



Global Economic Governance Programme

Centre for International Studies | Department for Politics and International Relations



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Well, really thank you. Very good afternoon, for all of you. It's really, really honour for me to be here to speak, and well in a way we will introduce Indonesia again in the world with a good story about us because in the past ten years since the crisis actually the country is suffering quite a lot of negative stories that will make us infamous with all the story that not given us quite a optimistic and confidence in now facing with the global challenges.

I'll give you a story about Indonesia, especially within my portfolio as Minister of Finance of Indonesia. A reform that was started since the crisis back then maybe I will give you a certain background of what was happening in the past ten years. And how then make us like this and how we are going to be seen in the future.

I'll start with the outline and there are four topics: pre and post-crisis. To give some of you the background about the crisis in Indonesia, the external challenge which we are now facing, not only Indonesia certainly the global economy that other countries are also facing, and what is our post-crisis reforms, especially our reforms within the Ministry of Finance. Give the idea about the complexity as well as all the program related to establishing governance, I usually talk with many of my colleagues political parties when you talk about reform and establishing good governance is always much easy to say it in a speech like this. But when you really have to be good governance and undertake the reform as you call it ,it's really, really complicated, and full time job. With this, I'll try to tell you that story.

Is this the Indonesia economic situation before crisis, during crisis, and after crisis. Before the crisis, the Indonesian economic growth enjoyed 8%, 7-8% growth per annum, which may be compatible with China at this time. Indonesia was praised with that time of achievement, poverty reduced almost half or even one quarter, and across the progress everywhere was feasible. But then, it was actually under what we call it closed-democratic systems. When you have a population of 200 million people, with such a very diverse provincial as well as ethnicity, and especially when the income per capita is moving from 400 back in 60 and moving to 1000 – 1500 – and almost 2000, there is always a complexity with getting how to manage the changing of the aspiration. Then we

got hit by crisis in 1997, start with the Thailand baht devaluation contagious to the other Asian countries. Indonesia might have suffered the most severe crisis because the interim of the economic growth suffered minus more than 13% back in 1998. The recovery was very painful. It's very long, and it's actually the only country that take longer time than us to really restore and recover ourselves. Why? Because at same time of crisis, the economic and financial was accompanied by the social and legal and especially political reform of change. Very radical that changed Indonesia's landscape until then.

1997-1998 was the most difficult time, but after that, even more difficult because we have to take from the build from this crisis, not to mention across the prescription by the IMF and the rogue IMF including that will make the complication of decision-making process and political changes in Indonesia.

With this current situation, just this year in 2007 actually Indonesia now starting with economic growth of 6%, we are now in five quarter with gross rate of about 6%, so we are very much in a strong phase to move forward in a higher growth rate level.

What make us like this? And what the difference between growth rates now and the future with what we already in enjoy in the past?

The crisis actually hit very much on the financial sector and second most in manufacture sector, but if I use the manufacture sector here, it's actually quite the diverse manufacture sector because you have quite a lot of what you call it a different kind of manufacturing sector in Indonesia. The financial crisis is different that leads the source as well as the one suffering from the crisis. It is not only the banking sector, even the central banks must be bill out by the government of Indonesia. The cost of the crisis was around 70% of our GDP and it created such a huge burden for our fiscal management especially if you have to manage your budget instead. Before the crisis, the investment is always contributing higher growth sources for the economy, from the aggregate demand point of view, investment with 30% of GDP is always growing double digit, even above 20% even up now we are only enjoying the investment growth phases still below 10%. So, that's why the debate topic in policy-making process is always put within the context of how to improve the investment climate in Indonesia.

Now we are moving quite healthy, but the change in the global environment is here. This is what we are having in we need to manage in the days and next challenges global economics slowdown. The US Recession, I think we are talking about financial meltdown even if we are talking about the financial crisis. It is not only the US, I think it's also here in the UK and people make the projection about the recession which is also suffered by some part of European. It is higher oil price, which is concerning all the countries in the world, as well as of course the movement of federal rate funds that will create a lot of implications in managing the global economy especially for a country like us. For Indonesia especially also located in the Asia region, we have China and India and is a factor that we have both possibility and at the same time challenging implication. As of now, it's more creating a possibility because they are creating a lot of support for our export demands. But then, suddenly for us, the global information is not going to be easy

to manage, especially Indonesia as a small open economy, meaning our economic growth will be depend on both the export as well as the capital accrued from the global world. The imbalance of the global is certainly recognized as the source of the current situation. The United States in this case is suffering a severe deficit, which is financed mostly by the Asian countries, but everybody recognize this discussing and IMF and World Bank have more than five years talking about how to correct this global imbalances need concrete and coherent correction by many countries but there is no mechanism for all countries to come together to make the correction until I think we will be forced by the market, just like what we are seeing today.

The next is going to be what? I think it's many analysts, economists make a lot of prediction about what is going to be the correction of this global imbalances but in short is going to be the correction of the dollar and the value and interest rate and global interest rate and economic growth as well as maybe some of tightening which should be adopted by the United States domestic policy. That will certainly create quite a lot of implication for the global economic outlook. Here Indonesia as well as other five ASEAN member countries the crisis all of us except Singapore is still having the current account GDP deficit that lead us to this correction. Since the crisis, we are enjoying consistently positive current account, until now the lead ASEAN country including China to accumulate reserve which is currently at the very highest level. Even for Indonesia, we are have 57 billion which is higher than in our historical reserve. Oil prices is certainly one of our challenges to manage, discussing how oil prices have been changed in the past three months for Indonesia since we are both importing as well as exporting oil, the oil price will certainly create a challenge for our budget management.

The current thinking is that oil price within \$100 per barrel is not something that is impossible. Now even talking about 150, this afternoon I even heard 200, so anyone could pick any number now, and know that there is no limit as to what the possible oil price may be. And certainly in this case, at the same time when the economic global economy is moving very fast and very high, some of the commodity is in very high demand, which is why spring along the commodity price, which is increasing quite steadily in the last five years. Indonesia again as an economy is blessed by rich natural resources, we are actually enjoyed this boom in commodity price, so there is a positive side for biggest rich make Indonesia at least have favorable environment to grow, but certainly this opportunity cannot be capitalized unless Indonesia is putting the right structure and system and institution to capitalize this opportunity and that's going to be our challenge.

But living in Indonesia more than 13,000 islands actually we are living in what we call a Ring of Fire, natural disaster becoming like a routine. Starting with a tsunami, especially since this new government beginning in 2004, we have tsunami, earthquake, flood, and others. That's why for Indonesia discussing about environmental damage and climate change is becoming very important to all us and is becoming one of the attention for government policy. This is definitely is going for the Indonesia economy, since it is not only different issue of reducing poverty and/or employment as well as building the right

heart infrastructure and sometime we have to rehabilitate in some areas that are hard hit by the natural disasters.

So what the crisis actually change Indonesia since 1997? The country was actually during before the crisis as I said closed non-democratic authoritarian government, and we have to push hard presidential which is now suffering and in a particular era change into an open, democratic decentralized – this is three things that are changing Indonesia landscape and the way we govern and also policy making process in Indonesia. From centralized to decentralized, we are talking about 33 provincial areas, 350 more districts in Indonesia in which the island is more than 13,000 and 200,000,000 population. The country has actually been dominated by the role of TMI, the role of the military, practically in the past and even in the ministry of Finance Director General Treasury, Director General Tax, always from the military officers. Many of state owned enterprise was very dominated by the military. Then we have the division of labor and we are putting into reducing civilian and then this is becoming very visible and also committed after the crisis in which the end the military so they are now separating and have to put all other activity other than the military to the government, including the business which is affiliated with the military.

Indonesia is recognized, of course, with Presidents who have reputation although very successful but also corrupt and all of them abusing power because there are no checks and balances close by and Parliament is not working and also not functioning. So when we have this revolt it's becoming totally open. We started an anti-corruption commission, we even have a stronger law in audit as well as all-related to good governance, with legal reform at the heart of it.

Changing the law is very easy actually, because in the past 10 years the political party has been very strong in supporting reform meaning that they want good governance, clean governance. But then, changing the law comes now implementing it, and those are two different challenges. Changing the law when all the political and public support is so strong, it will be easy. Even during and also discussing within the parliament, but implementing it you are going to be faced with the institutional challenge and the capacity of many of those institutions. We adopt and also change many central bank laws to become independents, this is because of the value of one Indonesia to supervise commercial banks and banking restructuring is at the heart of it because of the crisis. Regional autonomy and fiscal decentralization has become very, very important and very visible in the past it's always very centralized, becoming decentralized we have the minister of finance in which the underlying state law relating to the state finance especially law is also changed. We have a lot of what you call it to caution the people from further suffering the crisis which we call social spending, to cushion them from the suffering, through the direct subsidy, and then give the compensation to the poor people. This is what we already done in the past 10 year, and now the battle is more and more fought with how are we to improve the social spending, especially on education and other basic infrastructure to make sure the country is going to improve especially to achieve higher growth and equality. This is what the government now is trying to give to the

people achieving higher growth not necessarily compromising the quality and equality to the people.

This is the area of reform that changed Indonesia's economic governance fundamentally. Central bank has become independent meaning that the coordination between fiscal monetary policy should go through markets. I have to tell you this that for you telling that the country should change the way you govern will be easy, just saying you have to change, but when you really have to change it, Minister of Finance and Central Bank is no longer in one body, and that means your interaction as well as the coordination of policy is through the market instrument which is for Indonesia since the crisis because of the cost of the crisis, 70% of GDP, this have become new debt for the government. How the government actually pays all the bill for this debt is actually by issuing government bonds. What's wrong with government bonds? Nothing wrong, except Indonesia never had any experience in issuing government bonds. In the past, Indonesia when we had half the deficit of our budget is always financed through the World Bank ADP. So we never borrowed World Bank. ADA Japanese is the most government source of our deficit financing. So we never go to the market saying we are going to finance this deficit, we ask them about this bond. It's always go to the multilateral and then bilateral agency. That's why the role of the World Bank at that time was very dominant in Indonesia, then everybody can say the crisis is actually the responsibility of the World Bank – how come the World Bank is lending us a lot of money and always claiming that they are giving, what they call it, policy advice, and yet Indonesia is still suffering such a deep crisis? This has become a deep political issue in Indonesia.

Since the crisis because the cause of the crisis, 70% of GDP, suddenly the government has to issue bonds, which is actually we have no experience at all being Minister of Finance we don't have any division within MOF that has any actual experience in issuing bonds. Not to even managing it. So we have a very unique initiative back in 1999, this is what you call a very small unit for the debt management. But the size of the debt is so big that it is actually financed by this bond issuance, so some of this bond is not actually tradeable, so it is not going to the market but part of is going to the market, then you are faced with the challenge how the Minister of Finance in such an inexperienced level have to manage such a big debt, especially through the market, then complicated by the fact that central bank is becoming independent, meaning that we cannot just ask, can you finance our deficit? And that's become another what you call it management challenge for Indonesia in such a very early stage at this reform. We have adopted three laws, which have become the backbone for the Minister of Finance governance. State finance law, treasury law, and state audit law. I just mentioned that for Indonesia the first in our history since we are independent 62 years ago we reported and published what we call it the first financial statement of the country, including the first balance sheet. When we have this back in 2003 and published in 2004, our asset is only thousand trillion ruppeah while the liability is one thousand eight hundred trillion. And the people political party was so outrageous – how come Indonesia was so badly mismanaged? We are bankrupt, this country is so going to total disaster, our debt is one thousand eight hundred and the asset is only one thousand. A lot of Indonesia asset is actually not even right, not even recorded, some of them recorded is actually the book value back in 1970 so we are not

updating it. That's why Indonesia now is actually when you ask about what kind of country we are, we still actually in the transition of trying to put the balance sheet and financial statement which is very basic for a country in such an early stage. And that's why we become very powerful tool for all of us to become very transparent about our budget, why it is very important for me to tell you about the transparency and the quality of disclosure of the budget, because with that political party participation of people in the past when presidents had any objection to program and policy he could always ordered the Minister of Finance to rig the off balance sheet, something that you don't even have to consult with the Parliament. Here, now, every program should be stated very explicitly in the budget to create a good discipline in how we manage the budget, but at the same time it has created challenge because then everybody has to ask the conscious then figure out from the government which is not always easy because the legacy of many thing is not recorded in the past and cannot be corrected in a very short time. Sometime the work of the Minister of Finance when you try to fix a problem you are in the position that you will be blamed by many. As if all the mistake in the past is actually your fault now. When you are really trying to fix it basing it on this is the country's situation, this is what we are going to do, this is the fiscal statement we are having, this is the weakness. Even now we are all working independent and our leader is now like a hero, suddenly they say Indonesia is managed has been managed in a very, very sub-standard and happen to be they are blaming the government, especially the Minister of Finance. So all the pressure is there for the public asking that managing the public finance should be according to the high standard but then the question how long is a reasonable time for a country to do that? That's become the challenge which for us is becoming the heart of our reform.

State owned enterprise through the privatization, fiscal decentralization, and these two are very important. Government is always affiliated with SOE and fiscal decentralization in the past because of the very centralized you don't actually respect the local government. Now one third of our budget is now delegated and transferred directly to local government. The question is that local government enjoying this money? It's supposed to be the money for function, but now they are just enjoying the money but not the function, so many of the local people is now disappointed that the fiscal decentralization is become one of the big question with the Minister of Finance can discipline local government in order to make sure that the money that is transferred to local government will be used to serve the people in need.

The complication is certainly because the local level we are also having open democracy, now the governor as well as district level head is openly elected through the democratic system, and that makes all this complication about this fiscal management at the local level. The government has adopted quite a lot of new reform and law especially in opening up more the Indonesia investment opportunity by revising and adopting new investment law. We also revise the tax law which put the tax payer position in a much better and stronger position so that they can always have their right to be respected by the law to prevent our government officers especially tax officers to abuse as well as to corrupt and harass the taxpayer. These are all the new things for Indonesia when you are saying to clean the government, eradicate the corruption, it's always easy to say, but when you really have to deal with them, it's really like changing the law is the first

sequence you have to adopt, and the second one is building the institution. Capacity institution is a very important to really make the country functioning according to the design of their own policy as well as political design. This is the crisis that made Indonesia in this kind of situation, when in 2001 we have our deficit is still above 2%. As I said earlier, immediately after the crisis, the causes allowed 70% of GDP. After that, we still had to run the deficit financing because we have to prevent many people from further suffering from the crisis by spending more, to protect the poor people, meaning that during this time back in 1997 up to 2004, that the deficit has accumulated the debt and that is clear of the question of sustainability of our budget. That's why if you talk about the Indonesia policy fiscal policy is always talking about how to constantly negate our budget so that it is healthier and stronger and sustainable in longer time. But then when you are back to economic performance the growth rate is only 3-4% meaning that in the past to get the people in Indonesia suffering from the very limited spending on education infrastructure, the economy is not moving well. Now the question is if the unemployment is at a 10% high, poverty 16%, how are we going to reduce that level of unemployment and poverty so that new government under current President is now a little bit expanding fiscal in order to facilitate further growth. Does this mean we will spend for social spending, especially on education and health, as well as infrastructure development. What is actually the main important budget reform that we are having? We are now under the new state finance law, that is adopting performance with budgeting multi-year budget and reform, which is usually a listing of very transparent management.

Despite our very high debt exposure after the 1998 crisis, this is our government exposure after the crisis which is close to 100%, the debt to GDP ratio is quite declining quite steadily. Why? This is to be the case because the growth rate is enough as well as the strengthening of our currency. 50% at the time our domination of the foreign debt was there, because of the depreciation of our currency, then we have quite balanced debt between domestic and foreign, and this is what we are actually enjoying after the consideration of the fiscal policy about seven years that make us now in a very healthy position of our fiscal policy which is debt exposure below 35% come 2008, which I think for many different standards put Indonesia in a very positive position. Again, in this case, on extra balance because both trade balance as well as capital account is in a positive surplus and we can and we are able to accumulate reserves up to 57 billion for Indonesia meaning it can cover more than 6 months of the import. Government subsidy still remain the biggest spending for us, this is one we are trying to settle in how the government spending policy should serve the people and to lay down the higher growth in the future but without creating a shock for especially poor people. Back in 2005, we actually suffered from high subsidy on fuel, because fuel increased from \$33 a barrel to about \$55 for a barrel. The government decided to increase the fuel price by more than 100% which made it a little bit improvement in our subsidies exposure. It created what a lot of political tension, but after two years we are in a much better position with our subsidy exposure. But still, this is not solved yet in the sense that just like many other countries, government tried to protect the poor by providing the administered price for the fuel, but always is not working well, when you combine with a weak institution, and much of the subsidized fuel is not going really to the poor people. This is another challenge for us especially under the current oil price which is close to 100%. This is what I mentioned

about the decentralization policy which is quite radical. In the past, it's only a small portion of our budget transfer. Now it's about one third of our budget, directly go to the local government, meaning that the challenge is going to be for the transfer for the local government to perform better.

I think I will skip this, this is Indonesia if you compare with other ASEAN countries. Indonesia is in a much better position now if you look at the debt to GDP ratio as well as other indicators related to the corporate as well as the micro-level as well as the monetary, so I am going to skip this.

This is how we are going to manage our debt. When we are first having the crisis, this is our debt as in here up to 8 billion, now the debt management is actually stabilized and we are just before came to the United Kingdom I was in United States to sell 2 billion bonds last week, under the current market perceived as quite a successful transaction. Now Indonesia become what we call it the regular issuance of the both international as well as domestic bonds. We are now creating a different landscape for our fiscal position. In the past when we have suffering deficit, the first to manage is to negotiate with the World Bank. Now if you have the deficit we have to announce to the public and then go to the market. The market can punish the country even more than the World Bank, actually, but the market doesn't give you explicit conditions unlike the Bank. This is something that I have to inform to my political party colleagues, because they don't know that if you go to the market it's for free, there is no conditionality except that you are wrong. They came in very harsh when we are making the wrong policy because they never negotiate but punish you with the higher interest rate. With the Bank, you can negotiate here and there and of course if you have a very good relationship of course they can give you another six months, adjustment, and so on, but it's a cost politically, very annoying for everybody to see a lot of World Bank people around the Minister of Finance discussing and debating and they feel they can overstep and having and taking over the sovereign position. So all this thing is the pro and cons between financing through the multilateral institution, which is cheaper but again create a lot of political stigma especially for Indonesia, compared to just going to the market, you can have more than 300 situation at the market today, you have to pay much more expensive than if you borrow from the bank. So that's the cost of being independent, when you call it like that from the Bank.

Then Indonesia credit rating is improving very steadily but certainly a long way to go for us to be in what we call it investment grade, certainly if you look at the indicator we are there and there is a positive chance for us to expect Indonesia credit rating will be positive. This is maybe if you compare with the US now it's going down but for us going up because the US now is suffering from such a huge deficit. That's why in G20 meeting usually among the finance ministers I always tease with the US Treasury maybe he will switch with the job with Minister of Finance of Indonesia, it's much easier to do now.

The Indonesia fiscal position was based on colonial law before the crisis. It's outdated and not giving us enough tools for everybody to and force as well as to monitor whether the budget is reflecting the political choice as well as the need of the country and,

especially on the financing, it's not that actually explicitly getting at how much the deficit allow how you are going to finance it and how you are going to govern.

Now our law is totally new in which you are going to have situation in which you are mandated by the law to be open and consistent and transparent in managing your budget. We were from the close of the decentralized political system virtually no check and balance at all, that's why Minister of Finance at that time was actually the most enjoyable job because you can do almost anything and no one asked you in the Parliament and no one asked for the financial report and so on, so I envy the Minister of Finance fifteen years ago. And then the system was not transparent and no accountability, there is no reporting. The bureaucracy in Indonesia was so fat because it was designed to absorb the employment so many of the recruitment is not really based on what we need, what job or skill we really require in order to fulfill a certain function. This is creating what you call it legacy of the current situation that we have to correct. It is not always easy to correct that kind of institutional situation, the incentive system is not functioning. In Indonesia bureaucracy usually you make a very bad joke like this. Whether you are stupid or smart you are going to be paid the same, which is low salary. Whether you are working or not working you will also receiving the same salary, which is low salary. When we are discussing with the anti-corruption commission, we discussing about if you want to correct and build the right institution bureaucracy in Indonesia, the question is whether we have to pay higher salary for bureaucracy, it depend – the answer – the current schedule of salary is too high for those in future is not functioning. But certainly for many or a few stuff which is functioning very well this certainly underpaid and most of them are under the Minister of Finance in which we have to manage the resources including to collect tax, to safeguard the borders through the customs system, we even in this case have to manage the debt, and you imagine that my officers is managing the debt which is around 30% of our GDP and then have to interact with the market investment managers, and this government officers is not paying enough salary. What kind of position do they have to show to those who are really facing with the market competition, which is actually creating quite a lot of fairly complicated, demoralized, and if you are not careful it can create a breakdown in system. That kind of situation is actually quite persistent in the past 10 years, and right now is the challenge for all us, and that's why the question how you are going to reform your bureaucracy in order now they are going to function under the new rule and under the new circumstances in which accountability becoming very, very strongly demanded, and the capacity is yet still lacking there, and that's become the challenge for all of us.

How we change ourselves? First, all the laws have been changed, which is actually the new and very good beginning. State finance law, state treasury law, and accountability law as well as the state audit law. That is all the necessary regulating framework that will ensure Indonesia will be governed in the aftermath of the budget system according to what you call it the best practice in international standard. And then the new law, the Minister of Finance is acting just like the CFO in a corporation. And certainly the word CFO in Indonesia is not yet known or popular. What is CFO? What is this treasury function? It is more like paying the bill, or you have more a function as a Treasury in which you are also make sure that your policy and allocation of resource is going to serve

the public interest as well as national goal. This is something that is a new concept for Indonesia. Checks and balances have become very important. Under the constitution, the budget is actually checked between government and the parliament. The parliament is now suddenly realizing that they are having this budget power, and they are enjoying it a lot. And actually now, as many of you may have heard, the corruption is moving from the government and into the parliament, because they now have become the real power of saying how much money will be allocated for which activity in which region, and for them this is very powerful authority as well as exercise that will be enjoyed by them, especially when they are not actually becoming also too transparent. For government, we have to be transparent, but for parliament, the question is how the transparency they are enjoying their authority, they have to make sure that the governance is there, but the governance is not strongly enforced among the parliamentary members because when they start doing the anti-corruption, well I think they are not clean enough also, how can you enforce the anti-corruption? So among themselves, I think what you call it the self-discipline is still very lacking and very early. For Indonesia this is going to be a very, very tricky situation for all of us. But we are having the state body which is now functioning and has become quite powerful not to mention we have anti-corruption commission, which has also become one of our institution which will enforce more and more good and clean governance in Indonesia. And we are forced by law to have the report as well as the accountability, including the accounting standard. Even what you call it the procurement system, we are adopting the OECD standard. This is something that for many of Indonesia is new, because of in the past the procurement of the government budget or project is actually among friends. This is what you call nepotism, connection. It's very important, and I believe in other country here are not free from that. In Indonesia the procurement system is very professedly in the past dominated by those kinds of practice, now we change into a very open transparent. The question now is who is going to execute that? All the government officers, who are all severely underpaid, and they have to be tempted by this procurement system, how to execute a clean procurement especially in the aftermath project? And that's become one when at the same time enforcement is there, that government is not correcting the salary as well as the skill of many of the government officers. You are imposed them with the new law, the question is what is the origin of disaster actually. Because in 2005 our budget process almost paralyzed. Only 60% of our budget can be executed. Why? Because government officer doesn't want to do their job. That's it. Why should I do the job? Now the law and regulation is too complicated. Now I have to attorney general, police, anti-corruption, everybody is actually scrutinizing us, and my salary is not even improving. If I'm not doing the job the government will not also fire me, so I might not just do my job. So in a situation when we are actually desperately wanted to execute very good programs in poverty reduction, creating employment, and even if you have a very good intention in imposing good governance, putting the right law there, not necessarily going to have an immediate good result. The country was almost paralyzed in 2005 because of this kind of situation. So since 2005 to 2007 we have to work hard. This is also another conflicting message that the government will be very careful managing in this situation. If the president says ok let's forget about the good governance and anti-corruption, as long as the budget will be execute that will be fine because I'm elected to do this program, and I promised the people to do this. Then the government will be accused by the people that

we are not being committed to good governance. But if we stick to the good governance, then everybody will be paralyzed.

So on my statement I said, is it really that good governance and anti-corruption really a trade-off of development? It should not, but if this is the case, then we really have to implement it in the very early stage like at this time, and this trade-off is really, really not easy for us because you are going to choose between two very important principles. You want to still execute the program, but make sure the country is developed, poverty is reduced, but you don't want to sacrifice the principle of good governance.

That kind of situation then comes to us by a lot of what you call a lot of communication coordination, and consultation among various parties. Not to mention, that all the attorney general officers should be disciplined because all the people suddenly are in the position of enforcing good governance, they can intimidate people. Do you want to be investigated or not? If you don't want to be investigated, then pay me. That's another corruption changing again from that intimidating into another intimidating matter. It's quite a complicated when you talk about clean the country. Of course you want to clean the country. Make the new law. Well, we are making the new law. Create the check and balance. Make sure that the check and balance is not going to justify corruption between the check and the balance. That actually can happen and it's happening. This way to really cut between the two situation is not always easy. How we are going to do it in Indonesia in the Ministry of Finance? For Minister of Finance, it is definitely even more complicated, because as I said, when we adopting this budget principle unified budget now we are allowing to have interim planning for more than one year. That needs to be executed by the new bureaucracy actually, if I have a free hand I will say to fire all the bureaucrats and I'm going to hire the new one. Well that's not in your table, the choice is not there for you to take, you have to come up with the second best or least worst option. You stick with this bureaucracy but then you have to do your job. That's what you have to do now in what you call it the government interim management reform. I'm going to just very briefly this is how the budget mechanism because that will show you about how the structure of governance is actually reforming. In the past the budget will be set by the government and no discussion, it's just formality with the parliament, only the parliament approves it, and that's it. And then you execute it and then you don't have to report it, here now you have to submit your budget and then the Parliament discusses with us in a very open, very rigorous, very tiring debate for three months, and then you have the budget approval and then you have to implement those budget, our fiscal year is January through December, when you finish December three months after December you have to finish all the reporting. After that it will be audited by State Audit and then after that you have to discuss with the Parliament about your report, and the audit report. Here you are going to be grilled by the Parliament why you didn't do that, why you did this, why you do it wrongly, and so on. So it's really quite a rigorous budget cycle for all of us.

Here what I said in the Ministry of Finance 62 000 staff under the Minister of Finance thanks to general tax, custom, treasury, and asset management, and then on the half quarter businesses on which we have quite a lot others: general budget, fiscal balance, debt management, fiscal policy office, and all the other supporting staff.

This is quite a big ministry and among the biggest in Indonesia, not in the world, but this is 90 000 in the United States. IRS is a little bit far from the Treasury not really directly, here it's all directly under the Ministry of Finance. Now here you have all the your officers will be paid according to what you call it the bureaucratic system regardless of you are working in the tax custom treasury or fiscal policy office or secretary general or inspector general, you are all paid the same if you are at the same level. While actually you know that the challenge between all this division is certainly different and that's why you supposed to recognize at least the importance of a reforming the system.

So how we start with the reform? First we establish the dedicated people. I start my first day as minister of finance and called for all the meeting, and I said, how should we reform of the ministry of finance, and everybody said, nobody reformed it for 10 years, but if we reformed it, why everybody still not trusting us? Why everybody still actually give us all this bad joke about bureaucracy? So I said, definition of reform should be change, how we can build this public trust? Restore the public trust, that's what I call reform. I don't care about the other name, but this is what I call it reform. How do we restore this public trust? Anti-corruption, put more competent bureaucrats, how should we achieve that? We have the dedicated team and structure, working with us, every week, to start with the brainstorming, just in from rising and telling their feelings, even the Ministers of Finance in the past it's like silo-management because at the end of the day Director-General is in a quite separate and isolated way. Now I change saying that you have to sit together, any policy made by tax is going to affect a lot on our budget, and that should be known by the other division. And that's what we are now calling it the teamwork, and the decision to institutionalize is not a personal decision it has become an institution. That's why it needs to be debated among all of us.

Why I have to do this? Because if you have the management which is closed and exclusive to the authorities held by one person, you can easily abuse that authority. You have to create check and balance within your Ministry and to make sure your decision is based on good judgment. And know that if you are going to be monitored and scrutinized by other colleague or other team, their probability of making mistake or to abuse is minimized. That's what we are having. Don't forget in the ministry of finance including the policy to get us facility, if we get the tax deduction to have what you call it power of reduction. There's a lot of money you know, I can easily become rich in Indonesia, by entertaining one or two businesses, do you want to have a facility? Please come to my house, put some money into my account, you will be fine. Do you think I cannot do that? Of course I can still do that. So we said to all my staff, do you want to be pressured by all this business community that you are going to be personally responsible for one policy? I'm not going to let you do that, because it would be irresponsible to let you be in a vulnerable position, it's up to you whether the Ministry of Finance reputation will be at stake or not. So even here, even in the designing of policy, you reduce what you call rent-seeking by putting the policy debate in a more open space, we have weekly meeting, we have monthly meeting. Of course some of the office will be in a very uncomfortable position because in the past there have been hanky-panky arrangement. Fine. So you will have to sit with the bureaucrats in Indonesia is low-salary but you know, many of my

former Ministers of Finance, he's just former Minister he built a house. And next to his house he found a really big and tall house in a very rich location in Indonesia, very expensive location. And he said: that house belong to who? It's only like the third person of the Minister Finance.

We can easily tempted and become corrupt because the power is so abused under the Ministry of Finance. So we try to open that one, and then we say what's the law asking us to do? So which do this, this is what the law mandated us, so how we now have to do that, we built what we called the road map, and then we talked with the media. I invited the senior editors at a regular meeting and I said, I am having this job. I actually don't like this job, but you are all asking me to do this, so fine. What do you want me to do? You want me to fix Ministry of Finance? Ok this is the problem that I am facing. You want to support me? Yeah, ok, then ok I will regularly update you about our situation so we are actually with the media in a very close powerful one, no one will not mess around with this guy, because he knows exactly your report, and he can squish you, and even if he can negotiate with you of course. So when I replaced this guy everybody saw, ah, she's able to replace this guy, we didn't because the first you know they are making a clock ticking, one man sedated replaced this guy, second man, then everybody make prediction three months, six months, I think she's going to be co-updated by this guy, so when you change on the third month everybody so surprised, suddenly because I don't want to do this to create a new public expectation, I said to this guy, Batt, he's a very respected and good in skilled managing, I said, the public trust and also the suspicion toward your institution is so huge, I just cannot afford to have you with me, because if you still surfing no matter how good you are, which I admit you are good, but I'm sorry you don't fit with the public expectation anymore. So, I'm going to replace you, do you have any objection? Of course not, because I am the Minister. And then, I even okay, if I have to replace you, do you have any suggestions about who I should replace you, who is the candidate you have? He gave me some names, okay I will interview them. So I interviewed them. And said, you were nominated by this DJ to replace him. Can you promise me that you are going to be better than this? Than him? No we cannot, then why should I appoint you if you cannot promise me that you are going to be better than him? So then I said again to this DJ, Batt, all these names that you nominated and recommended, they said they are not going to out-beat you, so how should I replace you if I have to choose off these names. So then we are discussing a new way I can replace without creating a hard feeling hopefully, but I am not creating a political embarrassment for him, but given what you call it the elegant exit for him, I give him all the opportunity to advise me, but I said you just cannot fit with this public expectation, it's not me to decide, it's the public who asked me to do this job, and that's why maybe you were excellent in the past but no longer at this time. All this has become, I mean the way we manage things is actually by discussing these people by saying I'm facing this problem and it's not me to create this problem, but I am here to fix it and you are involved with this problem. How should you solve the problem together with us? This is also actually applied to all the government officer in the Ministry of Finance. So suddenly they realized in the team that hey, that minister wants to fix the problem, and we were the ones who actually created all this problem, and he asked me to fix it, so we better to fix it or unless I will say I gave up, Indonesia maybe actually the fate of this country is a failed country, it is your failure and not mine. I said

because why? Because I gave you the opportunity to fix the problem, so we did that and unlike in the past in which we always hired nice consultant or even world bank coming to advise and telling us to do this and that, we just doing that by ourselves. You go ahead do the reform, you define the reform, you just doing it.

And the Bank suddenly comes to me, the World Bank, as a very important institution in Indonesia in the past. How can I help you? Well, you cannot help me. Please stay away because I want to reform first, because if you are with me, then everybody will speculate I reform because of you. Go, go, go. Don't get close to me first until everybody will be in there very position to do the reform. So here you try to create what you call it the sole ownership among those people because when I was in the IMF looking at the many other countries' experience, they actually make one very simple conclusion about the success of the reform if it is ownership is there. And you try to create ownership, how it is not only the minister who wants to reform, it's the whole ministry who wants the reform. I even using some time like the preacher, you know, how old are you? 55. Ok, you are around 10 years older than me, I'm the Minister now. How many more year you are going to live? No one knows. But at least you are 5 years away from your retirement. If you retire, what do you want people to remember you? I ask them, do you want the people to remember you as the corrupt officer or do you wanted to be remembered that you are cleaning up and building this institution. And they feel that, yeah, that's the right motivation. I'm not asking that Indonesia should be like a noble and, that's your own motivation to reform because you want to be remembered as good officers in Indonesia. And do you want to be humiliated that this country cannot reform because we cannot do this? Of course they don't, and that's why what we call it the ownership is there, and I can tell you after 18 months and 2 years, the first and easiest part is to create this ownership. Now, all everybody excited, yes we want to have a reform. Okay, now, to the roadmap – they do the roadmap – they organize to create check and balance, open policy systems so that it will not become corrupted, we created very easily the structure, we created every division have check and balance, every job defined, have a stand up operating procedure, we establish what we call it the manual of work, Indonesia in 62 years worked without manual, we are okay actually.

Now I said, how can we justify a job has been properly done not if you don't have any manual? Well, it's using the common logic. How about if your logic doesn't work? So we have to have this manual, so now we have like 6000 manuals in the Ministry of Finance. Then come up Ibur, if we have to do all this thing but if salary, if our staff is still like close to the poverty line, how are we going to expect this bureaucrat to work as a normal bureaucrat? It's ok, ok. Make the exercise better, if I have to increase your salary not equally close to the market standard, but at least 75 closer to the market above the poverty line, of course. So we make a survey about this is the market standard, and this is the minister of finance, and this is the market standard. So we said, the average is here and we are just closing in. and we calculated the budget needs. It's 5.4 trillion to increase, which is in billion, \$500 million for one year's salary for the whole Ministry of Finance. Well, I said, I don't have money. \$500 million per annum, I have to ask the Parliament. So you have to go to the Parliament. And that's another task here for you, are you going to ask for \$500 million to pay the salary of your own staff, and saying that it is not a

public waste. So you have to talk with the media first, so I invited the media colleague and I said, you asked me to fix the Ministry of Finance, and this is what we are going to fix and this cost us \$500 million. If tomorrow you are going to put it in the news that Minister of Finance wasting public money and become very careless increasing the salary three times or four times of their staff, then you are going to kill my program. Do you want to kill my program, or are you going to support me? You trust me that I'm going to fix this bureaucracy or not? He said, I'm supporting you. Ok, then choose the right headline. It's really up to you if you want to kill, I'm fine, I don't want to be a Minister of Finance anyway. Tomorrow, I will be fired, that's fine, I'm going back and I'm maybe doing something much enjoyable. So they said, ok, we trust you. So please, please put the right perspective. I give them all the map of this roadmap of this reform. This is what we did, this is manual, and this is the reform. So, I am at your mercy whether you are going to support me or kill my program, because once you put it in the good headline, the politicians will support it or oppose it. So then I have a very nice headline. Almost all the media, I didn't pay them, not a single rupia, no. Well in Indonesia it's usually if you ask something you always pay it people right, I just tell them this is the country need, and this is the program, this is what we are going to fix. Please help me; they help me. So now become a very good headline everywhere, all the media, none of them is actually negative. So then the political party and the opposition, hey the Minister of Finance doing this, and she's going to ask me \$500 million, and according to the media this is a good and important, so they're not in the position to oppose it, because if they oppose it, they will be seen as not supporting reform. So when we discuss it in parliament, I have almost like 95% of the parliament vote, regardless their parties. They are all supporting this reform.

So that's the good story of Indonesia, so I pay my staff now in what I call it decent salary. I'm not saying, I said to them, I'm not going to make you rich, if you want rich, out from the Ministry of Finance, be a businessman. But, I promise that I am going to pay you decent, meaning that after that you have to become a decent bureaucrat. Your position in the society is actually you are here, this is our people and you are here. You are middle upper class, you are not among the poor people, and that's why you have to lead this country. So, this is what we are having and then I promise to them, how the public know we are going to deliver the result, this is what we intend to do, this is the result we are having. Within five months I am going to report you. If my staff is still corrupt, tell me, report to me. And then I will do the disciplinary action to those people. So this is what we are doing, giving them the right motivation, stand up operating procedure, clear job description, and enforced discipline. What is the result of our work? Usually at the end of the year distinguished person will announce People of the Year of the Republic of Indonesia. This time they chose six people, and three are coming from our ministry. DJ Tax, DJ Custom, and one of my higher ranked officer that actually overseeing the debt, the biggest port in the country, become the People of the Year. And the result, our custom revenue increasing 115% and this is despite that my part of it has been declined, and those people now gaining the recognition, and then even my Vice President and President say, how come you have 3 people of the ministry of finance having this award of the people? I don't know. They're so popular now, even more popular than the president of course. But don't worry they are not going to run for the president. They have become

just the bureaucrat, but this is just one of the rewards. Then the president and vice president recognizes the reform, the political parties feel they are giving the right blessing to this reform. And then returning to the public, this is what we are going to achieve, and I am also open to the public accountability. I always open to the correction and not saying that the whole problem in Indonesia will be solved, but we are going to solve it one by one in this case. So with that, I think, overall, interim of the policy, we are putting the right governance. Now if I have the right governance, the mechanism, the question is whether my staff have the right competency, because then you are discussing about a challenge – oil price increase, budget deficit, facing with the global slowdown – and I have to add in Indonesia the competency of many of our staff is actually like behind, since the crisis ten years we are quite like behind in different opinions, sending people of good people in Indonesia to take their master, PhD programs, to have a good exposure in the policy-making. So that's why my job here, I'm visiting different country, I always say, will you give me another scholarship for Indonesia? I will send my staff there. Because in Indonesia at the end when you put in the right institution, you get the right result, it's like really whether they can really perform that function, and it's actually related to the ability for them to form the right policy. Certainly, in this case, it is not always a good and smooth process, it's always have with a lot of bargaining, but if you stick with the principle, I think so far we are quite supported widely by the public as well as the parties. The president, or the capacity of the media, and even all the institution which is committed to the good governance. And of course in this case when you so certain result that it will create more motivation for the public to do the same, and this is what exactly what we want to do.

So that's the story of Indonesia, it's an interesting story but I can tell you if you are applying for the job as the Minister of Finance for Indonesia, I hope you will come to replace me. It's really tiring, but I think the past almost three years have been quite exciting and challenging, hopefully it will be sustainable. The next question many ask to me including the media they are asking this president will, the term of the President will end 2009 October, and they say, whether this reform will be sustainable after that. Well, God knows, I don't know, I cannot guarantee. But once I put it there, it become the public asset; ownership is there, I'm quite optimistic that the sustainability is at least will be guaranteed. So that's the story of us, thank you very much for your attention.