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DEVLIN: Today is July 10th, 2009. I'm here at the Jakarta Stock Exchange in Jakarta, Indonesia, with Erry Firmansyah, the president of the Exchange.

FIRMANSYAH: Former, former.

DEVLIN: Former president of the Exchange.

FIRMANSYAH: Yes.

DEVLIN: Erry, thank you for joining us.

FIRMANSYAH: Thank you.

DEVLIN: One of the reforms we're very interested underway here in Indonesia are those at the Ministry of Finance.

FIRMANSYAH: Yes.

DEVLIN: So I was wondering, in your experience, both looking back on the past few years and at the present, what do you consider as the most important changes and reforms that have been put in place?

FIRMANSYAH: Yes, I think the Ministry of Finance has changed a lot today, under Minister Sri Mulyani, because she brought new ideas, a new paradigm in the Ministry of Finance. If you see today, the attitude and the mindset of people in the Ministry of Finance is totally changed and different. They are now more professional, more market-oriented, and more attuned to customer focus. This is what we see, especially if you look from the past when I used to work with the Exchange for seven years, just finished my term last June. So if we see today the attitude of the Bapepam people is already changed and is different compared than before. They think and act very professionally, they think how to make market more attractive, more liquid, but still with a focus on surveillance. So you see that. And I think so far, yes, it's changed and improved a great deal.

The other thing, if you see from the tax office, now people are very happy to see the etiquette of the tax office; they do not think that the taxpayer is a victim. They think the taxpayer is a customer now, how to serve the customer. And if you see, yes, you cannot completely eliminate what you call the bribery or illegal payment 100%, but if you see today, the mindset is totally changed, it is positively different. They are not thinking how to get money from the taxpayer, but how to serve the taxpayer, how they can process to pay their obligation in the proper way, in a faster, more responsible way, it's totally changed.

DEVLIN: So, one thing, you mention this new paradigm in professionalism in the ministry. So that begs the question: what was it like before, from a private sector point of view, interacting with the ministry before these reforms?

FIRMANSYAH: Before, yes, it was already well known that if you deal with the tax office, it was very difficult. They always think that we are cheating the tax; that was the mindset. But now it's totally changed. If you deal with the SEC (Securities Exchange Commission), that has also now changed—changed a lot. Maybe we can say they have changed 100%, the attitude and the mindset of the people there have changed considerably for the better.

DEVLIN: So, in your experience when you interact with the tax office, for example, what are some of the ways that that has changed in terms of the structure of the interaction?

FIRMANSYAH: Yes, if you imagine, let's say we're in the stock exchange, we have a tax problem, we can talk with them, we can convey a message. We might say this or that. They can give you suggestions or recommendations, or let's say, if we cannot agree in our discussion, we bring it to the tax court. And finally, if we think we are in the right position, we see that the tax court will always support us; that's different.

DEVLIN: So here in Indonesia, for people who are not familiar, the tax court itself, what is its relationship to the Ministry of Finance, it is part—?

FIRMANSYAH: No, different.

DEVLIN: It is different?

FIRMANSYAH: It is independent.

DEVLIN: So, you do find that that is a reliable judicial system?

FIRMANSYAH: Yes, reliable, and we can trust them. So, we are very supportive, very, very supportive. If they think that we are in the right position, they will see, and then finally, we will win.

DEVLIN: And the tax office follows the—it's responsive to that court's rulings?

FIRMANSYAH: Yes, yes, yes.

DEVLIN: And in the past were they—the problem was with the court, or that the tax office wouldn't pay attention to the court's decisions?

FIRMANSYAH: I think last time it was difficult because when we deal with the tax people, it's different. So, we think that OK, we will lose everything, even though you go to the court. But now, when we deal with the tax people in the tax office, they are very supportive. If they say, because of their role, because of their duty, they say, "that's OK, I cannot help you in this situation". So then we go to the court. Hopefully you can convince the court. That's the way of thinking, you see, different, right? Very different.

DEVLIN: So, there's more collaboration?

FIRMANSYAH: Yes, more to give a service to the customer, service to the people.

DEVLIN: So, if that interaction with the tax office has changed so much, is it because you are now dealing with new people, or it's the same people, but they have changed their outlook?

FIRMANSYAH: I think most are still the same people, but because the new paradigm, because the new attitude, I think they think very positive. They think how to support the business community, because from where does the government get the money, get the revenue? From the taxpayer, right? So, they want to serve the taxpayer with services in a good way, and they will generate more revenue to the country, and the country can develop the economy. In the end, they will also get the

benefit, too, right? In terms of remuneration, increased collection and other benefits to the economy.

DEVLIN: And this new attitude, where would you say that change came from? You mentioned Minister Sri Mulyani. So, I'm wondering, where did that—is that something that's very specific to the Minister was something that she was able to—an attitude she was able to encourage?

FIRMANSYAH: Yes, because it's clear from the Minister that she gives a reward and punishment. Who works very well, who gives the service very well, if he or she performs well, yes, she will give a reward in a good way. So, people think that if I can do my job, it's very good, so they will expect that the reward will be very good, also.

DEVLIN: So, for all these changes that you've seen in the Ministry of Finance, where do you believe that the political support for this comes from? Why is this happening?

FIRMANSYAH: First, of course, there's—the minister has her own mind, how to do the reform in every sector in the Ministry of Finance; that's the foundation. Second, of course, she's get's support from the president, from the top man in Indonesia. Third, of course, she also get's support from the Parliament on how to do the reform in the Ministry of Finance. So you see, once you want to do a good thing, everybody will support you, because how to improve the country, how to improve the efficiency of this country; that's the goal and objective.

DEVLIN: So, on this point of getting wide support, you mention a lot of different sources of support for the minister. How do you feel? What's your opinion of the importance of public constituency for changes that—the broader public, are they involved in this? Is it publicized that these things are—?

FIRMANSYAH: Oh yes, of course. Once the minister wants to do the reform, she explains to the people, she explains to the press. So, people know and people watch. And when they see that the reform is doing well, so they will give her a positive response, what you call, public support. That is the positive reward to the Minister. So, then the attitudes also become positive. When they deal with the official, they don't think how to bribe them. They think how to give a good report, or how to report everything is in a good condition. So, they don't think to do hanky-panky anymore, because they are worried. Why? Because if they do something different, let's say, they want to give illegal money, they worry that if somebody watches, if somebody knows about this, the anti-corruption body will learn about it and, will catch them. That's also the impact, the efficiency of the anti-corruption body.

DEVLIN: Could you talk a little bit about that body, that's the KPK (Komisi Pemberantasan Korupsi)?

FIRMANSYAH: KPK.

DEVLIN: What has been your experience, what's your opinion of that body as it's grown, as it's become more active over the years?

FIRMANSYAH: Yes, it the KPK, is one of the examples of the government that wants to show their attitude to give, what you call, clean government. To set up a clean government in Indonesia. And the KPK so far has done very well. And people now worry, you know, when they want to bribe a government official because they think that in the past, only the government official would go to jail. Now, if

you give, because you want a part of the activity, you can go to jail, too. So, they think twice or three times when they want to do that. So, you see that the assistance of the KPK is very, very strong, and people worry if they do a bad thing in the business, or they have to give something to the people.

DEVLIN: In your own personal experience, was there a moment, or a particular case that the KPK heard, that was a turning point for you, you realized, wow, that this actually is—they are really tackling some serious issues dealing with some high people? Was there a moment where you started to believe that KPK was going to have a real effect?

FIRMANSYAH: Yes, yes.

DEVLIN: Which—was there a particular case or allegation of corruption that you thought, wow, this is a new level of—?

FIRMANSYAH: *Like the BI (Bank Indonesia) case, the Central Bank case. That's the good example.*

DEVLIN: That was the turning point?

FIRMANSYAH: *Yes, that that's turning point. That's a good example for the people. Also in other institutions, you see that even though in the parliament, they catch the Parliament people; they go to jail. You see, that's another good example. They've shown that they are doing their job based on the rules, and they are not making differentiation between the people. Whoever does a bad thing, there is a report and, they will investigate. If they find something, and they can prove that you are doing a misconduct, you go to jail.*

DEVLIN: So, where would you say at the moment—well there's also been some significant customs reform in the Ministry of Finance.

FIRMANSYAH: Yes.

DEVLIN: Could you talk a little bit about how you perceive that to have gone, how significant you think that is?

FIRMANSYAH: *Yes, here also is a good example about the Customs Department. Once the minister found out that the Customs Department was also one of the problems within the Ministry of Finance, she moved out around 1,200 staffs and put around 700 new staffs in the customs in Priok, in the main port in Indonesia, to improve the activity in Priok. So after that, the director-general of Customs give more attention and focus to improve the situation and increase efficiency in handling export and import activity in Priok. Not only in Priok, but all over Indonesia. He started investigation in the department without informing anybody. He just comes to the office and he gets everything he needs to do the investigations.*

So, people now are a little bit worried if they are doing illegal things. Also the minister is watching very carefully. If you know, there are already tens of people she has found, that were doing bad things and she replaces them. So, you see once you do a reform, you change people and you monitor. And if you find something, you change again. So, people see that the minister is still consistent to the reform, so they are worried.

And now, if you see that, of course, you cannot, as I said before, you cannot eliminate 100%, but at least you can improve the situation in Priok port, and you

can improve the mentality or etiquette of the people there. Because, you see, if you talk about tax and customs, you deal with people, you deal with businessmen who want to make the business faster and to get money faster, right? But sometimes, if you give them a good service in terms of the faster process, and everything goes well, they are very happy. They need to pay, right? As long as you give a good service to the businesspeople, they are happy, they don't want to do an illegal thing. They will pay everything in the proper way, as long as they can get best service.

DEVLIN: So, tax and customs are two high-profile changes in finance. Are there other aspects of the ministry's responsibilities that you think have changed in important ways?

FIRMANSYAH: Income from the budget.

DEVLIN: Budget, yes.

FIRMANSYAH: Budget, the treasury also is different now. The people/vendor or contractors feel comfortable now because they can process their billing easier—if you, let's say, for treasury and budget, if you're the—let's say that because we have annual government budget approved by the Parliament, as long as your budget has already been approved by the Parliament, and you want to disburse, if you fulfill all the documentations, and all is checked and it's all proper, they will disburse. You don't need to fake. You see, the mentality is different. Why? Because the number one shows by example, be it the president or the minister. The minister has shown her commitment, showed that "I don't deal with the bad things; yes, you do a good job, we will reward you".

Also, they improved the remuneration in the Ministry of Finance; it's very good now. You can compare with the private sector; it all seems almost the same with the private sector.

DEVLIN: So beforehand, was the experience that even if the budget was approved to have it released by the treasury, there was corruption involved there?

FIRMANSYAH: Yes, sometimes, yes.

DEVLIN: Sometimes, yes.

FIRMANSYAH: Because sometimes you need to get the money soon—faster, right? You want to do processes faster, something you have to give. But now it's different.

DEVLIN: So, there have been these really significant changes in tax, customs, treasuries. Are there areas that you think there's still room for improvement, that there's still work to be done?

FIRMANSYAH: Of course, it is not yet 100% improved. I think even though there are all the improvements, we still have to watch in the future how the improvement is a benefit to the country regarding tax reform. I think in the tax, there is room still to improve further in tax collection. Let's say the taxpayer: there are still a lot of taxpayers that are not yet registered. I think that's the situation that the Minister has to work very hard to rectify.

DEVLIN: Tax collections is?

FIRMANSYAH: Yes, because many, many medium-small businessmen do not report their activity in the proper way. So, I think they have to improve that system of reporting.

DEVLIN: What would you—I mean, I'm not sure if you've given thought to this, but what would you suggest that how that problem could be confronted, the idea that small and medium-size businesses—?

FIRMANSYAH: I think you have to do the extensification of the taxpayer. Because maybe, let's say, in other areas, there are some businessmen with medium-small businesses, who do report, but not in the proper way. So, there's the point that we want to improve their attitude.

DEVLIN: So, and then—

FIRMANSYAH: You get my point?

DEVLIN: Yes, yes.

FIRMANSYAH: Yes.

DEVLIN: Yes. So, going forward—I mean we just had the elections this week, and so, yes, that raises the question of sustainability. How sustainable do you think are these changes? Is it still fragile, or do you think this really is set, this is going to be the new way things function?

FIRMANSYAH: I think people already expect that the incumbent will win the election. I think with the result, he based on the quick call, right? - has won the election. I think he will focus more on how to improve the economy. I think politics will be stable in Indonesia. But now, how to exit from the crisis. So, because we have also been impacted, even though the impact is different from the other countries, right? But we think that because our export still emitted only 29% of the GDP, I think we have some room to improve anything in the economy. So, I think the focus of the re-elected government will be in the area of economy and how to improve the economy, improve the welfare of the nation.

I think because, if you see, there are still 30 million people in the lower income levels. I think one of the points of the government to do is to improve the welfare of the people in Indonesia. I believe, they will spend and they will support the economy to grow in significant percentages.

DEVLIN: But one thing that looks—there's talk of Minister Sri Mulyani moving on to Bank Indonesia. What's the reaction amongst business community to that change?

FIRMANSYAH: I think in one way they are very sad to hear Ibu move to the Central Bank. But in another way, people think that's a good sign also. So she can do reform in the Central Bank also. Because people see that there are a lot of things to be improved in the Central Bank as well, especially for the surveillance of the banking sector. That is why, maybe in the other way, because she did good performance in the Ministry of Finance, people think, "Why do you have to move"? But our president thinks in a different way; he requests and maybe wants to do a reform in the Central Bank. And so, maybe he can appoint a new minister who can have the same capability as Minister (Sri Mulyani), an assistant minister, maybe.

DEVLIN: So, is the feeling that there is still the staff left in the Ministry of Finance that can continue the positive developments, or is there a little bit of uncertainty there?

FIRMANSYAH: Of course they can continue, because the reform has already been done in the Ministry of Finance, so the mental attitude of the people is different. I think that a lot of people can sit as a Minister of Finance, either from inside or from outside of the ministry.

DEVLIN: So generally, you would say that the trajectory here on this financial sector developments here in Indonesia is positive and there is confidence?

FIRMANSYAH: Yes, yes, I think so. You see from the capital market itself, you see the confidence is there. After the crash in October where we were faced with a tough situation at the time, I think because of the commitment from the government, especially from the minister, we saw the market gradually improve. The confidence is there, from foreign and from local. You see the index at that time, was at 1100. Now, it's already above 2000. The liquidity is there, so confidence is there, because the commitment from the minister, also from the president, you can see that situation.

DEVLIN: So that's an interesting point, because you mentioned foreign and local investors, and a large part of the thinking about economies like Indonesia is that there are huge benefits to be gained from increasing local confidence, so capital does not leave the country, because there is a lot of capital available. And could you talk about how that balance has changed over time, and where you see it going, the balance between foreign investment and local actors who are confident to invest here and keep their capital here domestically?

FIRMANSYAH: I think for local investment, that with the current government, they are very confident. They are very supportive, because the government has shown the commitment to improve everything in terms of legal certainty, in the economy and in the political areas and they see this. And also the macroeconomics is very positive. The growth is good, it's OK, about 6% in 2007—6.1%. In 2008, because of the global crisis, it's only 5 point something. I think this is still OK. They know that the government gives the commitment and keeps it, they also think that this is the best country to do investment. The domestic investors continue to keep their money here.

As for the foreign, I have met so many foreign investors when we are doing the roadshow. Also, we met here in Jakarta. They gave their support to the government, and they give their commitment to the country, because as an emerging market, they see Indonesia as one of the good countries to do their investment. So, they're still here. Yes, in October of last year, some of them left the country, especially for the hedge fund, because they need liquidity and they have to sale their portfolios everywhere in the world including indonesia but long-term investors are still here and they are not leaving from our market. I met with them—before I finished my term in the stock exchange, I met some of them. They still showed their commitment. This one, Indonesia is one of the best countries to do the investment as an emerging market. You see that that they are not doing the direct investment, but they are putting their money through the capital market. That gives a positive sign that the economy still growing and with this signal and of course at the beginning they will put their investment in the capital market; after that, after everything are stable, they will go to the direct investment.

DEVLIN: So, on this point of the kind of predictability and reliability that's required for long-term capital investment, comes back to the issue of the judiciary and the court system. We touched on this when we were talking about taxes. Could you talk about how you see the court system today, how it has developed? Because it sounds like you are increasingly confident, but from what I understand there are still some significant issues to be—.

FIRMANSYAH: Yes, I think the courts still have some issues and procedures that have to be improved. But because of the independence of the court, we cannot interfere or influence them. But we are, step by step, going legal and also improving the attitude and the minds of people in the legal sector. That's the way government wants to do that.

But, we cannot interfere. If we are not happy here, we have to go to a higher level to see. That's, because in Indonesia, if you have a problem, if you have a litigation, you have to go to the lower court, middle, and upper court, or go to the Supreme Court, right? So, people can do that, and finally we have to respect the decision. Even though we are not happy with the decision, but we cannot interfere, right? But, step by step, the government is doing its job to improve the legal system in Indonesia.

DEVLIN: Well, thank you so much for taking the time to talk.

FIRMANSYAH: OK.

DEVLIN: I appreciate it very much.

FIRMANSYAH: Thank you.