULYANI: No.

SCHALKWYK: So you just used the people who were already there.

MULYANI: *We used the people who were already there. Fortunately in this case, it was like this. I should tell you this background story about the unique position that I was in at the time. I came to the Ministry of Finance with a very high expectation of people, the business community and the public. Actually first, they wanted to see me do one thing in the Ministry of Finance, a largely symbolic action that I initially decided to take. What was that? Symbolically, I would be a reformer if I could replace the Director-Generals of Tax and Customs at that time. Everybody knew that these two Director-Generals were the biggest and the most powerful [in the Ministry of Finance]. They were politically linked and had influence in the Parliament, in the Cabinet, even to the president.*

So at that time, they [the public] were actually taking the time to see when I was going to replace [the two Director-Generals], or whether I was going to be co-opted by them. Three months went by and I didn't change them. I was discussing with them and discussing a lot. I learned about the organizations. I discussed with the president, and I asked the president if he agreed with the thinking that for a first fresh start and to create confidence that I have to change these two Director-Generals. Not because they were bad, not because I was presupposing

because at the time—I didn't want to make a pre-judgment. Not because I disliked them, but the public just didn't trust them, and I could not work with people, with the person or the official which people have already made the decision not to trust. So I apologized to them and said I have to remove you.

When the president gave his blessing, the permission, I replaced them in the first six months. The first one, the Director-General of Tax is almost retired, so it was only a couple of months before his retirement. But the other one was still quite young and still had five years [of government service]. He was very skillful, had strong leadership and lots of experience. So he became the Staf Ahli [Expert Staff] of the expert team. This was, as I said, in the past the expert staff unit was a place for you to put somebody you don't want. It doesn't mean that they're not good, but for whatever reputation, they just cannot be used in a structural position, so I put him [in the Expert Staff] and I said, what a waste that this person has the experience to lead 10,000 people under him, he must have some leadership skills and I could see that he did. Why should I make him idle?

So I asked him, could you lead this reform team? Can you imagine that the person that I fired, in the sense that I replaced him, and then he becomes the person who leads the reform team? I said, you work for me. I'm going to supervise you. It is my reputation that is at stake, but you will work according to my guidance.

DEVLIN: So it sounds like in all these changes, at least in this initial period, the support of the president himself was crucial to allowing—.

MULYANI: Oh yes, very.

DEVLIN: Could you elaborate a little on that relationship, the type of support, how you maybe communicate the president's support for you to others in the ministry, let them know that this support was there?

MULYANI: *It didn't have to be stated to the other ministers. The president has a unique relationship with each of the cabinet members. Certainly at the time I came here, the reason I came here to replace my predecessor was actually a very difficult economic situation at that time; the fuel price increased, the budget almost collapsed, the economic confidence was dwindling and so on. So it was really like the president put me in charge of all of this to restore confidence.*

Certainly as of one year before, as my previous ministerial position as the Minister of Planning, our relationship had been quite strong, and he had full confidence in me. So in a way, the president knows me from my track record; it was only one year, but he had worked very comfortably [with me]. So he always expected me to explain to him how I was going to lead this ministry, what were the challenges and then what action needed to be taken. I always consulted with him, and I said, Mr. President, in other countries, as far as I know, even in the United States, the Treasurer actually has coffee one morning every week with the president. So if you really trust me, and you want me to do such an important job, definitely you have to spare time to discuss the situation with me. I was not demanding coffee once a week and so on, but at least the privilege to always be able to talk with him.

I guess in a way that he likes, he is in charge also in the sense that, because he is the one who ultimately is responsible for the progress as well as the risk. That's why I always told him, this is what is going to happen, this is the risk, but

we have to take this risk and this is what we are going to get [as a result of our actions]. So in a way, that built the working relationship between us. But if you ask if the [previous] minister had the same influence, as far as I remember, I guess not.

SCHALKWYK: I understand that in some of your reforms, Parliament has been somewhat resistant. How did the president help you in dealing with Parliament?

MULYANI: *Well, it's not really the right description to say that the Parliament was really resistant. First, when we launched the reform, it became a headline. I said to all my staff, the only thing that will discipline us is transparency, because then we always have constant critics from the media, so you have to open all the weaknesses and tell them about the program we are doing, and the timeframe we have. That way they won't ask, if you claim that you're reforming why is the situation still bad? Because it is not going to be overnight, over a week or over a few months. We will tell them our timeline, and they can ask about our progress.*

So I met with all the media, editors-in-chief, and all the reporters, I talked to the television, with the Parliament. So when reform became the media headline, the Parliament loved it. I mean, this is the reform period, right? Everybody loved to be associated with the idea of reform. So in the Parliament, when I presented this program, they liked it. I didn't hear any critics, only one or two. They said, well it's good, but we are skeptical whether you can do it. Okay, if you are only skeptical, and as long as you're not opposing, I'm going to do it.

The hardest time was when I asked them to approve the salary increases, because whatever I was doing, changing the people; of course when I replaced the Director-General of Tax and Customs, there were some response from them like, why did you change this, they were very talented people, they were good to us, and so on. But I said, I have to start with new [Director-Generals]. However, when I had to ask for the remuneration to be improved or increased quite significantly, that's the budget, so I had to really work very hard with the Parliament.

The President certainly knows about working with Parliament. He instructed, endorsed, and made a speech to Parliament when we submitted the budget. But the Parliament tested politically whether this was really the President's idea or only the Minister of Finance's. Of course, it was the President's idea. I think I had to convince them. I gave them all the documents. They said, this is the work of the Ministry of Finance or is this just a consultant's work? This is our work. This is my team, and if you have time, I'm going to present to you the whole program. They were convinced by the amount of proof we had.

So I think the Parliament, if I can qualify, was quite supportive. I don't recall any really significant difference, but I did spend quite a bit of time to talking, and in hearings, yes, but I think it is quite normal, because I was using public money for the reform.

DEVLIN: What made the timing seem right to both you and the President, because it is an issue we usually come across is that there are moments that are more suitable for initiating reform than others. So I'm curious what made that seem like an opportune window?

MULYANI: *Well, I came when the budget was already in surplus, when fuel prices were increasing by more than 100%, so there was a fiscal space, because of the*

decreasing fuel subsidy. Secondly, at that time the global economy had very strong growth, so the situation was variable. I said to them, we have to reform while the situation is good, because this is not going to last forever. That was in early 2006. I didn't know that there would be a crisis like this of course at that time. But I said, the situation is not going to be like this forever. So, I didn't want Indonesia to reform because of a crisis, just like what we did in '97-'98 because the result, as we have experienced was not always good. We could be very, very disappointed because crisis induced reform is not well thought out reform, it is urgent reform, it is advanced by the situation, it is enforced by other institutions like the IMF (International Monetary Fund) program and so on. If we want to do it and not be dictated by others, we have to do it now.

So I think the trigger in terms of the time was because I saw that it was quite a good time, so we were not in a position of really risking your budget, so our minds were not occupied by crisis. So it was the perfect time. We could do it peacefully; we could discuss rationally with the Parliament, and the people could also be patient enough to wait for the result in this case as opposed to in a crisis.

DEVLIN: So as you were saying, those were definitely good times, but of course right now the times are not so good, not only for Indonesia, of course, so it begs the question how do you maintain support for your reforms when factors outside of your control in this case have changed? How do you keep people behind reform?

MULYANI: *Well first I think I have also read some reports from the IMF and from the World Bank regarding the budget situation and especially on our tax reform in the past three years at least. One sentence or two sentences, which have certainly become the observation and are important to note are that actually with the reforms, government revenue has not usually dropped. So basically, theoretically maybe they expected that with reform, because I changed a lot, the function of the organization is going to be disrupted, and it will have some drawbacks in terms of the revenue. But in Indonesia it is a different case.*

We reformed, we changed quite radically and fundamentally. We increased the cost of the personnel, but it did not create a budget deficit. We actually have a very shallow, very small budget deficit. With the commodity price boom we tried to intensify tax collection and revenue increased almost three times since the beginning of the reform. The public appreciated the result.

Now the political support continues to be very strong. They even expect this reform to have continued tangible results. In terms of the difficulty that we are having, our budget is in a healthy position, so we are not facing a situation like the US, UK, Japan and others. They are having such a very difficult budget structure. We are still very healthy. Now the problem is how I can motivate the bureaucracy to become an institution that can solve problems, because the problem with Indonesia is that the infrastructure development and the government spending that really can stimulate the economy has not yet become effective because of so many factors: the central/local government, the inefficiency of the other bureaucracies and so on.

SCHALKWYK: Many of the reforms that you've done within the Ministry of Finance have been bureaucratic or administrative reforms which aren't typically associated, I suppose, with the Minister of Finance.

MULYANI: Yes.

SCHALKWYK: At what point did you decide that you had to approach administrative reform and not just policy reform as the Minister of Finance?

MULYANI: *At first, I think, in terms of the foundation for doing so and the reason, it is because the state finance law has been revised. For example in 2003 if you ask our reform team, they always say that since the crisis, we adopted a new state finance law, law number 17/2003, a treasury law which had never existed in Indonesia, now does. There is accountability, reporting of the budget and independent auditing of government spending by external auditors. That has become the template, the frame of policy in terms of regulation and law is already there. That bill required change from the Ministry of Finance, because we still had the legacy of the old structure. We had to change, so that the issues of governance, checks and balances, accountability, and transparency, could be translated into our work.*

We also established the Fiscal Policy Office, because in the past, the structure of the Ministry of Finance was not clear. Everything was only centralized in the minister. You would expect the minister to be really a super-minister, thinking about fiscal policy, but at the same time doing the tax, customs, capital markets, and all the policy up to the administrative and bureaucratic level. It was just amazing. I said you cannot rely on me to do all of this. I could have a stroke and tomorrow I could be dead and this ministry has to work, so we need to establish who is thinking constantly and checking that there is a consistent fiscal policy framework here. So I established the Fiscal Policy Office, from which we follow and look at other countries and what they have there.

If you ask me whether at that time I knew what I was doing, I didn't exactly know what I was doing it was just my intuition. There should be some unit. And when I asked if there is [such an agency] in any other country, they said to me, oh yes, certainly. On the policy level, the reform was about consistency in the designed macroeconomic policy, how we can support the industrial trade policy, investment policy, in order that that they improve the investment climate. For bureaucratic and administrative reform, we created structures that can provide good checks and balances, without hampering the bureaucracy's work. And, at the same time, there are multiple parallel tasks that we have to do, which are totally unrelated. We have to tax, customs, capital markets, asset management, debt management, and all those things. It is just amazing in terms of organization, the complicated structure.

DEVLIN: Now, all your reforms have been quite sweeping and a large part of them have impacted areas outside of your ministry, other line ministries, Parliamentary issues. In that, what sort of bargains were necessary to really come to a consensus conclusion? How did you meet people halfway? What did you find you could offer them to maybe increase the—.

MULYANI: *Within or outside the ministry?*

DEVLIN: Both would be very interesting.

MULYANI: *First, within the Ministry of Finance, certainly as an economist, if one of my officials is corrupt, I am sure that he or she could take much more than ten times their salary. So I said to them, I will not and I cannot match the amount that corruption from this country can give you, but as the minister here 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; that's going to be my policy. So they don't think*

they still have the opportunity to be corrupt without any consequences. Zero cost with total benefit is a totally outrageously high temptation, versus having to comply with what I said. I agree that as a bureaucrat, you have to live a decent life. I'm not going to promise that you will become rich, but you are in a social structure and middle class. You should have a car, you should have a decent house. You have to be able to send your children to school, that's the level of living that I promise. It is supposed to be a necessary requirement for you to work properly, but I cannot make you rich. If you want to be rich, out, you can do business outside.

I said, now the cost of committing corrupt behavior is going to be very severe, and we should overkill one, two, or three cases. For example, one case in tax. I heard the Human Resource Department was manipulating the rotation for promotions. I said to the Director-General, the new Director-General, who should be blamed here? Who made the mistake, at what echelon? Second echelon. How many involved in this? [He said] I don't know. I said change all of them. Why can't we just replace [some of them]—? I said no. How many in the unit? Sixty. Replace them all.

So you really give them the message that this time, I'm not going to be very generous in forgiving their mistake. I don't know if you received money or not, but overkill is necessary and important, to get the message across because you are talking about 64,000 thousand people under you. In customs it's the same. One, I know we have been reforming in the Ministry of Finance, anticorruption and so on. The KPK (Komisi Pemberantasan Korupsi—Corruption Eradication Commission) told me, Ibu (madam) we still see that some of your staff are receiving bribery, petty bribery. Well, you don't have to just complain and report, I'm not a person to listen to gossip. You go there, you prove it and I'm going [to take action]. So they made the trap. I asked how many of them [were caught]? Fifty-four. Out. This would actually have made the Tanjung Priok, our biggest port, almost paralyzed. So I said, give me three months, and I am going to remove all of them, but I have to prepare the replacements.

I think in Indonesia, what makes the people in the past not really believe that we are reforming is when the time comes for punishment and you are too soft-hearted. This time I tried to explain that I will not be generous. I said I had to really get the message across. That's not only at the staff implementation level. Even on the first echelon I said, I will be nice with you guys every day. I will give you all the chance to prove to me that you are performing, but if not, within three or six months I am going to replace you, and I really mean it. If you are okay, I will be okay.

I will not put my value judgment, whether I like you or not, whether you come from the same ethnicity as me, whether we are the same religion, no. But we all agree that if you do not perform, the question is only whether I'll be forgiving or not. Sometimes the decision is, Oh, Ibu (Madam), he is almost retired, give him two years time until he retires. And I have to waste two years with you in this space while time is ticking? At the same time, I lose the opportunity to promote people who are more competent and capable. I am not going to have double losses. So if you do not agree, you can argue with me whether that principle is fair or not. My staff is ok with this as long as I'm replacing based on performance.

DEVLIN: So I had understood that it was quite difficult to replace civil servants within the Indonesian civil service. You described replacing people and firing people with a lot of energy, how were you able to do that?

MULYANI: *Replacing is much easier; because it is really about your own belief that you're doing it not because it's personal but because it is really required. As an example of the Indonesian bureaucratic culture, my Secretary-General and I would have this conversation:*

Ibu, where should I put them [Individuals recently replaced]?

'Why should I care about that?

'Well, he's already in the [bureaucratic] structure.'

'Is there any law in this country saying that once you are in the structure you are guaranteed in for life?'

'No.'

'Then I don't care.'

I have a lot of problems already, they can find any other job, but if they ask me to help them, I would if any other job still fit them but if not, I will not promise anything. That's one thing. It is about the law and whether you have the will or not.

Secondly, firing people is very difficult actually. If they are really committing or violating something, committing a crime, receiving bribery, caught red-handed or something like that; then it will be much easier, because there are consequences in civil service regulations. I said, I don't want to hear from the Inspector-General any recommendation saying that well, because his attitude is good, then we are going to propose him a mild punishment. No. With any violation you have to propose to me only one thing: the maximum punishment. I will not ask any thing lighter than that. But Ibu the choice is sometimes the degree of punishment. They always asked for a little bit light, lighter, a little bit lighter, all those things. I said. I'm tired with that.

So they knew that when they come to me, I will give them the maximum punishment. I think that is also something that then encouraged people to comply with regulations and so on.

DEVLIN: On the level of the wider government, a lot of the—

MULYANI: *But can I finish with that. Because there is a consequence later on, if you ask me whether Indonesia has the mechanism, for example, to do anything with less productive staff. To be honest with you, that is going to be our bottleneck for reform. Because we have the merit-based system and so on, but then you have some people who are not really performing well, and we now have a headache over where to put these people. So this is a very critical time for me, a transition time, that I have to ask the Director Generals what should we do with this group of people, because they are going to erode and destroy the group of productive workers. They feel that they are being unfairly treated. They work well, honestly, productively, but the others who have not committed a crime, but just are not productive, but we cannot get rid of them. So that has become another challenge, and I've already talked to the Minister of State Apparatus about this and said this should be—*

SCHALKWYK: A lot of the reforms that you've done within the Ministry of Finance ended up being expanded into other areas, the Supreme Court, the Supreme Audit Board, Department of Trade and the like. When did you realize that you would like to export the reforms you were doing within the ministry? Who made that decision? How did you go about doing that?

MULYANI: *Well it was politically necessary to do that. Actually, you asked an earlier question about how the other cabinet members supported my reform. They support our reform because they knew that they are going to have their turn on their own ministries, and they will have to do the same thing. It is less complicated for others because, for example, the Trade Ministry is only 6000 people and others have much less than that, some only a hundred, and the Ministry of Planning is only 900.*

What they are aiming at, the remuneration, is very handsome compared to the current situation. So they said, okay, we will support that reform as long as next time it is going to be us. I said I don't care. Of course, it is supposed to be the whole government should be reformed because if not, it is going to be very awkward to have only one institution [reformed]. At that time the anti-corruption commission presented to the President. They had the idea about how to prevent corruption. Certainly, one key ingredient of prevention is bureaucratic reform. They said bureaucratic reform is not going to be affordable if you reform at the same time for all. They made a case by saying that the most important may be external auditors, and then Supreme Court. Because they are the goalkeepers.

I said no, I'm going to do the Ministry of Finance, whether you like it or not. What about the Tax Department? Well, I'm sorry, I'm not the Minister of Tax, I'm the Minister of Finance, so I have to do it within the Ministry of Finance [which includes the Directorate General of Taxation], whether it is partial reform or not, I am not the kind of person who does anything partially. So it was agreed. Then we made what you'd call a roadmap of this reform, that the next step is going to be the Attorney General's Office, then the police department, then the military, and in other stages the rest of the ministries.

SCHALKWYK: Who was involved in making those decisions about when, you're talking about the roadmap?

MULYANI: *Well the KPK (Komisi Pemberantasan Korupsi—Corruption Eradication Commission) certainly had this blueprint originally. They consulted with me, and I agreed. Because there was an implication on the budget, we had to calculate the budget implications every time the reform was reaching the next stage. Certainly the decisions regarding important or not important functions, we had to consult and discuss with the Ministry of State Apparatus. Then we established what we called a Joint Reform National Reform Team in which the Minister of Finance, State Apparatus, the KPK people, the Minister from the Civil Servants Body, the National Civil Servant Body, the BPK (Badan Pemeriksa Keuangan—Supreme Audit Board), the external auditor, and the Supreme Court. We agreed that because we became the first pilot project, we have to show that reform is working and there are results.*

So at the first stage an external audit was conducted on the Supreme Court, the Ministry of Finance, and the BPK. We had a regular meetings with the KPK, the anti-corruption commission, and they saw that the Ministry of Finance was working well, and the other two, although they claimed reform, they were not doing much. So the KPK wanted to create peer pressure. If all of you are reforming, why is the Ministry of Finance so far ahead, why is your ministry not there? We tried to create peer pressure and peer reviews.

DEVLIN: Do you have a sense that there is a problem with the idea that the Ministry of Finance might outstrip its peers with the pace of its reforms? Could there possibly come a point where the Ministry of Finance reforms so successfully that

things are no longer translatable? Should the ministry kind of slow down to keep pace with wider reform?

MULYANI: Well, if I understand your question correctly in this case, of course, everybody always asks the Minister of Finance to be a key resource person in the reform [process], and all of my reform team is becoming very busy with technical assistance to others. But every time we go back to our own work, because we still try to maintain an ongoing meeting among the reform team, it has become a continuous program to us now. They always say that the other ministries, the ministers themselves do not favor a bold commitment. They even don't have an [complete] idea what reform is.

So my staff usually observes and comes back to me by saying they don't think that the others they are helping are going to be reforming. Why? Because the minister doesn't even know what reform is. They think that reform is only equal to a remuneration increase. So there is worry that the idea of reform has been a little bit misunderstood by others, and that can affect the quality of reform that can be delivered. I don't think that the Ministry of Finance reforms are the best, but certainly they are quite ambitious. I can understand that. It creates quite a difficult benchmark for others to actually catch up with us.

SCHALKWYK: Obviously, the increase in allowance and remuneration has been particularly attractive. Did other ministries or organizations have to meet benchmarks before they were given those allowances?

MULYANI: Theoretically, yes.

SCHALKWYK: Who decided on those benchmarks?

MULYANI: The National Reform Team. We established the National Reform Team as I told you, in which the Ministry of State Apparatus, Minister of Finance, the Cabinet Secretary, and the KPK served on. Sometimes, KPK became a whistleblower by saying, I don't think that they are eligible yet. Then someone else in the team would say, at least we should appreciate that they tried to change. Okay, if its only a token of our appreciation, how about giving them only 35% of the increase? That is the discretion we had within the national team.

SCHALKWYK: Whose idea was it to establish the National Bureaucratic Reform Team?

MULYANI: We are all—[it was joint decision]. In the statement I made, the peer group, the KPK, all had the idea of the function for a program of preventing corruption. The KPK had previously come out with this idea. Then they talked with us, and certainly we were both working very closely. I always used the KPK as a good partner in reform because their reputation is positive. The other partner is the Ministry of State Apparatus.

SCHALKWYK: At which point did the president get involved, and how involved has the President been in making reform a national program in addition to the work that has been happening in the Ministry of Finance?

MULYANI: Well, almost all the difficult decisions have to come to him and have had his blessing, so his role is very important. I don't think I could work like this if I didn't have a President like him. If he didn't trust us, wasn't supportive my work would be much more difficult. Sometimes I come to him with a very difficult decision that

is very unpopular, that is going to be politically sensitive, all those things and he is supportive. I think he gave quite comfortable support to us.

SCHALKWYK: When he appointed you, did he think that you would be leading a national reform program?

MULYANI: *No, I was just the Minister of Finance.*

DEVLIN: So if you had this very reliable, it seems, source of political support with the presidency, I'm wondering how did you approach building a public constituency for change, promoting the idea and the importance of reform amongst the general public, whether that was a concern of yours or not.

MULYANI: *First, Indonesia's setting after Suharto's time; you have to know the setting, in the sense that the media became very open and very democratic. Certainly then, the media is going to be very important in setting the tone and even can kill ideas at the very initial stage or even promoting, even if the ideas are yet not visible. So they are very influential. So at the early stage of this reform, even before, at the stage of increasing the remuneration, at that time I had regular meetings with the media, chief editors and so on. I asked them, do you agree with what we are doing? "Yes". Are you appreciating what we are doing? "Yes". Could you support us? "Certainly". Okay.*

Then I am going to ask any help I need from you. So at the time, I have to propose this remuneration, which is very sensitive in Indonesia. You know that my top echelon, they told me that I was going to fail at that time. They said, first the Parliament will not approve, and secondly, when it is put to the public, they'll just condemn us. I said, oh my God. I cannot sustain this reform unless I can deliver this remuneration to my staff. We became rational and logical to the structure. If I failed there, then I would have failed the reform.

So then I said, I want to have a meeting, an intensive meeting with the chief editors, so I invited them again, and I asked them if they had asked me to reform. They replied that they did. I told them that I was doing it, that I was continuing to do it, and was at a stage which was very critical. I told them I was going to increase salaries. I said, I know you are all going to respond tomorrow in your headlines 'Minister of Finance wasting money' and so on. If you do that, I'm sure the reform is going to be killed, immediately, tomorrow, I said. So it is really up to you. You want to support me? I'm here. I'm Sri Mulyani, I'm still the same reformist you always knew. I'm willing to do the work. I'm trying to do it. But I cannot avoid the cost. So if you support me, please tone down the news about this. I don't know how you will tone it down. I'm not going to bribe you because this is reform and I cannot bribe the news. But if you really believe in what we are doing, you'll do this. I really had to talk to all of them. Sometimes I had to come to each newspaper office.

I got very good support. So the media, instead of putting it that the Minister of Finance increasing ways, the increase is crazy, is very insensitive when the people are still poor, when the fuel price increased, and she is crazy increasing the salary. The media reports were positive about it. That's one thing.

Secondly, on the Parliament. You know what all my friends here, my colleagues said, Ibu, you are not going to pass [parliament] unless you bribe them. I said, I'm reforming, I'm anticorruption, and I'm going to bribe people to approve my program? No way, I said. If they don't like it they are not going to support it, that's

fine with me. This is not me, this is not my program, this is an Indonesian program. If they don't want to see Indonesia become better, that's their problem.

So I spent more time certainly, but you know what all my staff here said? Ibu, we are willing to sacrifice our salary, one month's salary. It is not state money, it is our private money, to bribe them. I said, you're not taking the state's salary, but if you bribe those officials, the Parliament, you are going to be put in jail because you're bribing the Parliament. So in a way it was a very interesting episode at that time. But you asked me about how I built a constituency and support. I think it is more like a passion that those people believed in what we were doing because I was really saying it. Well, if you have any other ideas, better, cleverer, smarter ideas, let me know, I'm willing to listen. But, if not, don't just say that we cannot do it. You're just judging Indonesia as a failed state, and I don't want to let that happen.

SCHALKWYK: Obviously this was a big risk. If you'd increased the wages or the allowances and nothing had happened.

MULYANI: Yes.

SCHALKWYK: Then you would probably have to resign or something along those lines.

MULYANI: Correct.

DEVLIN: What steps did you take to try and make sure that you got something from your staff in exchange for increasing their salaries by so much?

MULYANI: *First, the work process and the methodology of work here. When we were managing the budget I said if I increased our budget by 6 trillion, [rupiah] at that time 60 million US dollars, what will that do for our work? This is the Ministry of Finance, you should be able to come with how much more tax revenue we could collect. How much customs revenue will I receive? Of course, I have to discount it with economic growth, inflation and so on to find how much is really coming from our own effort.*

They said "We can double" [the revenues] – Okay, that's good enough for me. Let's start with that. So we started with that. I think I was also lucky, that's another factor, I have to admit that. Because at the time the economy boomed and so on. So the tax revenue increased very significantly, the customs revenue increased very significantly. Part of which can be explained in terms of the price, inflation, and economic growth. But we can be very confident that because of our reform, leakage, corruption, those who took informally or illegally and so on, decreased. So we are achieving quite a lot.

Secondly, we tried to contain risk, in for example customs, by concentrating on one location only first. But this was Jakarta Port, which is very important. Sixty percent of commodities come in and out and it has become the most important port. I didn't want to focus attention on any other ports. I was going to make sure that this is going to be quite successful before we can repeat it to others.

So I think risk was contained, we had already prepared the work methodology, the business process which made sure that the value of the risk is going to be quite minimum unless something really unexpected happened. I'm lucky because the commodity price increased and people saw our process as quite rewarding.

DEVLIN: One issue that—.

MULYANI: *So I don't have to resign, obviously.*

DEVLIN: One issue I was wondering if you might comment on is this idea of patronage positions. I'm sure this is a challenge that you've encountered before. The idea that you have to accommodate certain parties, certain interests that want people in positions. That can be necessary; that can be a fact of life. But I was wondering if you have developed strategies or tactics that can limit the negative impact of that kind of dilemma of being in that position?

MULYANI: *Well, that is exactly an example of how difficult decisions need to be made and have been made. I always consult with the president and say to him, What do you think, Bapak (Mr.) President, about this situation [patronage positions] I am faced with? He is the highest, of course, and he says, well, you just do according to the law. Okay, there will be noise and so on, don't be surprised about this. Well, go ahead.*

I think the president gave me full support. That was really relieving for us. Certainly, this didn't happen only once, it has repeated in many places and examples and so on.

The most important also for our officials here is to know that the Minister and especially the President is fully backing them. Because in the first months or first year, you could still say that some of my officials, like customs, would just release the merchandise because there is a SMS (text message) coming from a high office. When this would happen I would ask, what did you do? We just released the merchandise. Who ordered you? I said. Well, this very important person. He is very powerful, he is even more powerful than you are. Oh yeah? The next time you do this, I'm going to fire [you]. This time I'm going to remove you from the office. I don't care if somebody is ordering you by fax or anything else, if violates the law, either you are out or I'm out.

I think we try and, from one example to another example, they make mistakes in the fairly early stages because they think Indonesia is still the same. There is this call coming from political party leader and so on. I said, next time you do that, it's going to get you fired; I'm out or you're out. So I think they knew the message, and they knew it was also coming directly from the president, who is very committed.

SCHALKWYK: So you were doing a lot of reform in customs and tax within the Ministry of Finance, and you obviously had replaced the two Director-Generals. How hands-on were you in telling them how to do the reforms within the tax and customs department, and how much did you trust them to do the correct thing in terms of reforming their own department?

MULYANI: *In the first months certainly I had to be there, physically present. I had to listen and understand when they present the case. In the second echelon, they were fully familiar with the ministry's position and thinking. But after a while, when I saw the mechanism was working, I could give full trust for the new Director-General to do the work. I said you can reach me 24 hours a day, 7 days a week, call me, SMS, if there is any emergency, but otherwise I will leave you in charge. You know when you have to ask me for support. Because at the same time, we have to reform here, I have a lot of things to do as the Minister of Finance, I'm not just reforming and changing the organization. We have the treasury reform*

here, we have the debt management team, we have the local government decentralization problem. There are so many other things.

The sense of management I give them here is all full support and confidence; they have to do it. The new principle is to ask the minister his judgment. The choice of the second echelon mostly is related. I said certain posts on the second echelon should be for the minister to decide, and I know which ones are very, very important, which I cannot bless or approve unless I know the people.

Many times in the customs and tax departments, I even have to interview people myself for positions in the second echelon. I said come and that I want to really know the person. I really make the interview quite in depth, very long, because I really want to make sure that they know that I trust them, some have a lot of skeletons in the closet if you can call it that way or excess baggage from the past. I don't care about that. For example, for a very important position on the second echelon, I asked the candidate:

Have you received any bribes in the past?

'Yes'.

Okay. If I'm going to put you in this position, you know this position is very important. Those people who bribed you in the past, can they blackmail you?

'I don't think so, Ibu'.

Can you guarantee me?

'Yes'.

Can you feel confident [in what you'll do] if someone asks you to do something violating the law?

I do all those interviews for certain very important positions because you have to make sure that those people have the same confidence in reform although they may have a past record that is not that good. At that point in time, no [long-term staff were completely] clean [in that area]. So it's very important to give them the confidence [to do their job honestly], and to say, it's okay, I trust you from now on. But if you have any difficulty at one point, if those people come to you, you have to tell me.

SCHALKWYK: So obviously you've been a key factor in the reforms, what is going to happen when you leave?

MULYANI: *Nothing, it's going to be fine. In these four years, we've already designed this reform to be built into the system. We'll be discussing this in a couple of months because I knew that the period of time is going to end this October. So I said, how to make this reform become an ongoing working program regardless of who is going to chair or become the Minister of Finance? So we've got to design it. Certainly it is going to have a transition. I guess, rationally, we tried to so that no one is indispensable, including Sri Mulyani.*

DEVLIN: Now obviously with all these reforms, timing is an issue, and no one has enough time to do anything exactly how they want it. So I'm wondering, had you had more time, would you have done things differently? Were there things that had to be pushed a certain way because of the constraints, the need to deliver immediately?

MULYANI: *Well, I don't know. I never thought of it that way. I'm too exhausted of managing the current way. I don't know whether if I had time to think whether I could do it*

better or faster, maybe. Not faster, I guess; if it's too fast sometimes it gets overwhelming. Better, maybe yes I guess, I wish we had more flexibility, as you mentioned, about promoting people, rotating people, changing, because we are really tired of this civil servant regulation is hampering us in terms of speed and so on.

Secondly, also the amount of flexibility of removing people with a golden handshake or whatever. That is something that I wish we could have more freedom to do. I think we compromised there, quite significantly, I guess. So I'm worried that it is going to affect in terms of the quality and meritocracy and productivity. That is the area that I am still concerned that I'm not delivering in. 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. That has something to do with the whole structure of bureaucracy. I wish I could change that.

DEVLIN: Now as you said when you first came in, you were dealing with echelon one level, the highest level of the ministry, they were not your staff, they were already there.

MULYANI: Yes.

DEVLIN: So I'm wondering, as an outsider, I guess you touch on this issue when you mention that KPK were the ones to tell you there were problems in the tax with HR (Human Resources). How do you establish lines of information within your own ministry? How do you get the information you need from within an organization that you yourself are trying to change?

MULYANI: *First you have to be really willing to spend enough time to go through details, so you understand exactly the idea as well as the dynamics of this organization. In this case, I am the kind of person who is not only willing, but I love to do it. I love to go through details in these cases. Not details in the micro-manage sense, but to be able to always be there, that they see me as a person that they just can tell me any story, and I it [give it due consideration]. I said, what is the logic of your story? Why are you doing this? So they feel intimidated, that because I can even only ask something that they feel obliged to explain better or even convincingly.*

So the information, certainly through a direct meeting, physical presence is very important. This is irreplaceable I guess. So I design, this is another creative thing, because I'm bored to always be in these ministries; I have more than ten Director-General offices everywhere in Jakarta. I said I don't want to have the monthly meeting, top echelon, always in my office. First, the budget is going to be on me. I don't want that; all of you have to bear the budget. So why don't we make this kind of game. Every month we will go to each office so I can have the opportunity to go to each of the Directors-General. They host and each time they host they are forced to present themselves, which is what's good about these meetings. Of course, because one directorate-general went first and gave a very good, not only presentation, not only the food, not only the arrangement, but he could show how his staff had reformed. He could explain it well. So there is positive peer pressure on his colleagues. Okay, that's good. So we go from the tax, custom, treasury, even Secretary-General and others.

Amazingly, it became a very good game for all of us. I had not planned that because I was avoiding the boredom of meeting in this same building every time

that very good peer pressure would result. I think we created a family game in this case.

DEVLIN: So in addition to this echelon one staff that you inherited, you do obviously have your personal staff that you can bring on and people—?

MULYANI: No.

DEVLIN: You didn't have anyone?

MULYANI: *No, actually when I had to make them trust me, from day one I told them that although I come from the University of Indonesia, of course good people come from there, I said I'm going to work with you. I'm going to work with all of you here. I'm not going to bring any friends of mine unless I have a specific need that is unmet. For example, the macroeconomists were very weak here. So I invited one—and they [the first echelon] all agreed that no one could beat him on his expertise. So they understood that it is really still based on the merit and professionalism.*

The second person I brought on was for IT (information technology). We had a huge program on IT reform, and no one really understood it here. So I invited my friend from the University of Indonesia who graduated from Illinois. He is a Ph.D. in IT, and said I'm going to ask him to be my second opinion, because I didn't want to be dictated to by the supplier. I need to have that kind of [independent] view. So I only invited two persons as my special staff, and they fully agreed that even now they [the Director-Generals] owe me a lot, because they use my personal staff more than theirs. And they think, why I cannot think that way?

So in a way the trust building is very important. That they feel that I'm not really threatening them. I'm part of the group that feels, that recognizes the problem honestly, tries to focus on them and on how we can solve the problem. Not by saying I don't like you, I'll change you, I'll bring my own people. The harmony, as well as the feeling that I am there and part of them is very important in the very beginning. I think that's what creates confidence as well as acceptance.

DEVLIN: Now one of the side effects of the reform in the Ministry of Finance is that the profile of the ministry has risen a lot.

MULYANI: Yes.

DEVLIN: So I'm wondering, have you had to encounter the problem of retaining staff, qualified staff? This is an issue we usually come across, people lose staff to—it can be the private sector, it can even be other public sector positions.

MULYANI: *Fortunately Indonesia is not like in the United States yet, in this manner, that you have a good staff member who then leaves. People still value more working in the government. But I cannot I promise this is going to last long, especially for my department which is really working with the market, the interaction is really there, like the capital market regulators, tax even, customs and then the debt management. At some point, I'm going to face it because I promote a lot of young staff, they are excited. There are many people now who want to join us rather than leave. So I haven't faced this kind of situation yet.*

SCHALKWYK: Why do you think some of the other reforms in the national bureaucratic reform process haven't been as successful as the Ministry of Finance has?

MULYANI: *I don't know whether others are not successful, because I am not making an assessment and review about it. Is it really not a perception problem or this is the quality judgment?*

SCHALKWYK: You mentioned that perhaps they hadn't met their thresholds for the advances. I was just wondering.

MULYANI: *First, I think the commitment of the top position is very important. I think the problem is not that yes, I am committed, I want to reform, but mostly because they really don't know what reform is. We always say that reform is changing, not only the regulation policy but business processes, delivery, predictability, or even that the ultimate goal is creating confidence, trust and so on. So the understanding of that is really what is quite lacking. They just say I want to reform and that's it. They think that it is like coming from heaven and when you pray it is there. So that's a problem I guess.*

Secondly, I think that in addition to commitment and understanding, the leadership should, what I say again and again in my story, be ready to do and to give an example. They themselves are not going to bring their crony or friends, they themselves respecting the bureaucracy and the meritocracy, and are ready to make the difficult decision of punishing their own friends. You know, I am still a normal human being. I can feel pity to others, and I can be very compassionate. But I said, that when they're faced with some unproductive people or those who are violating regulations they have to know that the organization comes first. Some are not ready to punish in these cases and they even reward.

I guess that is not only just a commitment, but also the ability to deliver with a concrete step that can convince their staff, their peers—Oh, this is what you mean by reform. Because you're not just saying reform, and then suddenly someone from my level will come in one month later, and I say, what is reform? What is the SOP (standard operating procedure) from that table to this table, why is this so late? All those things. I think pressure, constant pressure needs to be provided by the top position and is very important.

SCHALKWYK: How do you think the fact that you came from academia rather than from the civil service or a political background affected the way you were able to work within the ministry and with other people in government?

MULYANI: *I don't know. I really don't know. I think I work with logic, certainly. As an economist, you are familiar with a lot of literature about reform; you know about many reforms that fail or succeed. You know that the difficulty in reform is always that you pay now but you get the benefit later, so there is a mismatch in timing. There is always a mismatch between who is benefiting from the reform and who is paying the cost, so there is a problem with who will bear the burden and so on. Theoretically, I know about reform, at least I can claim myself as quite an expert in literature of reform. But whether I was trained to really do it, I think it was just intuitive. I try to communicate what I understand reform to be with others. All the bureaucrats, the echelon one, they are expert bureaucrats of course; they have all the experience. So I ask them to help me to translate this idea into reality; how we should do this and that. So I think it is a very good chemistry as well as complementary from my own background as an academic.*

The other thing that maybe has more advantages is because I come from the university and not a political party, I think the trust is there. So I don't have any problem in building the trust or so on.

DEVLIN: As you say, there is no real book you can turn to for how to do reform, it is kind of, it is an intuitive thing for a lot of people and I think you mentioned that.

MULYANI: Yes.

DEVLIN: Part of what we try to do is capture the experience of leaders like yourself for others who are trying to emulate the same degree of reform. So I'm wondering, maybe one way to get at that is – Are there certain things, looking back now, that had you known at the start would have made your tasks vastly easier or things you would have liked to have been prepared for?

MULYANI: *Well, for sure, if I can answer easily, if the President and all the Cabinet had the real idea of what reform is, it would have been much easier, I guess. I think everybody in Indonesia makes a very good speech about reform, but many of them really don't know about what reform is in this case. So yes, I think they need to have a real example. What we are doing now is the real example, which has made the concept of reform easier to understand for the Indonesian people and that will help a lot in terms of accelerating the process itself. So in that case, meaning that at the very beginning, because when we started with this Cabinet, it was actually five years after Suharto had fallen, and over those five years it was enough for everybody to be disappointed, everybody talked and claimed reform, but they really didn't know how. Amazingly not many people really understood reform, and especially how to translating those ideas into reality. That is maybe the most difficult part.*

SCHALKWYK: Bureaucracies are notoriously difficult to work with; they resist change. Did you encounter any particularly difficult points when you felt that the bureaucracy wasn't helping you in your reform, and how did you go about dealing with those people, those units?

MULYANI: *Well, most important is that they have a very strong esprit de corps and that is the most difficult part, because then not only is there an esprit de corps in Jakarta, also it is not appropriate to shame people. So in Indonesia we can be, as I said earlier, too generous and too kind to the people who are not performing, even violating rules, but at the cost of those who are really working well; they become the victims of this kind of system. So I always say to all my colleagues here that bad money drives out good. So if you want [the Finance Ministry] to become just a bunch of losers who want to maintain this, that's the consequence. But I think the way I deal with it is to try to explain to them rationally about whether that kind of spirit is justified or not, and will it cost more to their own individual reputation as well as the institutional reputation rather than the benefit that they think they can maintain or they can earn.*

I think most of the time, after a very long talk, repeating meetings, convincing them, which is sometimes exhausting, of course I'm the boss; they cannot say no. But I usually, I use my authority only as a very last resort. I don't like to actually order people like that; usually, I motivate them, do you think this decision is really the right one for the organization? Not just you want to please me by saying yes. So for them I think, I think because they feel now they are in charge, so their reputation is at stake.

Another thing is also because of transparency. In a way the media people, the television, they can all observe us. This is really a transparent institution. I'm not shy by saying I'm sorry, I tried to improve it but not all my staff is honest until now. Some of them are still very bad guys, so please help me. Outside I'm

always asking people to help me to monitor us, to supervise us. So they knew that the minister is asking them, asking outsiders to look at us. So those bureaucrats can also have hard feelings about what I'm saying, but no, I'm saying that because you are a public institution, I'm a public officer, this is not a private company, not my own family company.

Okay? I think the time is up? You still have a lot of questions? I can talk about reform a long time.

DEVLIN: I guarantee you we can talk even longer.

MULYANI: *If you really still need more, there is a topic or substance that you need to cover, why don't you look at what I've already told you and if you still come up—how long are you going to be here?*

SCHALKWYK: Unfortunately, only until Saturday.

DEVLIN: We are planning on coming back to Indonesia in the future.

MULYANI: *Let's see until Saturday if we still have, and squeeze time, if you really still have some questions that need to be asked.*

DEVLIN: We'd be very pleased. Thank you for talking to us.

MULYANI: *Yes, you talk to Rio, and then maybe if that is really critical you can come.*

DEVLIN: Thank you very much.