Support to Civil Service Reform in Indonesia

Report from a Programming Mission
to Jakarta 2-13 February 2009

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## Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>Bappenas</td>
<td>Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)</td>
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<tr>
<td>BKN</td>
<td>Badan Kepegawaian Negara (National Civil Service Agency)</td>
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<td>BLU</td>
<td>Badan Layanan Umum</td>
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<td>BPK</td>
<td>Badan Pemeriksa Keuangan (Supreme Audit Institution)</td>
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<td>BPKP</td>
<td>Badan Pengawasan Keuangan dan Pembangunan (Comptroller of Finance and Development)</td>
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<tr>
<td>BPN</td>
<td>Badan Pertanahan Negara (National Land Administration Agency)</td>
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<tr>
<td>DfID</td>
<td>Department for International Development</td>
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<tr>
<td>DP3</td>
<td>Performance evaluation tool mandated by civil service regulations</td>
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<tr>
<td>DPR</td>
<td>Dewan Perwakilan Rakyat (House of Representatives)</td>
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<td>DPRD</td>
<td>Dewan Perwakilan Rakyat Daerah (Regional Representative Council)</td>
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<tr>
<td>Golkar</td>
<td>Golongan Karya (Functional Groups; a political party)</td>
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<td>Keppres</td>
<td>Keputusan Presiden (Presidential Decree)</td>
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<tr>
<td>KPK</td>
<td>Komisi Pemberantasan Korupsi (Commission for Eradication of Corruption)</td>
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<tr>
<td>LAN</td>
<td>Lembaga Administrasi Negara (National Institute for Public Administration)</td>
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<tr>
<td>MenPAN</td>
<td>Menteri Negara Pendayagunaan Aparatur Negara (State Minister for Administrative Reforms)</td>
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<tr>
<td>MPR</td>
<td>Majelis Permusyawaratan Rakyat (People's Consultative Assembly)</td>
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<tr>
<td>PDI-P</td>
<td>Partai Demokrasi Indonesia Perjuangan (Indonesian Democratic Party of Struggle)</td>
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<tr>
<td>Perda</td>
<td>Peraturan Daerah (Regional Government Regulations)</td>
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<tr>
<td>PKB</td>
<td>Partai Kebangkitan Bangsa (National Awakening Party)</td>
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<tr>
<td>POLRI</td>
<td>Kepolisian Republik Indonesia (National Police)</td>
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<tr>
<td>PP</td>
<td>Peraturan Pemerintah (Government Regulation)</td>
</tr>
<tr>
<td>PT</td>
<td>Perusahaan Terbatas (limited-liability company)</td>
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<tr>
<td>Sakernas</td>
<td>Household survey executed on an annual basis</td>
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<tr>
<td>Satker</td>
<td>Disbursement unit (within government institutions)</td>
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<tr>
<td>SK</td>
<td>Surat Kepala, legally binding document issued by an institutional head</td>
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<td>SOP</td>
<td>Standard Operating Procedures</td>
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<td>TNI</td>
<td>Tentara Nasional Indonesia (Indonesian armed forces)</td>
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Executive Summary

Purpose

This report is intended to provide a basis for a decision within the Bank on whether and how to continue and scale up an engagement on civil service reform in Indonesia. The form and content of a presentation of the findings of the Mission to Indonesian counterparts will be determined subsequent to a decision on the Bank’s future engagement in this area.

Main issues

Indonesian institutions are increasingly experiencing the ways in which existing civil service policies, rules and practices impede institutional reforms aimed at improving performance within all kinds of public functions from service delivery to policy making. The list of impediments most notably includes:

- A poorly coordinated institutional set-up for management of the civil service impedes the initiation and management of whole of government civil service reforms.
- New establishments are determined administratively and ad hoc which leads to an expanding civil service and an uncontrolled increase of wage-bill costs and pension liabilities.
- Detailed and uniform requirements for organizational structures at the level of institutions create overstaffing, fragmentation, unmanageably large spans of control and organizational set-ups that are not fit for purpose.
- An outdated grading structure and an unclear pay and allowance system do not support performance orientation. Pay levels are not harmonized across the public sector and some processes for determination of pay are ad hoc and therefore do not meet requirements of transparency and good governance.
- Rigid and detailed human resource management policies (including for recruitment and selection, promotion, rotation and training) do not support professionalism, improved performance and undermine capacity building and sustainability of sector reforms.
- Lack of reliable staff data and poor human resource management information systems make modern human resource management in institutions and at the whole of government level impossible.
- Pension policies are obsolete and pension entitlements are too small in relation to active take home pay levels. Pension costs and liabilities are not under control posing a risk of future unsustainable funding.

Civil service reform is needed to sustain the important institutional reform results achieved over the last 10 years in various sectors and policy areas and to further consolidate Indonesia as a progressing middle income country. As the Minister of Foreign Affairs asserted during a meeting with the Mission:
“It is critical that the democratic Indonesia will be able to provide fairer administration and better public services to its citizens. This requires reform of the bureaucracy and this is precisely what makes such reforms both important and urgent. If the democratic Indonesia will be perceived as unable to provide better services to its people, our credibility is at stake.”

**Current reform initiatives**

Due to lack of reform initiatives at the whole of government level, a number of agencies at the central level and regional governments have in recent years initiated civil service reforms within or alongside the existing regulatory framework. These reforms have been undertaken with strong ownership by dedicated leaders and in some cases they are accompanied by significant budget allocations to finance increased remuneration.

However, as reforms at the level of institutions and regional governments cannot address the roots of the main impediments they have to “work around” the system and add new layers and structures to the existing ones. This does not provide for increased efficiency, nor does it guarantee sustainability as reform achievements are recognized as ad hoc annual exceptions to the general regulatory framework. To get reform achievements sustainable, current reforms must be broadened and scaled up in the sense that they must now start to address policies and regulations at the whole of government level. Otherwise, it is not certain that reform momentum in reforming institutions will continue when the current reform minded leaders move on.

The most comprehensive reform concept is the Bureaucracy Reform Initiative, initiated and implemented in the Ministry of Finance since its initiation in late 2006. This reform concept aims at addressing both corruption and efficiency shortcomings. The Supreme Audit Institution (BPK) and the Supreme Court are in the process of implementing the Bureaucracy Reform Initiative as designed by Ministry of Finance. 15 additional central institutions are scheduled to be added in 2009. The Government’s plan is for all 73 central Government institutions to be in the process of implementing this reform concept before the end of 2011.

Increasingly, the central civil service management institutions appreciate that whole of government reforms are needed and there is in many quarters momentum for national civil service reform. However, the central civil service management institutions, i.e. the Minister for Administrative Reforms (MenPAN), the National Civil Service Agency (BKN) and the National Institute of Public Administration (LAN) suffer from a lack of effective procedures for collaboration as well as fragmentation within each agency. They are also characterized by low capacity, lack of comparative knowledge of good practices, and a lack of project and change management experience.

The reform experience and drive at the institutional level and the increasing recognition in the central civil service management institutions of the need for reform is a significant departure from the previous lack of interest and willingness to undertake civil service reform at the national level in Indonesia. Accordingly, the conditions for
proposing adjustments to the reform agenda are favorable and it is likely that donor support could add value to the process. Added value could result from convening main stakeholders, providing a better knowledge base for designing and undertaking reform and facilitating the sharing of good practices.

**Recommendations on scope, focus and approach of continued reforms**

Continued and scaled up reforms of the civil service in Indonesia should build on the current reforms at the institutional level and move on to reform at the whole of government level making use of good practices already applied in Indonesia both within and outside the civil service, e.g. in the Commission for Eradication of Corruption (KPK) and in some well-managed state-owned enterprises. The focus should be on six priority areas:

- The regulatory framework and the central institutional set-up for civil service policy making, regulation and management. The purpose would be to increase flexibility at the institutional level and modernize and strengthen the capacity for a relevant central management of the civil service.
- Establishment controls and modernized policies including way organizational design and staffing level are decided on. The purpose would be to better control the size and cost of the civil service and allow for flexibility to improve efficiency and get better value for money;
- Pay and grading schemes. The purpose would be to i) ensure greater flexibility, ii) improve performance, iii) harmonize pay levels, iv) increase transparency and v) strengthened governance in the pay determination process;
- Human resources management policies. The purpose would be to provide flexibility and devolution of employer responsibility to institutional levels in order to improve professionalism, accountability and performance.
- Human resource data quality, management and processing. The purpose would be to make effective human resource management and workforce planning possible at all levels.
- Pension policies and funding arrangements. The purpose would be to modernize current pension policies and eventually to move from the current defined benefit pay-as-you-go system to a pre-financed defined contribution scheme based on thorough analyses and with appropriate transitional arrangements.

The strong reform momentum and drive at the institutional level should be leveraged to this effect and support should be given to ensure that ongoing reforms at the institutional level become sustainable through broadened and well-designed reforms at the whole of government level.

It should be noted, however, that introduction of program budgeting and modernized budget practices are preconditions for successful implementation of the more fundamental civil service reforms suggested in this report. A modernization of Indonesia’s civil service will require that establishment control and decisions on size, organizational structure and staffing of institutions and regional governments are moved
from the administrative domain controlled by MenPAN into the public expenditure management domain controlled by the Ministry of Finance and ultimately by the Parliament through the budget process.

Proposal for a World Bank program

A possible World Bank program in support of continued and broadened civil service reform in Indonesia would add value by convening stakeholders and facilitating consensus-building and by strengthening capacity for designing and implementing reform at the whole of government level as well as at the institutional level. This could lead to a program with four components:

- Component A: Providing a stronger knowledge base for reforms: Undertaking analyses in cooperation with Indonesian Institutions
- Component B: Peer to peer sharing and learning: Exchange experiences of good practice within Indonesia and with other countries, keep track of reform efforts, facilitate peer reviews and evaluate reform progress
- Component C: Working with central civil service management agencies and targeted reforming line institutions through coaching and technical assistance
- Component D: Reaching out to the public – working with civil society and the media

The proposed program could be supported by a combination of:

1. A lean, grant funded, facilitating “secretariat” in the Bank
2. A grant funded partnership with independent Indonesian institutions and organizations and/or with regional partners
3. Facilitation of a high level policy dialogue though the inclusion of Civil Service Reform related triggers in the Development Policy Loan series and similar instruments.

Accordingly, the program would aim at making use of all available Bank modalities to support and to further reforms.

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1 In addition, the mission encountered a strong demand for a component for strengthening in-country training opportunities and providing overseas scholarships to reforming institutions. Such an activity would require substantial funding and key counterparts expressed support for a World Bank investment loan to this effect. It is outside the scope of this mission to pre-identify such a loan. However, if a decision is taken to proceed with such a loan, the activity would fit with the program outlined in this report.
1. Introduction

1.1. Background for and objectives and conduct of the Mission

1. Indonesia has undergone remarkable political, institutional and policy transformations since the fall of the New Order Regime in 1998. Demands for reforms from the public have been strong and Indonesians have generally elected reform minded governments. Results have been substantial and broad based ranging from constitutional changes, de-politicization of the military and police over big bang decentralization and granting of regional autonomy to establishment of anticorruption agencies, re-organization of core ministries and comprehensive policy reforms.

2. Public sector modernization has focused on implementing decentralization, modernizing tax administration and reforming public financial management starting around 2000-2003. Civil service reform entered the public management reform agenda in late 2006 when the Ministry of Finance started to develop and implement the Bureaucracy Reform Initiative. It further gained momentum in 2007 when the Minister for Administrative Reforms (MenPAN) began a broader scaling-up of this reform initiative. Today, civil service reform is high on the agenda following endorsement of the Bureaucracy Reform Initiative in the Indonesian Parliament and the planned roll-out of the initiative to ultimately all 73 central government ministries and agencies.

3. Civil service reform is thus underway in Indonesia. However, Indonesian reform minded leaders are increasingly experiencing the ways in which existing civil service policies, rules and practices impede institutional reforms aimed at improving performance within all kinds of public functions from service delivery to policy making. Instead of being able to address the roots of these impediments, reforms at the level of institutions and regional governments have to “work around” the system and add new layers and structures to the existing ones. This does not provide for increased efficiency, nor does it guarantee sustainability as reform achievements are recognized as ad hoc annual exceptions to the general regulatory framework. To get reform achievements sustainable, current reforms must be broadened and scaled up in the sense that they must now start to address policies and regulations at the whole of government level.

4. At the same time the reform initiatives have a number of areas of improvement and it is therefore timely to define the type of support the World Bank can best provide to assist the Indonesian government in further developing, implementing, accelerating, monitoring and evaluating it ongoing reform efforts. In this context it is timely to assess how best to leverage and synchronize different Bank instruments such as development policy loans (DPL), trust funds, Investment Loans and the Bank’s own budget.

5. The Bank has previously deployed a number of missions and advisory services on civil service reform. An overview of previous Bank activities is included in Annex 1. These initiatives, while well received by the Indonesian counterparts had limited impact in the medium term as the government’s main focus at the time was on decentralization.
Another difference between now and then is that a number of institutions are actually implementing reforms formally endorsed by the Parliament and that civil service reform is increasingly being recognized by agencies, line ministries and central civil service institutions as a necessary next step in public sector modernization in Indonesia if institutional and policy reforms, which have already been implemented, are to be sustainable and further reforms are to be successful.

6. This report summarizes a Mission to Indonesia on February 2 – 13, 2009. The purpose of the mission was to i) map, describe and assess current approach and status of ongoing civil service reform initiatives in selected central government institutions; ii) make recommendations related to scope, focus and approach of continued reforms; and iii) propose to the Government of Indonesia (GOI) a World Bank program of assistance in support of the authorities’ reform agenda. The Terms of Reference for the Mission are included in Annex 2.

7. The report is intended to provide a basis for a decision within the Bank on whether and how to continue and scale up an engagement on civil service reform in Indonesia. The form and content of a presentation of the findings of the mission to Indonesian counterparts will be determined subsequent to a decision on the Banks future engagement in this area.

8. Aligned with the three objectives, the mission report first provides an introduction to the political economy of civil service reform in Indonesia and an overview and profile of ongoing reform initiatives. It then analyses key civil service challenges using the dimension in the draft framework for Actionable Governance Indicators as a point of departure. Finally a possible program for donor support is presented in light of the analysis of key challenges and the political economy of reform.

9. The Minister for Administrative Reforms (MenPAN) was the main counterpart to the Mission. A list of persons met is included in Annex 3. A record of other donor activities related to governance reforms is in Annex 4. The Mission met with a group of experienced resident international advisors and held a Roundtable discussion with representatives of civil society organizations and private sector entities. The Minutes of the Roundtable discussion are included in Annex 5.

10. The Mission benefitted from two mapping studies undertaken prior to the mission. One related to human resources management practices in the Ministry of Finance, Ministry of Foreign Affairs and Ministry of Home Affairs. Another related to human

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2 The mission focused on civil service reform at the national level. With more than 80% of the Indonesian civil servants employed at the regional level, and 75% of those being teachers and health care workers, there is a strong case for staging a follow up mission to analyze civil service issues outside central government and possibly, as discussed in this report, review to what extent teachers and health workers need to be civil servants.
resource information systems in selected government institutions and state-owned enterprises.³

**Box 1. The Indonesian Civil Service at a glance**

In 2008, there were 4.2 million civil servants in Indonesia excluding the armed forces (TNI) and the national police (POLRI). This is at the aggregate level a relatively modest number considering that Indonesia has around 240 million inhabitants: The 2008 figure represents a ratio of 60 citizens per civil servant. The ratio in the Kingdom of Thailand is also 60:1 and in the Republic of Korea 50:1. In some Northern European countries like Denmark and Sweden this ratio is in the range of 10:1.

In 2006, the number of civil servants was 3.6 million. Approximately 3 to 3.2 million (2.6 million in 2006) civil servants, most of them teachers and health workers, are posted to regional governments. The increase of 600,000 in two years is mainly explained by the establishment of many new regional governments and a current policy to convert “honorarium” staff into civil servants. Civil servants within the executive branch of the state are employed at central, provincial and local government levels.

There are currently 73 institutions (ministries, agencies and others) at the central government level, 33 provincial governments and more than 500 local governments. At the time of decentralization in 2001, there were 26 provinces and 296 local governments. Staff in the legislative and judicial branches of the state as well as in the Supreme Audit Institution (BPK), are also civil servants.

All civil servants belong to one national civil service. Law No. 43 of 1999 (amending Law 8/1974) on the Civil Service defines three types of civil service positions: ‘structural’, ‘functional’ and “non-echelon” positions. A structural position is a management position within a hierarchy of four echelons and 17 grades. A functional position is a non-management position involving a specialized activity, and is occupied by an individual with particular expertise. A non-echelon position is held by staff at lower levels with clerical and administrative tasks. While functional positions are common in the health and education sectors (doctors, nurses and teachers), core administrative institutions are dominated by structural positions at higher levels. Structural positions are considered more attractive than functional ones, as they provide better prospects in relation to career advancement, remuneration and other employment conditions.

In addition to the 4 million civil servants (2008), some 920,000 auxiliary personnel, commonly referred to as ‘honorarium staff’, are contracted under the general labor law in state institutions. They occupy a range of positions that the civil service regulations cannot accommodate. It is common for honorarium staff to be poorly paid, sometimes even below official minimum wage levels, and to be excluded from most of the benefits available to civil servants. As there are no historical data for honorarium staff, it is impossible to report change in numbers. It is therefore unclear whether the overall number of honorarium staff has increased following the establishment of many new regional governments or decreased due to the current policy of allowing honorarium staff to be converted to civil servants.

Note: Due to human resource data quality problems within government and shortcomings in the infrastructure for managing and processing human resource data, some numbers in the box above are approximate. In particular it should be noted that most of the civil service data are three years old while data related to state owned enterprises are six years old. There is an aggregate figure available for 2008 but it is as yet not possible to break that aggregate down the same way as the 2006 aggregate.

³ Preliminary Analysis; Human Resources Management and Human Resources Information Systems by Bill Monks, Red Centre Consulting Ltd and Human Resources Management; Mapping of Three Ministries by Ingrid Holfelt.
2. The political economy of civil service reforms in Indonesia

11. In new democracies there is often a disconnect between a new democratic leadership and the administration it inherits, as the latter tends to perpetuate its own existence with the old paradigm of “business as usual”. Experiences from other countries show that change does not occur unless there are strong pressures both from above and from outside. It is therefore important for a democratic leadership to take effective charge of an administration inherited from an authoritarian regime and, with the help of democratic forces in society, compel it to change. Taking command of an administration frequently implies replacement of key officials to lower the resistance to reform and to gain a foothold in an otherwise inherently self-sustaining administration. This is what strong reform-minded leaders in Indonesia have done at the level of institutions and regional governments.

12. While a growing number of Indonesian institutions are undertaking serious reforms, resistance to change is still strong in broad layers of the administration, including within reforming institutions. Higher level officials benefit from the traditional non-transparent management of funds, revenues, appointments and promotions and lower levels officials are being taken care of and supported financially.

13. Resistance to change has a broader base than within the administration alone. In other new democracies, such as in countries in Central and Eastern Europe, the fall of authoritarian regimes meant that entire political and administrative systems were abandoned, with the state party abolished and senior officials thrown out of office immediately. New Constitutions defining the democratic state were drafted “overnight” and promulgated very early in the reform processes. In Indonesia, however, the fall of the old regime in 1998 was the fall of one person: President Soeharto. All other political, administrative and commercial structures remained unchanged and all senior officials stayed in office. The result was that, to a large extent, the old elite remained in power. It took four amendments over more than five years to get a new and fully democratic Indonesian Constitution in place, while in new democracies in Central and Eastern Europe this was achieved far more rapidly.

14. In fact, with the exception of the president’s Democratic Party and some new, mostly Islamic parties, the major parties contesting in the 2009 legislative election are political structures remaining from the New Order era. Civil service reform and the enforcement of good practices in line with international standards are not priorities that have been publicly stated by either of the two major political parties nor are they high on the agenda of most Islamic parties. There has up to now been very little interest and weak support from the political establishment for reforms aiming to transform the administration. While the president himself and his party may have wanted to pursue more wide ranging and fundamental reforms, he has not been able to muster effective support for this agenda from his major coalition partners. At the suggestion of KPK, a unit in the President’s Office was established in 2006, tasked with designing, promoting, implementing and monitoring administrative reforms intended to enable the president to
take command of the reform process. Due to the president’s major coalition party, this unit never became operational. Instead, the president instituted an advisory council including selected eminent persons to advise him in various policy areas; however, these do not include administrative reforms.

15. Civil society groups often have only marginal interest in civil service reform. While changes in compensation and recruitment policies have the potential to significantly impact budgets and career prospects, the specifics of reform often appear dry and technical to those outside of the government, and the consequences of reform in areas such as grading and job evaluation may not be immediately apparent. Although public education and lobbying campaigns have successfully raised the profile of the issue of corruption, there is more limited media coverage of basic civil service shortages and service delivery limitations. Indonesian media, which are contributing strongly and vociferously to the success of the anticorruption drive, have been much less engaged to help advance civil service or other administrative reforms.

16. The lack of public awareness and interest in civil service issues, and lower levels of public demand for reform, makes it easier for politicians to avoid dealing with the problems. Civil service reform is a long-term effort, and the lack of vocal public support for reform may make it difficult to initiate expensive modernization projects that may not show concrete results for a number of years. There is often a general awareness among the public and civil society groups of particular problems in government service provision or functions, but the public is not always aware of the direct connection between those problems and civil service policies and management.

17. With limited political support at the national level, reforms are instead pushed by strong institutional and regional leaders. KPK is a key driver of reform, as civil service reform is one pillar of its corruption prevention strategy, while the wider business community has a strong interest in having the administration reformed to minimize red tape and informal payments.

18. Basic democratic institutions, such as free and fair elections, are firmly anchored in the Indonesian society and old political structures are gradually being replaced by new ones. The ability of old power centers to dilute the reform agenda has been gradually decreasing. There were at the time of the Mission indications that the outcome of the 2009 election may be that old political structures lose the dominating positions they have maintained in Indonesian politics during the first ten years of democracy.

19. Currently, the Parliament (DPR) is dominated by two parties, PDI-P, led by former President Megawati Soekarnoputri, and Golkar, chaired by the current vice-

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4 Presidential Decree No. 17 of 2006 established a Presidential Work Unit on Program and Reform Management (UKP3R) in the President’s Office.
5 Partai Demokrasi Indonesia Perjuangan
6 Golkar (Golongan Karya) was president Soeharto’s political vehicle strongly infiltrating the administration during the New Order regime. To become eligible for promotion to higher and medium levels in the administration, civil servants had to be members of Golkar.
President Jusuf Kalla, each with around 20% of the parliamentary seats. President Susilo Bambang Yudhoyono’s Democratic Party has less than 10% of the parliamentary seats, which makes the president dependent on a broad coalition of parties and particularly on Golkar. For that reason, the president heads a cabinet of ministers called the “Rainbow Cabinet”, where coalition partners, not the president, have selected the majority of ministers.

20. The upcoming 2009 elections were clearly having an impact upon the Indonesian political environment at the time of the Mission. If the election outcomes do, in fact, follow the predictions of current polls, the president may be able to rely on smaller coalition partners in Parliament rather than on Golkar, which could, in turn, enable him to select key cabinet ministers of his own choice instead of giving the positions to non-reformist parties.  

21. This would be a very different outcome than the last elections in 2004 and would offer the prospect of a larger number of strong and reform minded leaders being appointed to key positions thus accelerating the pace of administrative and other important reforms. The potential beneficial impact on civil service reform in such a scenario might be very significant, making a World Bank support program for civil service reform very timely.

3. Ongoing reform initiatives

22. The Bureaucracy Reform Initiative, developed and implemented in Ministry of Finance starting in late 2006, was endorsed in 2007 by the Government and Parliament to be implemented by all central government institutions by the end of 2011. In addition, there are other concepts of reform developed in institutions that started to reform before the Bureaucracy Reform Initiative was developed. Examples include internal management reforms undertaken in the Ministry of Foreign Affairs, which started in 2002 and reforms in Ministry of Public Works as well as the schemes applied in the Commission for Eradication of Corruption (KPK), exempt from the civil service regulations. A record of these reforms is included in Annex 6 – 11.

23. The following strengths and achievements can be preliminary identified:

- The vigor with which reforms have been implemented in Ministry of Finance but also in the Ministry of Foreign Affairs has created a general momentum for expanding reforms across the whole of government.
- The good design and focus of the reform initiatives have likely contributed to improvements in the form of increased revenues and reduced corruption in the Ministry of Finance as well as of increased diplomatic capacity and skills in the Ministry of Foreign Affairs.

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7 The outcome of the 9 April election based on quick count surveys is that Democratic Party got 20%, PDI-P and Golkar 14.5% each, PKS 8% and four other parties between 2.5 and 6%. The official result will be communicated on 9 May 2009.
• The institutional reform achievements so far will provide a good platform for a possible broadened “second wave” of reforms targeting policy issues and regulations at the whole of government level.

24. On the other hand, the initiatives also have some weaknesses because they are pursued within the limited authority of individual line institutions:

- Line institutions have to continue to apply central policies and regulations instead of being able to reform them. The consequence is that they have to “work around” the system and add structures and schemes to the existing ones which does not increase administrative efficiency.
- There are major issues in need of reform that cannot be addressed by line institutions, such as policies and processes for determining organizational structures and staffing, budgeting of the wage bill, pension policies and national standards for human resource data, for example. If only the institutional reform concepts will continue to be implemented, problems in these areas will continue to be unresolved.
- As long as institutional reform achievements do not become anchored in general policies and central regulations but approved ad hoc as exemptions to the general schemes, sustainability of those reforms is not secured. In addition, ad hoc determination of remuneration levels outside the normal institutional checks and balances poses risks to transparency and appropriate governance in the determination process.

25. As mentioned, MenPAN intends to roll-out the Bureaucracy Reform concept to all 73 central state institutions before the end of 2011, subject to approval by the Indonesian Parliament of the extra budget allocations required. As the reform concept is predicated upon substantial up-front increases to civil servant allowances, it is an attractive concept for most Indonesian state institutions. Although for the most part the leadership of each institution is sincere in the desire to reform, there remains a risk that others may focus too closely on the increased remuneration component alone.

26. The anti corruption agency (KPK), through its Deputy for Prevention, has officially acknowledged the critical need to evaluate progress and outcomes in the three pilot institutions (Ministry of Finance, BPK and Supreme Court) before the Initiative becomes the government’s official reform concept. KPK is also underlining the need for independent evaluation of the readiness for reform in the 15 institutions selected to initiate reforms in 2009. Without a comprehensive screening, additional budget allocations should not be approved, according to KPK. MenPAN is currently responding to this need by hiring a team of consultants to do the screening. Whether that arrangement would meet KPK’s requirements for an independent evaluator is not yet clear.

27. The issue of evaluation is a critical one that needs to be resolved. Considering the potential extra burden on the budget, it is important that effective mechanisms for independent evaluation are urgently put in place before further roll-out takes place. Another problem with endorsing all the details of the Bureaucracy Reform concept at the
central level is that it leaves other reform initiatives unrecognized. For example, the well designed and fully implemented reform concept of the Ministry of Foreign Affairs will not be recognized. Instead, The Ministry of Foreign Affairs may eventually have to implement the Bureaucracy Reform concept on top of what it has already achieved.

4. The mission’s findings and recommendations

4.1 Introduction

28. This section identifies key issues in the Indonesian civil service and assess to what extent these are addressed by the Bureaucracy Reform Initiative. The section builds on information received during the Mission, on information collected from World Bank reports and analytical documents and on the knowledge and experience of the Bank’s resident advisors, Mr. Erwin Ariadharma, Senior Public Sector Management Specialist, and Mr. Staffan Synnerstrom, Lead Public Sector Specialist. There is a need for further analysis to confirm the findings as well as to broaden the knowledge base in Indonesia. A component for such analyses is included in the proposal in Section 5 below.

29. The issues are identified following the dimensions included in the World Bank Actionable Governance Indicators framework (AGI) for civil service reform.8 Annex 12 includes a summary of statements and assessments according to the AGI framework allowing for comparison over time and between countries.

30. For each dimension, the current/as-is situation is presented, followed by a reference to good international practices. Subsequently an assessment is presented of the extent to which ongoing reforms address the identified issues. On this basis, recommendations for the scope and direction of possible further reforms are briefly presented. The recommendations indicate possible technical medium to long term reform goals. The next section (section 5) proposes a program to facilitate a further development and prioritization of these recommendations and provide a framework for facilitating their implementation. The expectation is therefore not that the Indonesian authorities will implement all the technical recommendations in this report. Rather, the expectation is that the recommendations will inform the ongoing development of the civil service reform agenda in Indonesia and provide the basis for a technical dialogue on scope and direction of such future reforms.

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8 Actionable Governance Indicators “provide evidence on the characteristics and functioning of particular elements and sub-elements of the various dimensions of governance.” The World Bank is currently developing and piloting AGIs in a number of governance areas. These indicators are intended to provide detailed information which governments and the Bank can use in designing reforms. (“Actionable Governance Indicators – Concepts and Measurement.” Gary J. Reid. The World Bank. http://intresources.worldbank.org/PUBLICSECTORANDGOVERNANCE/Resources/AGINote.pdf)
4.2 The regulatory framework

Current Situation

31. Law 43/1999 on the Civil service, amending Law 8/1974, is the primary law regulating the Indonesian civil service. A large volume of secondary legislation, such as government regulations (PP), presidential decrees (Keppres) and other forms of implementing regulations interpret and support the primary legislation. This regulatory framework applies to the entire population of civil servants in all three branches of the state as well as in the independent Supreme Audit Institution. In parallel, there are separate laws regulating the national police (POLRI) and the armed forces (TNI).

32. In addition to government regulations and presidential decrees, there are implementing regulations issued by BKN and LAN within their respective fields of competence. Further, each central government institution issues ministerial decrees or Surat Kepala concerning management and performance of civil servants within the institution. The Ministry of Home Affairs and Regional Parliaments also issues decrees related to civil service management for regional governments.

33. In brief, there is a large body of secondary legislation on Human Resources Management. The secondary legislation is at a high level of detail. All state institutions have to apply these details, regardless of the particular contextual, operational or professional requirements of each institution.

34. Presently, MenPAN is aiming to adapt central policies and regulations so that they will accommodate outcomes of the Bureaucracy Reform Initiative in order to make these outcomes sustainable. This is intended to be done through revision of the pertinent government regulations starting with the regulation on performance measurement. MenPAN also wishes to standardize remuneration conditions for all officials and employees whose salaries are financed by the state budget but who are not subject to the civil service regulatory framework. This includes a wide variety of elected and appointed officials as well as other groups of employees. MenPAN has drafted the Law on Human Resources Management in the State Apparatus with the aim of resolving both issues stated above with one piece of legislation. The draft law is not intended to replace Law 43/1999 but to become an “umbrella” law making all officials and employees financed by the state budget subject to Law 43/1999 and to all related secondary legislation. This means that all elected officials (including the president and Members of Parliament, among others) would become subject to the new law and would indirectly fall within the remit of the civil service secondary regulatory framework.

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9 There are five important government regulations (PP) regulating main civil service functions: PP 98/2000 on Recruitment and Selection; PP 100/2000 on Promotion Requirements; PP 30/2000 on Discipline; PP 10/1979 on Performance Measurement; and PP 11/2003 on Remuneration, all except one issued under the New Order regime.

10 Surat Kepala (SK) is a legally binding document issued by the head of an institution other than a ministry.
Good Practice

35. Civil service regulatory frameworks in most countries today consist of several layers of legislation. First, there is normally a general civil service law laying out the principles, standards, implementation mechanisms and accountabilities related to civil service management. This corresponds to Law 43/1999 in Indonesia. Second, there are government regulations specifying the principles and standards of the primary law. While all such regulations previously may have been issued by the central civil service authority, this may no longer be the case. Instead, civil servants are managed as corps within institutions with state-specific operations and where the secondary regulations may differ among corps. In some developed countries, secondary legislation may be replaced by collective agreements. In most democracies with separate branches of the state, secondary legislation is issued within each of these separate branches, although harmonized with regulations within the executive branch.

36. Further, there is a trend toward minimizing the size of the core civil service and thus the scope of the regulatory framework for the civil service. Teachers and health workers are, for example, no longer civil servants in most developed countries. There are two reasons for this: Firstly, maintaining a large civil service is expensive. Secondly, civil servant status is no longer considered to be an employment status – i.e. granted to anyone employed by the government. Instead, the status of civil servant is only granted to those who are exercising the power of the state. Civil service status is granted to provide for enhanced accountability. All other state employees can be covered by the general employment scheme (i.e. the Labor Code) in a country which generally provides sufficient employment conditions and protection. These conditions may not have existed historically as the government was the first employer in all countries.

37. In most countries, the government has no authority over employment conditions for Members or staff of Parliaments, judges or staff of Supreme Audit Institutions and thus cannot regulate those conditions. These officials and staff categories are instead usually subject to separate schemes, although these schemes in most cases are harmonized with the civil service scheme and salary levels are harmonized or standardized with the executive branch

Assessment

38. Law 43/1999 provides a sound legal framework that could be the primary law for a quite diversified administration. It mainly defines standards, authorities and accountability, in line with good international practice, requiring secondary legislation to fill-in and expand on the provisions of the primary law. Law 43/1999 was one of many reformist laws prepared and passed during the first year of democracy with the objective of transforming the New Order government system into a democratic one. However, secondary legislation was left untouched by the 1999 reforms and the same regulations as under Law 8/1974, which codified the New Order’s military-inspired civil service system, still largely prevail. Technically, this was achieved through the fact that Law 43/1999 amended Law 8/1974 instead of replacing it. The whole body of unreformed secondary legislation under Law 8/1974 thus continues to be in force. Law 43/1999
introduces a Civil Service Commission as the highest policy-making and monitoring authority. The Commission has not yet been established.

39. The implementation of Law 43/1999 and the survival of pre-existing secondary legislation has lead to that the Indonesian civil service is still effectively largely guided by policies and regulations developed and issued under the New Order regime and which are generally quite unsuited to the civil service system required in today’s democratic Indonesia. Those policies were introduced to create an administration structured and managed like the armed forces with the same degree of symmetry and uniformity. They were not intended to provide for a diversified, professional and accountable administration as required in today’s democratic Indonesia.

40. The draft Law on Human Resources Management in the State Apparatus aims to resolve an important problem i.e. the lack of standardization and harmonization of remuneration across all branches of the state. However, the draft law would not do so since the law (i) intends to regulate too many and too disparate issues; (ii) does not change the prevailing secondary regulations inherited from the New Order regime: and (iii) does not provide for any mechanisms for its implementation. If passed, the result would once more likely be a law without impact and without leading to any change. One alternative approach could be to prepare a law on remuneration, where all positions were placed into a harmonized roster. The World Bank arranged an international Roundtable discussion on the draft law in mid-March with MenPAN to provide information on practice in other countries and to seek inputs from Indonesian stakeholders.

**Recommendation**

41. Within the area of civil service regulation, work could focus on ensuring the implementation of Law 42/1999 and ensuring the supremacy of its principles and on assessing the its scope of coverage:

- Law 43/1999 could be updated and Law 8/1974 could be abolished. The existing detailed secondary regulatory framework could be replaced with a more flexible regulatory framework defining objectives, principles, standards, implementation mechanisms and accountability rather than details, allowing for different management solutions in different sectors or in different institutions, as required for efficient operations.
- An assessment could be undertaken on the scope of the civil service in order to gain efficiency. For example, a review could be undertaken of whether teachers and health workers should be civil servants or if there are more efficient solutions. Similarly, an assessment could be undertaken of the extent to which current civil servants in other branches of the state should continue to be regulated by the government as government staff.
- The current policy of converting unskilled honorarium staff to civil servants could be discontinued. Instead the current employment conditions for honorarium staff could be improved.
4.3 The central institutional framework for civil service policy making, regulation and management

**Current Situation**

There are three agencies concerned with central civil service management, including the administration of the detailed rules and regulations which comprise the ‘system of national administration’\(^{11}\):

<table>
<thead>
<tr>
<th>Agency</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Minister for Administrative Reforms (MenPAN)</td>
<td>MenPAN is the central civil service policy making, regulatory and management authority. It regulates civil service policies and approves design of organizational structures and staff establishments.</td>
</tr>
<tr>
<td>National Institute of Public Administration (LAN)</td>
<td>LAN is the central institution for training and Research and Development. It executes training programs for the highest level of civil servants (echelon 1) and reviews and gives accreditation to training programs targeting other levels and executed by line training institutions (Pusdiklat). LAN is a member of international associations and networks for institutes of administration and administrative science.</td>
</tr>
<tr>
<td>National Civil Service Agency (BKN)</td>
<td>BKN is the central implementing civil service agency holding regulatory powers related to implementation. BKN reviews and retains control over staff establishments as regulated by MenPAN. BKN manages the central civil servants database.</td>
</tr>
</tbody>
</table>

**Good Practice**

42. Most countries have one central institution for policymaking, regulatory and monitoring functions related to the management of civil servants. In some countries this is a ministry or some other central government institution. In other countries it is an independent commission. Most countries also have a National Institute for Public Administration for training, accreditation of training and research and development related to civil service policy development.

43. The role of central policy making institutions in most countries have changed during the last 20-30 years from providing detailed blueprints related to organizational structures, staffing and human resource management practices to providing flexible

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\(^{11}\) The System of National Administration (*Sistem Administrasi Negara*) is a term used under the New Order regime and refers to the body of administrative laws and regulations regulating the crosscutting functions of the state, except for the public financial management functions. The “system” is managed by MenPAN and to some extent by BKN and LAN. During the New Order this body of regulations was published every 10\(^{th}\) year, the last time being in 1997.
policies and regulatory frameworks allowing for diversified administrations where different institutions can be organized and staffed and their staff managed in line with their specific operational needs. The central civil service institution is mainly occupied with principles, national quality standards, implementation mechanisms and accountability within the administration and not with details. Implementation in modernized civil services is the responsibility of heads of institutions as employers, not of the central management institution.

Assessment

44. Mandates, roles and responsibilities of the core civil service institutions have not been subject to review and reforms since the fall of the New Order regime. These structures have proven incapable thus far of designing and leading required reforms, which could be the primary reason why such reforms are initiated at institutional levels rather than at the national level. The three central institutions have continued to uphold and implement the very detailed and outdated civil service regulatory framework inherited from the New Order regime, despite the intentions of the reformist Law 43/1999.

45. Echelon staff in the three institutions are promoted and rotated within the three institutions. No staff is appointed to leading positions from other government institutions, which means that all managers in the policy making and regulatory institution MenPAN come from the same background and share the same values. The designated research and policy development institution, LAN, is mainly a training college and is some way from being the Research and Development Center it aspires to be. BKN seems not to have the authority to take a lead role in reforms in the area of human resource data quality and human resource information systems as discussed in section 4.7 below.

46. Instead of national reforms at the whole of government level, the Ministry of Finance is designing reforms while the anticorruption agency (KPK) is promoting them. Effectively, reforms are driven by line agencies with central civil service policymaking authorities in the “backseat”. This approach is delivering reforms that are undertaken without necessary analytical preparatory work and without adequate consequence analyses. Further, so long as reforms are predominantly implemented within individual line institutions, critical whole-of-government issues, such as processes for determining organizational design, staffing establishments, the budgeting of staff expenditure, human resource information management and civil service pensions, are left untouched by the reform agenda.

47. The Mission encountered inadequate procedures for cooperation between the three institutions related to policy development. It seems that all three are carrying out policy development independent of each other and that such activities rarely lead to tangible policy change. The fragmentation between agencies is also evident within the individual institutions. For example, the six Deputies in MenPAN manage their respective parts of the National System for Administration without visible coordination.
48. The central civil service management structure, including the mandates and tasks of the three institutions, is not addressed by the current Bureaucracy Reform Initiative. It is international good practice to have a central civil service authority and it is important that Indonesia retains a central, competent and adequate civil service management authority, as it has chosen to have a national civil service to support the concept of the unitary state. Basic processes and quality standards ought to be uniform throughout the country to minimize the extent to which ethnic, religious, political or other extraneous considerations influence recruitment, promotion and eventually decision making. Such tendencies exist locally, and need to be countered.

49. However, the mandates of the central authorities have not changed since the New Order regime. Due to the lack of reforms, all three institutions are preoccupied with tasks that should no longer be the responsibility of a central management institution including upholding outdated detailed regulations and blueprints, while they rather should have roles as change agents and leaders and enablers of reform.

50. The key player in the institutional set-up is MenPAN. The role of MenPAN in civil service reform, though developing, has been limited to date. This is recognized within the organization and there are signs that the organization may be willing to address a much broader reform agenda than it previously has. These signs include an awareness of the problems current policies create among parts of MenPAN senior management, as well as among key staff within both BKN and LAN, and openness on the part of MenPAN to review issues and discuss solutions more publicly and flexibly.

51. The current central civil service rules and regulations are far too detailed and largely unsuitable in a modern, democratic state as discussed in section 4.2. above. Recognizing this, MenPAN has shown flexibility in granting exceptions to reforming institutions but has not yet managed to adapt the general regulatory framework to these needs. However, operating through exceptions is neither good practice, nor sustainable.

52. There is currently an ambition on the part of MenPAN to reform the civil service regulatory framework to accommodate outcomes of the Bureaucracy Reform Initiative. In addition to the problems stemming from the level of detail of MenPAN regulations, there are two other important issues. One is that MenPAN’s current reform ambition is guided, and limited, by the Bureaucracy Reform Initiative. MenPAN may therefore presently not intend to undertake any fundamental reform of structures, policies and regulations, but rather to adapt existing regulations to accommodate outcomes of the bureaucracy reform initiative, with its limited scope for reforms.

53. Without targeted support and coaching, MenPAN therefore may not at this stage be likely to address crosscutting functions in need of reform, such as processes and systems for organizational design, staffing establishments, management of HR data and the civil service pension scheme as well as providing institutional arrangements and

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12 For example MenPAN and the Bank, in cooperation with other donors, are implementing seminars and roundtables related to urgent policy development needs and providing both comparative inputs and inputs from Indonesian stakeholders into the policy development process.
mechanisms for the purpose of transparency and good governance in the areas of pay determination and pensions. The issues of such important cross-cutting reforms are compounded by limited comparative knowledge and the fact that policy paradigms of many senior MenPAN officials remain firmly aligned with policies and regulations inherited from the New Order regime. In spite of awareness and strong ambitions there is a risk that MenPAN may continue its very detailed regulatory approach and will continue to require all institutions to apply those details, regardless of mandate, context, operations and workloads.

**Recommendation**
54. Reforms of the institutional set-up could focus on strengthening the capacity of existing institutions and on establishing a civil service commission:

- A central civil service policy making and monitoring capacity should be maintained but the mandates and tasks of the current institutions could be reformed to better suit a diversified civil service with the majority of civil servants employed at the regional level.
- The principles of Law 43/1999 could be implemented. The Civil Service Commission as defined by the law could be established but tasked with responsibilities related to pay and pension determination, to improve governance and transparency in these processes and to provide for harmonization of pay levels across the public sector.\(^{13}\)
- LAN’s research and development capacity could be strengthened and cooperation processes among the institutions related to policy development improved while BKN should urgently focus on the need for HR data standards and improved HR data management and processing.

### 4.4 Establishment controls and policies and processes for organizational design and staffing

**Current Situation**

55. Staff numbers in civil service institutions are allocated according to a procedure that ensures a predetermined, standardized number of organizational units and sub-units and that each organizational unit has a predefined number of structural positions per level as required by civil service regulations. This process takes no account of operational needs and the normal procedure is to re-fill vacancies as they occur without consideration of budget, operational needs or organizational relevance. Budget for overhead expenses related to staff are not an integral part of the operational budget for an organization, nor are these expenses subject to the annual budget negotiations but rather determined separately based on the staff establishment (*formasi*) as approved by MenPAN.

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\(^{13}\) A Civil Service Commission is the best central management structure if the main issue is to protect the civil service from political interference and other undue influence. If the issue is to reform the civil service, a central government entity is more effective (Mr. Visoot Praseweise, Senior Advisor to the Thai Civil Service Commission, at the International Roundtable on civil Service Legislation, Systems and Reforms held by MenPAN, World Bank and GTZ on 17-18 March 2009).
56. In spite of a strong enforcement of detailed blueprints for organization and staff establishments applied similarly to all central government institutions, overall control over establishment of new entities and new staff positions is weak. Central government institutions are many times established without appropriate analysis through ad hoc decisions/agreements at the political level and regional governments are established by laws passed by the Parliament without prior consultation of the central government. Consequently, more than 200 regional governments have been established since regional autonomy was introduced in 2001. Support staff and non-certified teachers (honorarium staff) are offered to become civil servants in large numbers. Between 2006 and 2008 the overall number of civil service positions increased from 3.6 million to 4.2 million, an increase by almost 20% in two years.

57. Indonesia largely uses one type of institutional structure for all civil service institutions, which limits operational performance and prevents the use of accountability frameworks that would promote better service and better value for money. Government Regulation 23/2005 provides a standardized regulatory framework for quasi-government agencies Badan Layanan Umum (BLU). BLUs have been established mostly to provide front end services to citizens, including for hospitals, universities, and transportation agencies, but are not used for core civil service bodies with mainly regulatory or administrative tasks.

Good Practice

58. In most other countries’ civil services and, indeed, in private sector operations in Indonesia, allocation of resources (headcount) is based upon needs that are determined by function, operational tasks, size and workloads. A manpower planning process securing that allocations are in line with needs at all times and making staff costs part of the operational budget are usually in place to ensure that staff resources are allocated efficiently. Staff expenditure is in addition often fungible, i.e. interchangeable with other kinds of expenditures. Such budgeting practices provide an incentive for improved efficiency. Institutional staff expenditures as well as aggregate expenditure is controlled by Ministries of Finance within the framework of the annual budget or a medium term expenditure framework providing for control of staff expenditure and thus for effective establishment controls at all levels.

59. Many countries apply different institutional structures to fit a wide range of purposes, so as to put in place flexible accountability and control frameworks that can suit many different purposes. Examples of different purposes include high-level policy work, regulatory functions and managing large scale executive operations delivering services to the public.

Assessment

60. Current policies related to institutional organizational structures and staffing do not permit flexibility, nor do they take account of specific operational requirements, management responsibility, cost, operational efficiency, size or work load when
approving an organizational structure or a staff establishment (formasi). Instead, the focus is on symmetry and balance among units and levels of positions. As a result, state institutions suffer from fragmentation of tasks and responsibilities since these are distributed among too a large number of pre-defined sub-units, spans of control that are overly large, insufficient support functions, inadequate internal control/accountability functions, since the prevailing blueprint only allows for an internal audit function at the level of the minister (the Inspector General) which in most ministries is far from sufficient considering the size and geographical coverage of the institution. It also leads to significant discrepancies between actual staff numbers and staff needs.

61. The application of the standard military-style structure of fixed size and shape staff ‘pyramids’ used throughout the service is a major constraint to improving public services, and represents poor value for money in the use of staff resources. Instead of one single blueprint aiming for symmetry and a certain numbers of positions at each level, new policies to allow for more flexibility providing a variety of organizational structures based on the role of the organization, operational needs, the financing and the context in which it operates as well as the size and the work-load. The aim should be for ministries, agencies and regional governments to be designed and staffed in accordance with their specific operational requirements and scale of operations, and not according to a uniform blueprint. The current blueprint for organizational design and staffing represents poor value for money and is an obstacle for institutions to improve their cost efficiency and performance.

62. As new establishments are approved outside of the budget process, the budgetary impact, although considerable, is not assessed. Neither is the impact on the state’s long term pension liability assessed. Further, the fact that staff budgets are separate from operational budgets, and staff expenditure not fungible, means that there are no financial incentives to streamline or rationalize operations, organizational structures, staffing establishments and processes. Nor do current budget practices offer effective mechanisms for enforcement of centrally determined reforms. Although MenPAN should have the authority to ensure policies and quality control on issues related to human resources management including professionalism, performance and accountability within the civil service, it should not have the authority to decide on the size of the civil service as new establishments and issues related to staff numbers are primarily expenditures and therefore should be determined within the budget process,

63. Considering the effects of greater flexibility in organizations and staffing, as well as of the recommended professionalization (see below), the Mission findings point to the need for the government to be able to handle redundancy and recommends introduction of a scheme making it possible to relocate civil servants between government institutions, sectors and levels. The Mission further suggests that temporary assignments of staff for management of development projects (project management organizations) should be allowed.
64. Current policies for determining organizational structures and allocating staff resources to civil service institutions are not addressed by the ongoing Bureaucracy Reform initiative.

**Box 2. Budgeting and civil service reform in Indonesia**

Civil service reform is often presented as simply a matter of reforming human resource management practices. This is important, but it is not enough. Civil service reform must target the way public institutions are structured, staffed, financed and the ways in which they operate and relate to their clients, in addition to improving human resource management practices. Law 17/2003 on State Finance provides that budgets for civil servants’ salaries and other costs should be allocated in accordance with needs, as guided by budget indicators and performance standards. This has yet to be implemented and the old staff budgeting practices inherited from the New Order regime still prevail.

The traditional Indonesian separation of policy making from budgeting, and the previous practice of splitting the budget into ‘development’ and ‘routine’ components, has led to some serious shortcomings evident in the area of civil service management. Policy changes, performance standard setting, and expenditure caps are attempted through administrative regulations without links to the budget although the budget is the only meaningful tool for implementing or enforcing such measures. For example, determination of staff establishments is an administrative process separate from the annual budget negotiations although such establishments imply huge budget impositions and long-term pension liabilities. As pointed out in this report, the overall number of civil servants has increased with 600,000 or almost 20% between 2006 and 2008 which confirms that current practices for budgeting and approval of staff establishments does not provide for sufficient expenditure controls.

The prevailing routine budgeting practices means that staff expenditure is still a separate allocation, which is not part of an institution’s operational budget and which cannot be reduced or used for other purposes. It can only be increased in line with formula driven increments each year. This kind of budgeting is a major obstacle to a fundamental civil service reform targeting organizational structures, staff establishments and pay. As long as staff expenditure is a separate routine budget allocation, the budgeting neither offers incentives for reform at the institutional level, nor any budgetary mechanisms to enforce centrally determined reforms. Program budgeting and modernized budget practices are thus preconditions for successful civil service reform.

**Recommendation**

65. Ministries, agencies and regional governments should be designed and staffed in accordance with their specific operational requirements, and not according to a uniform blueprint based on symmetry. The following recommendation for reform objectives can be given:

- The process of determining organizational structures and staffing establishments could be linked to the annual budget process instead of a separate administrative process. This could make it part of the annual negotiations related to the operational budgets. At the same time, such a reform would lead to improved establishment controls as any new expenditure will have to be justified and approved in the budget process.
• Different organizational “blueprints” for different kinds of institutions could be developed based on roles, mandate, tasks and financing and applied accordingly across the civil service.  

• Current staff expenditure could be made an integrated part of the operational budget. Consideration could be made to whether staff cost could be made fungible to provide incentives for rationalization.

4.5 Policies related to pay, grading and pensions

Current Situation

66. Law No. 43 of 1999 stipulates that all civil servants have the right to receive pay that is equitable, sufficient and calculated based upon the workload and responsibility that each civil servant shoulders as reflected in the rank of each civil servant. Take home pay for civil servants in Indonesia consists of basic salary and different allowances, both of which are determined by government regulations. Normally, the government reviews the basic salary each year to ensure that civil servants’ salaries would not be undermined by inflation (the increase varies between 10 – 15 % per annum). In addition, the government provides a 13th monthly salary across the board to all civil servants, normally payable each June, subject to the government’s financial capacity.

67. The amount of the basic salary depends on the grade and rank of the civil servant. Currently, there are 17 grades encompassing rank I-A to rank IV-E. Government Regulation No. 10/2008, establishes a ratio of basic salary between the lowest level (IA with zero year of service) and the highest level (IVE with a total of 32 years of service) of 1 to 3.2. This highly compressed ratio has stimulated many initiatives to improve or reform civil servants’ take home pay through additional allowances of which the Bureaucracy Reform Initiative in the Ministry of Finance is the most prominent example. A complete table of the basic salary structure for civil servants in Indonesia is in Annex 13.

68. Different kinds of allowances are provided, including allowances for family and transportation but also for meeting attendance. The largest and most important allowances are those paid to incumbents of managerial (echelon) and functional positions. The ratio of allowances for managerial positions between the lowest echelon, Echelon V (rank III-A to III-B), and the highest echelon, Echelon IA, is 1 to 15.3, which is a considerably wider spread ratio than that of the basic salaries. A complete table of allowances for structural and functional positions based on Government Regulation No. 26 Year 2007 is included in Annex 13.

69. The Indonesian civil service pension scheme is a defined benefit scheme which is poorly financed relative to its benefit provisions. It has been estimated to have a negative cash flow (that is, an excess of payouts over contributions) of some Rp 15.9 trillion, or USD 1.4 billion. This underfunding is mainly caused by the fact that only the employees,

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14 The Bank is currently implementing a Study on Government Agencies aiming to provide the Indonesian authorities with not more than five models for government agencies, including the BLUs.
and not their government employer, are contributing to the civil service pension fund managed by PT. Taspen. The government handles its commitments as pay-as-you-go obligations, financing pension payments from the annual budget as they occur rather than through accrual of adequate financial reserves.

70. Civil service pension entitlements are calculated on the basis of basic pay alone i.e. excluding any allowances. They are further based on the final salary only and not on a multi-year average. Pension costs, as they occur each year, are borne by the Ministry of Finance and not accounted for by the employing institutions or regional governments.  

Good Practice

71. The Organization for Economic Cooperation and Development’s (OECD) ‘standard’ for civil service pay is that, so far as possible, 100% of take home pay should be contained in the basic salary, which should be set out in published pay scales, thus providing transparency, promoting good performance and providing reasonable pension entitlements. Policies providing numerous allowances are in most countries today neither regarded as supporting transparency nor as promoting good performance.

72. Many developed countries have replaced, or are in the process of replacing, the old defined benefit schemes financed by the annual budget with modernized and more cost-efficient pension schemes. The long-term solution is to replace the defined benefit, pay-as-you-go scheme with a pre-financed, defined contribution scheme, under which the pension liability of the state is known at all times, because the state guarantees accumulated contributions, not the size of the benefit eventually to be paid out. With this kind of pension scheme, moreover, movement between the public, private and other sectors becomes possible, as the employee is able to transfer his or her pre-financed entitlement from one scheme to another, making lateral entry to, and exit from, the civil service feasible for all. Countries maintaining their defined benefit pay-as-you-go schemes provide remuneration through basic pay only or mainly, use a five year average for determination of pension entitlements and normally distribute the related cost for each civil servant to the employing institution, thus accounting for the cost at the place where it occurs creating an awareness among institutions of the pension cost and the long term budgetary impact of hiring new staff.

Assessment

73. The many allowances and discretionary payments in Indonesia, do not meet the OECD standard of one single pay which is fully transparent. It should be a priority to reform the pay scale so that basic pay is increased and the dependency on various allowances minimized. An excessive dependency on allowances provides distorted incentives as civil servants are looking to allowances in the first place and not to their

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tasks. For example, a policy to offer meeting allowances produces three outcomes: i) there will be an incentive to have many meetings; ii) civil servants will not come to meetings unless they get the special allowance; and iii) different participants will turn up every time, even if meetings are connected to each other, as the meeting allowances are expected to be fairly distributed. None of these three consequences promotes efficiency or good performance. Further, while the (low) basic salary is 100% transparent, some allowances and particularly the distribution of those allowances are not.

74. One general and fundamental principle of good governance is that no institution and no public official should be allowed to set their own salaries. At this stage of Bureaucracy Reform, this principle is not fully adhered to in the Indonesian administration. Because central pay and grading policies have not been developed and amended as required over the years, reforming institutions are working around them with the consequence that the institutional set-up for pay determination is circumvented and remuneration levels can be very different in different institutions. In fact, the new allowances in Ministry of Finance have been decided by Ministry of Finance itself and approved as an exception by MenPAN on an annual basis.

75. Current Indonesian practices thus result in a lack of standardization of remuneration levels across the public sector and even within the civil service itself. Processes for determination of pay in some cases violate the principle of good governance both in terms of how pay is determined and by whom, and lack required transparency in both decision-making and outcomes related to pay. There is an urgent need to address the institutional issue of pay determination in the civil service as well as among other groups of elected and appointed officials to provide for good governance, transparency and harmonization of pay levels between institutions and branches of the state. A general law on remuneration in the public sector could provide the legal basis for this and the independent Civil Service Commission defined by Law 43/1999 but not yet established could be tasked with this responsibility.

76. Clearly pay and grading is at the core of the Bureaucracy Reform Initiative as well an important component in the reforms in Ministry of Foreign Affairs. As described above, due to inflexibility in the general grading and pay policies, reforms at the institutional level can only allow for adding new grading layers to the existing ones instead of wholesale replacement. Thus, the Bureaucracy Reform concept adds another structure to the existing one. Civil servants in the Ministry of Finance now receive both basic pay and all previous allowances as well as new, additional allowances linked to revised job descriptions and in line with one of 27 additional grades. This re-grading has resulted in officials receiving higher levels of take home pay and has been broadly welcomed in spite of the following intrinsic shortcomings.

16 An echelon 1 official in most government institutions earn Rp.8,900,000 with basic salary and structural allowance included, while an echelon 1 official in Ministry of Finance in addition receives and extra allowance in the amount of Rp. 40-47 million providing an official take home pay in the range of Rp. 49 million to Rp.56 million. Supreme Justices and Members of Parliament take home Rp. 13,900,000. Current minimum wage in Jakarta is Rp. 1,069,865 per month and current average wage for private sector managers is Rp 25 million per month.
77. While it is standard practice in job evaluation methodologies to analyze the content of jobs directly without any pre-conceived views as to grades, this principle could not be applied in the Ministry of Finance. Further, four different grades are available in the new system for echelon I officials of which there are 12 positions in the Ministry of Finance, yet there are only three different grades available to cover each of echelon III and IV staff levels, where most of the structural positions in the Indonesian civil service are to be found. While the level of pay has increased, the flexibility and potential to vary pay levels has not.

78. The pay grading scheme developed by and applied within the anti corruption agency (KPK) corresponds to international good practice. It also solves the problem of large discrepancies between structural and functional positions, which currently provide incentives for civil servants to abandon functional positions. The grading and pay scheme applied in KPK corresponds to good international practice and should serve as a template for general pay and grading reform in the Indonesian civil service rather than the government endorsed Bureaucracy Reform concept, which addresses the immediate problem of low salaries but does not address the larger issue of rationalizing pay.

79. There are currently some 2 million pensioners under the civil service pension scheme, a number which is expected to more than double within the next five years. The fact that as many as 600,000 new civil servant positions have been approved between 2006 and 2008 will also have a considerable impact on the pension liability and future pension costs.

80. Only civil servants’ basic pay is eligible when pension entitlements are determined. Old age pension represents a maximum of 70% of the last basic pay, which normally only represents a fraction of the active income as basic pay for most active civil servants only represents around 20% of take-home pay. For civil servants in institutions implementing Bureaucracy Reform, like in the Ministry of Finance, basic pay can represent as little as 7% of take home pay. Another shortcoming is that the size of the pension entitlement is only determined by the final salary, leading to numerous counterproductive last-year-in-service promotions. Normally in a system like Indonesia’s, entitlements would be calculated on a multi-year average to avoid such consequences.

81. Increased take home pay offered to civil servants in reforming institutions is not given as increased basic pay but in the form of temporary allowances. Such increases will thus have no effect on their future pension entitlements. This is not good personnel policy and it is not a policy supporting the anticorruption efforts of the government as civil servants may continue to look for opportunities to illicitly acquire assets that will enable them to maintain their life style after retirement.

82. The long-term solution should be to replace the defined benefit, pay-as-you-go scheme with a pre-financed, defined contribution scheme, under which the pension liability of the state is known at all times because the state guarantees accumulated contributions, not the size of the benefit eventually to be paid out. Such far-reaching
changes to the pension system cannot, however, be introduced overnight. Comprehensive studies and simulations need to be made to assess the actuarial effects and budget implications. Transitional arrangements are essential in order to make pension reform financially sustainable and to avoid retroactive costs. The older part of the workforce will need to remain under the old scheme, while younger civil servants would become subjects to the new scheme.

83. Even if the immediate objective will not be to move to a pre-financed defined contribution scheme, the current defined benefit scheme needs to be improved in terms of policies, eligibility, basis for pension entitlements, financing as well as institutional set up for governance and management. Accounting needs to be reformed so that employing institutions will bear the pension costs for their staff on their budgets. This means that budget reform will be required. In the current budget system, institutions and local governments that carry no responsibility for financing the pensions of their employees can increase the state’s financial liability by obtaining administrative approval for an expansion of their workforce.

**Recommendation**

84. The list of possible end goals for improvements to the policies related to pay, grading and pensions is long. Any policy change, including the ones recommended here, would have to be subject to cost assessments and budgetary impact analysis before introduced, which, however, would not be necessary for recommended institutional improvements. As a point of departure for modernizing current pay, grading and pension policies, the following recommendations can be proposed:

- A new law could be prepared to provide for standardizing/harmonizing of remuneration among civil service institutions and among the various branches of the state and for all officials funded by the state budget (such as *pejabat negara* but not including staff in state-owned enterprises). The law should also define a basic grading scheme that could be applied with some flexibility in various institutions to respond to different operational requirements. KPK’s grading scheme could serve as a model.
- Appropriate mechanisms and institutions could be established securing transparency and adherence to the principle that no one should be allowed to determine his/her own pay or pension conditions. For example, this could be the task of the Civil Service Commission already defined by Law 43/1999.
- Current different remuneration conditions between structural and functional positions could be neutralized in a new grading scheme. Once again, the KPK scheme could be used as a model.
- The concept of a single salary could replace the current low basic pay and numerous non-pensionable allowances the same way as in KPK.
- Pension entitlements would continue to be based on the basic salary but would improve if the concept of a single salary would be introduced.
- Five-year average could be introduced to replace the last salary as basis for pension entitlements removing the reasons for the current counterproductive last-year-in-service promotions.
• The roles of the main institutions involved (Ministry of Finance, BKN and PT Taspen) could be reviewed to provide for a more effective management of the pension scheme and related funds.
• Actual pension costs could be accounted for where they occur, i.e. in employing central institutions and regional governments.
• The feasibility of eventually moving to a pre-financed defined contribution scheme to gradually replace the current pay-as-you-go defined benefit scheme could be assessed including transitional requirements.

4.6 Human resource management policies

Professionalism

Current Situation

85. The Indonesian civil service operated with some 2,000 professionally classified jobs until 1968 when the professional positions were replaced by the current military-style structure of 17 grades divided into four echelons, complemented in the early 1970s by functional positions. The system established under President Soeharto and codified by Law 8/1974 was primarily invented to create an administration structured and managed like the armed forces deployed in parallel with the civilian administration across the country. The New Order civil service system facilitated communications between civilian and military entities and allowed retired generals to easily take up positions in the civilian administration but it did not provide for professionalism and accountability within the administration.

86. Currently, Indonesia has a career civil service system, in which civil servants are recruited when they are young on the basis of entry examination results and placed in a rank based on the level of education attained. Focus of education and acquired skills are not included as selection criteria. Promotion through the ranks is based on seniority and completion of promotional training. Performance is generally not possible to recognize as a determining factor for promotion, due to the obsolete design of the current performance measurement tool (DP3). Training is mainly promotional (structural training) as it is required for moving from one grade or one echelon to another. Training is supplied by special training institutes, which also receive the training budgets.

Good Practice

87. Career civil service systems promote capacity building within institutions and operations that are unique to the state, such as foreign services and customs and tax administrations. These institutions cannot rely on the general labor market to find expertise. Career systems normally also provide career predictability and offer life-long tenure with occupational pension rights. In a strict career system, there is no possibility for lateral entry into the ranks from outside and civil servants are allocated to positions by management decision, rather than through the use of open competition among applicants.
88. The main alternative to a career system is a position-based system, where civil servants are recruited to professionally classified jobs in open competition, and where selection is based on position-specific professional requirements. Lateral entry into a position-based civil service is possible at all levels. Careers (and pay) in position-based systems are based more on the responsibilities and complexity of the job in conjunction with the incumbent’s professional qualifications and performance rather than on seniority. Training focuses on technical, functional and managerial skills. Civil service systems based on professional classification promote professionalism, transparency and accountability, and are considered able to ensure a supply of the skills needed in a modern and complex government administration.

89. Most civil services today apply a combination of the two systems: institutions with state-specific operations such as the police, foreign service, tax and customs administrations are managed as separate career corps, while specific jobs within these services, such as accountants, lawyers, computer and other specialists are recruited at a variety of levels of seniority and managed as specialists in order to make best use of scarce talent. State institutions requiring skills and competencies that are not specific to the state, such as public works or health ministries, are managed as position-based systems.

90. Staff in highly specialized agencies where competencies need to be cutting edge, such as the finance sector or highly technical areas such as nuclear engineering, are managed in ways that recognize that it would not be possible to recruit or maintain these competencies in a career civil service intended for generalists. Such expertise is instead recruited from both inside and outside of the government as needs arise.

91. The trend in developed countries today is to expand the position-based management and rely increasingly upon specialists rather than generalists, as this is regarded as more effective in a modern, complex public administration.

Assessment

92. The long-term objective for modernization of the Indonesian civil service would be to allow for both a career system in services where such a system would best provide required expertise, e.g. in the foreign service, the prosecutors’ service and tax and customs administrations. At the same time, institutions relying on expertise that is not state specific would be managed as position based systems. To move from the career system to a position based system would, however, not be recommended at this stage as it would be too a big change and fundamental reforms of remuneration and pension schemes would be necessary to make such a change feasible. Instead, the process could be gradual with an increased emphasis on professional requirements and skills within current processes for recruitment, rotation, promotion and training. At some stage, one organization could be selected as a pilot to try new ways of recruiting and managing civil servants.

93. Professionalization of the workforce is one main objective of the Bureaucracy Reform initiative, which therefore aims at the gradual change described above. The
Ministry of Finance has developed new job descriptions, established professional criteria and defined responsibilities and tasks. The Ministry of Finance as the leading reform agency is aiming towards a professional, position based organization where selection eventually will be based on merit and career succession upon performance, and where remuneration is linked to responsibilities and complexity of each job as well as, to some extent, the comparable salary levels in the private sector. However, due to inflexible central policies the full potential of these reforms cannot presently be fully realized.

**Recruitment**

**Current Situation**

94. Government Regulation 98/2000 on Establishment of Civil Servants mandates that civil servants be recruited on the basis of entry examination results and posted to a grade based on level of education. For example, those who have a bachelors degree and masters degree will be allocated to rank III a, and III b respectively. The regulation, however, gives flexibility to each line ministry and government agency to add several stages of tests to fulfill its needs. For example, the Ministry of Foreign Affairs has added additional stages to its selection process, such as language proficiency and computer literacy tests.

95. Recruitment is conducted through national recruitment drives in which large numbers of applicants sit tests. Each ministry or institution decides on the frequency of recruitment drives, generally annually or every second year. Normally there is at least one intake of staff every third year. Staff are recruited into the service and not to any designated positions. Applicants to the Ministry of Finance have to meet the basic education requirements obtained at the School for Accounting (STAN). STAN is a pre-entry education institution managed by the Ministry of Finance offering undergraduate degrees within accounting and finance. STAN provides staff also to other institutions, but Ministry of Finance has the prerogative to choose its candidates first.

**Good Practice**

96. There are several countries, including for example France and Spain, which maintain career systems with recruitment of staff at the entrance level only, as is the case in Indonesia. As already mentioned, most countries today apply a career system for institutions and operations that are specific to the state, such as police, foreign services, tax and customs administration. Only very specialized positions within these institutions, such as accountants, lawyers and Information and Communications Technology specialist positions, are commonly advertised externally. For most other jobs, staff are recruited through open competition to specific positions as they become vacant, and hiring is based on specified professional criteria.

**Assessment**

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17 For example, in the Ministry of Finance’s 2008 recruitment drive, 92,000 applicants competed for the available 1,500 positions.
97. Generally, all civil servants in Indonesia are allocated to positions by management decisions rather than any transparent form of competition between applicants or assessment of suitability. However, reforming institutions have introduced various kinds of assessments of candidates. The Ministry of Foreign Affairs, for example, now operates a system whereby each diplomat is closely monitored and assessed to determine the extent to which he/she has the capacity and competency for a specific diplomatic position.

98. It seems that the approach of both the Bureaucracy Reform Initiative and the reforms in the Ministry of Foreign Affairs are addressing the shortcomings in the general recruitment policies. Further, recruitment and selection is one area where institutions seem to have some discretion to improve their practices by adding extra assessment steps and more specific selection criteria.

Rotation

Current Situation

99. The centrally determined rotation policy requires that civil servants in echelons II-IV move to different positions every three years. The policy is not always enforced uniformly across government institutions, though in general one third of echelon II-IV officials are moved each year in ministries and other state institutions. These staff are only rotated within their ministry or agency but often between different geographical locations in de-concentrated institutions. Rotation between different directorates general within the same ministry is rare.

Good Practice

100. Rotation is a policy applied in all career services in order to support capacity building and individual career advancement. Rotation is also an anticorruption mechanism. It is however not an easy policy to apply in a productive way. It bears the risk of destroying capacity rather than building it and may unintentionally reduce staff motivation. Such risks can be mitigated through a structured decision-making process and through preparation of officials selected for rotation. In some countries, particularly those with significant geographic and cost-of-living differences, the government provides allowances to compensate staff moving to offices in less attractive areas, thus facilitating the maintenance of quality and performance in locations that are less attractive to staff or where costs of living are greater.

Assessment

101. The effective staff turnover of more than 30% per annum among managerial staff is much higher than is encountered in most organizations where staff turn-over rates of around 10% are considered to be acceptable (and indeed desirable). As the determination of “who moves where” is frequently undertaken without the participation of the
individuals concerned, it often results in significant employee dissatisfaction and has negative impacts on capacity building both for the individuals and the offices concerned.

102. In Ministry of Finance, which is a huge nation-wide organization, the rotation policy is being reformed. Based on a draft Minister’s decree\(^\text{18}\), Ministry of Finance’s Directorate Generals and main offices have been encouraged to reform the rotation policy in order to better build capacity and nurture careers. New policies have already been implemented in the Secretary General’s Office and are under development in Directorate General Tax.

**Training**

**Current Situation**

103. In-service training is at present carried out in two streams in most institutions. The first stream is general training for promotion (structural training) and the other is technical training focusing on relevant legislation or otherwise related to the operations. Training is carried out by the central level (Pusdiklat) or regional level (diklat) training centers for each institution. In many institutions there is also a third stream of training provided by bilateral donors and multinational organizations. Training in this stream is mainly technical in content and usually very focused and specialized.

**Good Practice**

104. A modernized approach to training that has been adopted in a number of countries proposes that the "customer" (the institution requiring staff training) be wholly responsible for cost and pay a market rate to whichever "supplier" (training institution) that is best able to offer training of agreed content, quality and availability. As the “customer” institution is paying for the training, it can choose the supplier freely from a range of government training institutes, universities or private organizations. Training providers then operate within an open and competitive marketplace, providing training programs and courses that match closely the needs of their customers. The key common denominator for most modern training policies is that the budget for training is with the demanding institution and not with the supplying institution.

**Assessment**

105. The current distribution of roles and responsibilities between institutions demanding training and training providers and the arrangements for financing of training is not conducive to the delivery of effective training that corresponds with evolving training needs. Institutions providing training have a formal monopoly on training and they frequently experience difficulties in keeping training programs updated and in responding to variations in demand. Institutions providing training also have difficulties

\(^{18}\) A ministerial decree confirming this was prepared in 2007 but has yet to be issued. This is planned for 2009.
in supplying competent teachers, and in most cases, given the specialist subject matter, teachers have to be provided by the institution requiring training.

106. Existing arrangements require demanding institutions to pay travel and per diem allowances for training participants while the training providers finance training course development, course delivery, facilities, materials and teachers out of their budget. The training institutions rely on full-time teachers, who can rapidly lose touch with operational developments in the parent organization. This financing arrangement creates gaps between the training provided and training needs as they evolve. This is a consequence of training funds being allocated to the "supplier" instead of to the "customer". Reform of the training system is thus dependent on budget reform and that training funds are allocated to demanding institutions and not to the supplying institutions like today.

**Recommendations**

107. The civil service in Indonesia could become more professional by changing current policies/regulations for human resource management:

- Job classification could be introduced in civil service institutions in accordance with the needs of the organization based on job analysis and job descriptions. The Bureaucracy Reform concept provides models for such reforms.
- Recruitment criteria could be changed from level of education only to educational and professional qualification requirements
- Career corps could be established in the major services, such as diplomatic, prosecutor, customs and tax services, and allow these services to apply their own structures, management and grading schemes, harmonized with a reformed general pay and grading scheme.
- Policies for rotation could be reformed and relaxed in order to support capacity building.
- A scheme making it possible to relocate human resources between government institutions, sectors and levels could be introduced as a first step towards a policy for handling redundancies.\(^{19}\)
- Temporary assignments of staff for management of development projects (project management organizations) could become possible.\(^{20}\)
- National training policies could be reformed aiming to replace “structural training” and with managerial and technical training as defined by demanding line institutions.

\(^{19}\) To illustrate, due to rationalization, the Directorate General Treasury, which is part of the Ministry of Finance, currently has a considerable redundancy of skilled accounting staff spread over the country. At the same time, regional governments are in dire need of accountants. However, under current regulations there is no way for the redundant Directorate General Treasury accountants to transfer to governments in the regions where they actually live. Another example is BPKP, which due to decentralization has lost most of its mandate and tasks. BPKP still holds 26 regional offices with no mandate while BPK (the Supreme Audit Institution) has to build up 30 new offices and recruit new staff as BPKP staff cannot be transferred to BPK.

\(^{20}\) In spite of more than 40 years of considerable project implementation in most state institutions, civil service regulations still do not allow for the creation of project management units or project teams.
• Better relevance and flexibility of training could be achieved by moving training budgets from the supplying institution to the demanding institution.

4.7 Human resources data, information systems and payroll applications

**Current situation**

108. The World Bank commissioned a study prior to the Mission on issues relating to the use of Human Resources information systems in the civil service\(^{21}\). The key findings of that study were that the civil service is not presently managing its human resource data well. Data is widely perceived as inaccurate and does not contribute effectively to the proper management of civil service organizations. Although there have been investments thus far in Human Resource Information Systems across the institutions surveyed, it has not been possible to determine what, if any, value these investments have returned. A more comprehensive analysis of Human Resource Information Systems and payroll issues in the civil service is in Annex 14.

**Good Practice**

109. Good practice promotes the use of Human Resource Information Systems that are based upon viable business cases, where investments are linked to benefits and returns to be achieved, where links to existing business systems are strong, and where human resource information systems are not deployed as standalone applications. Project management tools are applied to ensure high levels of governance, relevance, quality and sustainability.

110. International standards for basic personal data exist in a number of formats, none of which appear to be employed in the Indonesian civil service. International good practice would also recognize the sensitivity of personal data in line with Article 12 of the Universal Declaration on Human Rights.

**Assessment**

111. The governance arrangements for human resource information systems in the Indonesian civil service are undeveloped and in urgent need of attention, falling short of the standards found, for example, in well-managed state owned enterprises in Indonesia. None of the civil service entities examined had structured information and communications technology governance, strategy or policies in place to guide development. The concept of data protection it is not yet recognized in the Indonesian legislative framework as it does not contain provisions aiming to protect the use, storage or access to sensitive personal data.

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\(^{21}\) Preliminary Analysis; Human Resources Management and Human Resources Information Systems by Bill Monks, Red Centre Consulting Pte, Ltd.
112. There is limited inter-ministerial co-operation and co-ordination on the development or use of Human Resources Information System. In contrast with widely accepted good practice, data standards for human resource information systems data, and indeed most other key organizational data items, appear not to have been implemented across the civil service. Significant levels of information and communications technology skills are present in the civil service, but there is a lack of strategic planning and project management skills, particularly at senior levels. Most institutions are capable of developing software applications though few are able to establish information and communications technology strategies; none of the civil service institutions studied used formal project management tools or methods.

113. There is a wide range of human resource information system applications in use across the ministries analyzed, characterized only by the use (to a greater or lesser extent) of relational data models. In each case, all other major components of the Human Resource Information Systems have been selected on the basis of expediency with scant regard for sustainability or longevity. Generally, there appears to be poor value obtained from investments in human resource information systems.

114. Unless and until information and communications technology projects generally, and human resource information system implementation in particular, are approached as business change agendas rather than low-level software development or implementation tasks it is unlikely that the issues identified above will be resolved. The solution does not lie in developing yet more application software, but rather in proving the links between human resource information systems and business value, using these linkages to identify opportunities to resolve business issues, and the subsequent application of appropriate technology in support of process change. This in turn requires a substantial upgrading in relevant management skills, and the establishment of appropriate institutional arrangements to provide proper governance of human resources information system.

115. No progress has been made in establishing general, modern payroll administration systems or processes. The Ministry of Finance, for example, continues to operate more than 1000 separate payrolls with most central consolidation undertaken manually. This is a major impediment to central coordination of the civil service and is a gross waste of resources.

116. Conversely, there are examples of state-owned enterprises in Indonesia that have implemented excellent human resource information systems in line with good international practice and from whom civil service institutions could learn. Broadly, the approach that state-owned enterprises have taken differs from that of civil service organizations in three areas: First, project sponsorship, leadership and integration with business strategies are much clearer and more effective. Second, the applications themselves and the data standards upon which they operate are fully integrated with other business systems. Finally, they have either installed Commercial Off The Shelf (COTS) applications or developed their own systems based on a business case justifying the investment. In either case, effective project management tools have been deployed ensuring governance, relevance, quality and timeliness.
Recommendation
117. Improved human resource data quality, standards and human resource information systems are needed to improve the management of people, payroll and organizations and reforms. Much of the responsibility for the items below would be with BKN. Based on the assessment above, reform goals would include the following:

- National standards for HR data could be developed and enforced across the civil service.
- Structured ICT governance strategy or policies could be developed and enforced to guide development of human resources information systems in civil service entities.
- Inter-ministerial cooperation and coordination on the development or use of human resource information systems could be improved.
- Application of formal project management tools or methods could be mandatory when developing human resources information systems.
- Human resources information system solutions in selected state owned enterprises could give valuable inputs to the civil service authorities and even serve as models for improvements.

5. Proposal for a World Bank support program

5.1. Introduction

118. Overall, a ‘climate for reform’ now exists, due for the most part to the vigor with which reforms have been pursued in the Ministry of Finance. Momentum might increase still further once a new government has taken office. In addition, the current financial crisis or economic slowdown may affect reforms by increasing the pace, broadening the scope and radicalizing the reform outcomes, as has historically been the case in other countries during times of crisis.

119. The Bank could at this stage make use of the opportunity to assist Government of Indonesia in moving its reform agenda forward to address the limitations and challenges identified in this report. The added value of the World Bank would be i) to present Indonesian reformers to international good practice, 2) to leverage the Banks considerable convening power, 3) to establish links between civil service reform and other reform elements including budget reform given the Banks broad engagement and 4) to assist reformers in bringing impediments on the higher level agenda through the ongoing policy dialogue.

120. Civil service reform is one of the most complicated reforms for any government to undertake considering that the structure and the management of the administration is part of the nation’s culture and ingrained in the minds of people both within and outside the administration. Achieving positive results in this situation will be predicated upon finding an approach slightly different from the Bank’s traditional way of engaging in civil service reform. Below, therefore, follows a description of a program approach which is innovative and closely aligned with the expectations of key Government of Indonesia stakeholders and with the Bank’s Country Partnership Startegy, and with sufficient
flexibility and resilience to respond to a wide variety of support needs and requests as they develop over time.

5.2. Objectives and principles of the program

121. The program would be guided by the following principles inspired by the Country Partnership Strategy for Indonesia: i) Strengthening and supporting the government’s own reform agenda. ii) Working with and through Indonesian institutions and organizations. iii) Providing for flexibility to adjust to the evolving reform agenda and to the implications of the results of the 2009 elections. iv) Integrating the full range of Bank modalities (grants, loans, knowledge products, technical assistance, facilitation, development policy loans, convening facilities). v) Providing for donor coordination.

122. Accordingly, the program would seek to meet three separate but interlinked objectives: i) to facilitate consensus among stakeholders on key civil service reform challenges including Information and Communications Technology, civil service reform at regional levels and performance management and accountability. ii) to strengthen capacity in Indonesian Institutions to design and implement civil service reform. iii) To support and strengthen both central civil service management institutions and reforming line institutions as well as reform leaders.

5.3. Program components

123. The program could include a combination of one or more of five components described and motivated in the following sections.

Component A: Providing a stronger knowledge base for reforms: Undertaking analyses with Indonesian Institutions

124. The Mission found that there is a need to update and broaden the empirical basis for government policy (and Bank operational decisions) in the area of civil service reform in Indonesia. A program of analytical work that, ideally, would be carried out jointly with Indonesian institutional partners is required to ensure that a sound approach is pursued on several key civil service issues. This work would take the form of Economic and Sector Work or Advisory and Analytical Activities on the following areas:

- Evaluation of current reform initiatives.
- Analysis of the impact of current Constitutional arrangements on the civil service regulatory powers and policymaking authority.
- Government wage bill analysis and public employment projections.
- Pay comparator analysis using benchmark surveys and household living standards data.
- Civil service pension analysis.
- Political economy of civil service reform.

125. The proposed component would contribute to the objective of facilitating consensus among stakeholders on key civil service reform challenges including Information and Communications Technology, civil service reform at regional levels and
performance management and accountability by providing a better knowledge basis and building capacity to use this basis for policy decision. In addition, if Indonesian institutions undertake some of this analytical work, the component will build in-country capacity for research and increase in-country knowledge of civil service issues.

**Component B: Peer to peer learning: Exchange experiences of good practice within Indonesia and in other countries, keeping track of reform efforts, facilitate peer reviews and evaluation of reform progress**

126. This component would facilitate the expansion of reforms, the refinement of policy outcomes and the improvement of reform outputs. The scope of reforms will gradually be broadened through exchange of civil service reform experiences within Indonesia as well as through peer inputs from other countries and from international organizations. The component will also work for recognition of Human Resources Management as a specialist profession within the Indonesian civil service system and will focus on improved coordination with, and the building of consensus among, stakeholders. The component would therefore contribute to all three identified objectives.

127. The component would be innovative in the sense that knowledge, experiences and good practices will instead be conveyed by peers from within Indonesia or from other countries. For example, peer sharing may include inputs from civil service management institutions in other countries in the region, sharing between reforming Indonesian institutions at different levels, inputs from private businesses or state-owned enterprises within Indonesia, from GOI institutions such as the National Ombudsman’s Commission which collects consumer feedback on service delivery, or from civil society organizations with expertise in legal or human resource management reforms, such as the Association of Indonesian Human Resource Officers. The component would create a forum and will provide necessary resources for such peer to peer sharing. Outputs under Component A would be disseminated and “socialized” under this component B.

128. The component would be open-ended by nature to respond to needs and opportunities as they arise. Outputs will mainly be seminars, workshops/roundtables, reports/studies/papers, study trips, peer reviews and peer visits for various policy development purposes. An e-Newsletter will be produced.

**Component C: Working with targeted Civil Service Agencies and reforming line institutions**

129. Civil service management agencies (MenPAN, BKN, LAN) and line institutions (e.g. Ministry of Public Works, Ministry of Trade, Ministry of Home Affairs and others) look to donor assistance in regard to diagnostic work, inspiration to reform design and assistance in solving implementation bottlenecks. The nature of requests and needs call for a mixture of analytical and advisory services and technical assistance. The Bank has provided such assistance in limited quantities to the Ministry of Finance and the Ministry of Public Works and is planning to provide a larger scale contribution to the Ministry of Trade. The proposed component B of the program will provide peer to peer learning and inputs both to civil service management agencies and to reforming institutions but it is likely that such engagements will not satisfy demand for more tangible advice and assistance.
For the civil service management agencies, support is proposed to be delivered through targeted short consultancies as needed and executed by a small secretariat in the Bank. Examples of possible consultancies include both coaching and facilitation of the development of a new grading structure and pay scheme, pension reform, standards for Human Resources data management and the review of the regulatory framework for the civil service.

As regards reforming line institutions, support would typically be anchored in the sectors within the Bank (education, infrastructure, trade facilitation, etc.) with peer review, coordination and technical input from the proposed program. Funding for such assistance would also be provided through funding mechanisms already in place in the sectors (loans, trust funds, Bank budget (BB). The program would also work with Bank sector staff to conduct a stocktaking of current, related capacity-building efforts in ministries, in order to better coordinate reform efforts across the government. This stocktaking might also include other donors' activities, as the issue of donor coordination came up as a problem in several of the Mission meetings. Accordingly, this component would be limited in size.

Component D: Reaching out to the public – working with civil society and the media

130. Civil service and bureaucracy reforms are long-term efforts. Given the likelihood of uneven government support for and capacity to implement these reforms, building support in Indonesian institutions more broadly might provide a complementary approach to maintaining momentum and support for reform over the long term. In addition, many non-governmental institutions within Indonesia have useful experience in the area of human resource management and legal reform and may be able to provide insights for reforming institutions on technical issues or project management.

131. There are a number of ways for the Bank to encourage demand for reform through working with civil society organizations: convening groups that may have common reform interests, supporting research and monitoring capabilities, and encouraging public awareness and education on civil service issues. By creating and maintaining relationships with civil society organizations, the Bank can not only help develop broader demand for civil service and bureaucracy reform but will also support the development of local expertise in these areas, which the government will then be able to access directly.

132. Counterparts so such a component could include legal reform and advocacy organizations, media and public education, professional associations and the corporate sector.

Component E: Leaders of the Future – strengthening in-country training opportunities and providing overseas scholarship to reforming institutions.

133. Both the Minister of Finance and the Minister of Foreign Affairs have expressed strong interest in a World Bank funded scholarship program targeting officials in their ministries. Bappenas has expressed support for such a program and several other government institutions have expressed interest to participate.
134. The component, although loan funded, would be an integrated part of the proposed program in support of civil service (bureaucracy) reform and institutional capacity building in Indonesia, as the scholarship program would aim to build sustainable capacity in reforming institutions.

135. Indonesian government institutions attempting fundamental reforms to increase efficiency and improve performance are facing problems related to a lack of capacity to manage the reform process and the reformed institution. The problem is partly due to institutional, or organizational, factors, but the main problem is the lack of understanding and experience with best-practice management of many current and future managers. In addition, many institutions have to cope with rapid changes within their fields of expertise or authority due to political or technical developments.

136. At the same time that the component will build capacity in government institutions it should be designed in a way that it would have impact also on educational quality and capacity in participating Indonesian universities and training institutions.

137. The scholarship program would offer opportunities for Masters, PhD and non-degree studies focusing on strengthened managerial skills, including, for example, studies related to leadership skills, business administration, finance and accounting, Human Resources Management, Information and Communications Technology, project management, change management and public administration. The program will also offer development opportunities to candidates in fields of public policy and/or law relevant to the institution’s mission.

138. The program would offer opportunities both in overseas and Indonesian universities and institutions as well as combinations of the two. When a combination is offered there should also be an element of capacity building for the participating Indonesian university or training institution.

139. Participants will be selected on a competitive basis provided their studies are linked to institutional development plans/needs. Selection will be made by an independent third party, which could be the concerned universities. To be eligible, institutions will need to have a post-graduate management program or strategy.

140. The component will require further preparatory work starting with a pre-identification mission.

5.4 Implementation arrangements

141. There are several options for implementation of the proposed program. Three main elements of an implementation framework could be:

   a) Lean, grant funded, facilitating “secretariat” in the Bank
   b) Grant funded partnership with independent Indonesian institutions and organizations and/or with regional partners
c) Investment loans. and development policy loans Development Policy Loan

142. It is proposed that partnerships with independent Indonesian institutions and organizations and/or with regional partners anchor the proposed program. Such a partnership could be supported by a small secretariat in the Bank to assist the Indonesian institution(s) as they would need to take full implementation and trust fund administration responsibility on gradually to allow for necessary capacity building.

143. This means that the proposed program will aim to make use of all available Bank modalities to support and to further reforms. While most of the proposed five components are intended for grant financing, other modalities will be used such as loan funding for the proposed scholarship program. Civil service reform is further already being brought into the policy development dialogue under the annual Development Policy Loan lending to support reform champions, a dialogue that will be expanded and sharpened over time.
Annex I. Chronology of World Bank activities related to civil service reform in Indonesia 2000-2008

The World Bank Mission year 2000

In October 2000, the Bank carried out a Mission related to civil service reform in Indonesia, producing a report with recommendations for focus and priorities for such reform. Before the Mission, the Bank had conducted an analysis of remuneration structure and levels in the Indonesian civil service providing inputs for the October mission.

The Bank’s analysis and proposals were well received as they focused on four important areas: the imminent transfer of 2.5 million civil servants from central government to regional governments, civil service pay and employment, HRM policies and practices and anticorruption. At the time of the Mission, there was no institution prepared to take on civil service reform as proposed by the Bank and the suggested focus areas are still in need of improvements and consequently still targets for reform. The notable exception was that 2.5 million civil servants were successfully transferred to regional governments in 2001.

The World Bank Mission year 2006

In 2006, a group of World Bank experts and consultants came to Indonesia at the request of the government to discuss priority civil service reform areas and potential strategies for achieving reform. The team recommended three approaches: (1) starting short-term reforms that were expected to have an early impact; (2) tackling the single biggest constraint to reform – the HRM scheme; and (3) developing a strategy, over the following three months, for the period to end-2008. The short term reform recommendations included increasing the transparency of pay for high-level officials (Pejabat Negara), creating a central “efficiency unit,” introducing incentives for tax officials and in road development programs, and increasing teachers’ pay. In addressing the HRM scheme, the team recommended wholesale replacement of the system, starting with setting small, achievable targets, appointing a reform leader responsible directly to the President, and maintaining an understanding that reform would be a very long-term effort.

World Bank project on a Methodology for Regional Civil Service Reform

In 2006, the Bank supported work evaluating the need and opportunities for civil service reform at the regional level through an ASEM grant. This work built on the 2000 mission and reports indicating that the extensive decentralization effort was likely to see significant problems if the central government did not implement major reforms, and included diagnostic work and development of a road map for civil service reform in

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22 Indonesia – Priorities for Civil Service Reform by Barbara Nunberg et al.
23 Pay and Patronage in the Core Civil Service in Indonesia by Nick Manning et al. Not published
selected regional governments. The Bank’s effort included dissemination work through focus group discussions, briefs, workshops and notes to local and national decision makers.

The final synthesis report under this grant provided an assessment of the likelihood that the Government of Indonesia would implement reforms from the center. This assessment included suggestions for reforms that would be feasible, prerequisites for the success of those reforms, and recommendations for the oversight and organization of those reform efforts. According to the report, leadership at the presidential level would be necessary. Reforms should be clustered around objectives and expected results rather than organized by technical areas in order to clarify the appropriate sequencing. One recommended approach to reform would be to have a regional government unit work together with the central government on a pilot project, which would include piloting of changes in the interaction and regulatory relationship between the central and regional governments.

Under this grant, reports also documented the continuing weaknesses in Indonesian government personnel and organization systems and policies, with the goal of identifying priority areas for reform. In addition, the program included a workshop that brought together stakeholders from several government institutions (MenPAN, Ministry of Home Affairs, BKN, LAN, Ministry of Finance, Bappenas and several regional governments) to discuss the results of the reports and the potential for reform.

There was little movement on these issues after the trust fund closed. KPK used the results of the reports in dialogue with the president and other government stakeholders, and regional governments participated actively in development of the methodology for reform, but the recommended pilot projects were not undertaken and cooperation between local and central government units did not take place. At the end of 2005, MenPAN staff were rotated and the Inter Agency Advisory Group on reform ceased its regular meetings; these developments likely hindered follow-up on the Bank’s suggestions.

**Pejabat Negara pay review**

In August 2006, a team of consultants were appointed to undertake job evaluation and a pay study for high state official (pejabat negara) positions. The terms of reference for the work were to:

- develop a customized job evaluation methodology for all pejabat negara jobs (including in the judiciary)
- conduct job analysis of a representative sample of these jobs
- collect detailed remuneration data on comparator jobs, both within Indonesia and other countries in the region and elsewhere
- develop an appropriate grade structure proposals for all pejabat negara jobs
- develop appropriate pay scale proposals for all pejabat negara jobs
Under the project, 28 staff in the Ministry of Finance were trained in the techniques of job description writing, job evaluation and job grading. This work was intended to develop specific job evaluation skills in the ministry, but it is not clear that this has in fact happened, as different methodologies have been used subsequently.

The study recommended that there should be two grade structures for pejabat negara: the first for jobs in the executive and legislative branches of the state, the second for jobs in the judicial branch. Each grade structure would consist of four main grades – Grade 1 (Highest) to 4 (Lowest) - with Grade 1 of the Judicial Structure equivalent in terms of duties and responsibilities to Grade 2 of the Executive/Legislative structure. Differences in duties and responsibilities would be expressed by a job evaluation-validated ‘points score’.

Remuneration data were collected for comparator jobs – both executive/legislative and judicial - in a number of other countries. The evidence provided by these data was inconclusive, i.e. there did not seem to be an unambiguously clear pattern or model of accepted international best practice to follow for pejabat negara. Rather, each studied country appeared to follow its own customs and practices and therefore the study was of limited value. However, it was also evident that the countries with the most transparent arrangements, i.e. the ones for which all details were publicly available as to how overall remuneration packages had been constructed, were those which seemed to have the most logical and consistent arrangements.

The fundamental principle on which the work was based was that there should be equal pay for equal work. In other words, there should be a rational and transparent system of assessing the duties and responsibilities of each pejabat negara job – both individually and in relationship to all other such jobs – and that this system, once established, should be linked to an equally rational and transparent system of pay. The study concluded by recommending that, for ejabat negara, there should be:

- One grade structure consisting of four levels for all non-judiciary jobs
- One grade structure consisting of four levels for all judiciary jobs – with the highest level of this grade structure equivalent to grade 2 of the non-judiciary grade structure
- Each grade structure to be defined by different sets of job factors
- All pejabat negara jobs to be evaluated and assigned the appropriate grade structure

The Bank’s recommendations are still to be implemented.

**Ministry of Finance Retreat**

In December 2006, the Bank arranged and hosted a retreat with senior MOF officials to review methods for comprehensive reform related to business processes, ICT, organizational restructuring, HR reforms, etc.

Introduction

In October 2000, the Bank carried out a major mission related to civil service reform in Indonesia producing a report with recommendations for focus and priorities for such reform.24 Before the Mission, the Bank had conducted an analysis of remuneration structure and levels in the Indonesian civil service providing inputs for the October mission.25

The Bank’s analysis and proposals were well received as they focused on four important areas: the imminent transfer of 2.5 million civil servants from central government to regional governments, civil service pay and employment, Human Resources Management policies and practices and anticorruption. At the time of the Mission, there was no institution prepared to take on civil service reform as proposed by the Bank and the suggested focus areas are still in need of improvements and therefore targets for ongoing reforms. The notable exception was that 2.5 million civil servants were successfully transferred to regional governments in 2001.

While the objective of the 2000 Bank Mission was to provide the Government of Indonesia with clear recommendations for focus and priorities of a civil service reform that had not yet started, civil service reform is today already underway. It is at this stage therefore timely to define what kind of support the World Bank should provide at this critical junction in public sector modernization in Indonesia to facilitate Government of Indonesia to develop, implement, accelerate and monitor ongoing reform efforts. In this context it is timely to assess how best to leverage and synchronize all bank instruments (Development Policy Loans, Trust Funds, Investment Loans, SWAPS, Bank Budget Operations etc.)

Indonesia is today a newly minted lower middle-income country which should give preconditions for a more fundamental and ambitious reform of its civil service than was the case eight years ago. As a lower middle-income country, Indonesia could be seeking inspiration in good international practice, e.g. as expressed in World Bank and/or Organization for Economic Cooperation and Development civil service standards or baselines.

Objective for the Mission

The objectives of the Mission are:

1. to map, describe and assess current approach and status of ongoing civil service reform initiatives in selected central government institutions

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24 Indonesia – Priorities for Civil Service Reform by Barbara Nunberg et al.
25 Pay and Patronage in the Core Civil Service in Indonesia by Nick Manning et al. Not published
2. to make recommendations related to scope, focus and approach of continued reforms; and
3. to propose to Government of Indonesia a World Bank program of assistance in support of the authorities’ reform agenda including a subsequent (subject to availability of funding) formal stakeholder analysis of civil service reform in Indonesia

Background

A broad consensus on the necessity for civil service reform has grown strong in Indonesia during the last five years. Various civil service reform activities have been and are implemented at different levels of government. The most prominent examples include:

- Internal Management Reforms in the Ministry of Foreign Affairs
- The Bureaucracy Reform Initiative in the Ministry of Finance
- The replication of the Ministry of Finance Initiative in other agencies and so far in BPK and Supreme Court under the aegis of the National Committee for Bureaucracy Reform
- Human Resources Management Reforms in the Ministry of Trade
- Reforms related to school teachers performance and employment conditions
- Civil service reforms within several provincial and local governments
- Reassessment middle management position holders in the Land Administration Agency (BPN)
- The establishment of state institutions exempt from the civil service scheme, such as KPK and BRR.

The long lasting impacts of some reform interventions can be questioned, as long as the applicable regulatory and institutional framework is not adapted to accommodate new developments. Reform minded leaders have to design and implement reforms within a policy framework that does not readily support the new approaches. The result is that reform outcomes are attached to reform minded leaders rather than being anchored in policies and reflected in regulations making sustainability uncertain the day that those leaders moves on.

A comprehensive concept for civil service reform has since 2001 been implemented in the Ministry of Foreign Affairs. These reforms have aimed to improve professional diplomatic skills and capacity through restructuring, down-sizing, improved recruitment and career management processes and enhanced technical training. The reforms within Ministry of Foreign Affairs have been implemented without any extra budget allocations, while savings due to reduction of staff from 3,800 to 2,300 have provided some financial space.
Another comprehensive concept for civil service reform has since 2006 been developed and implemented in the Ministry of Finance under the Bureaucracy Reform Initiative. The reform concept requires extra budget allocations for its implementation and the House of Deputies (DPR), in approving the extra allocation, has required Ministry of Finance to make sure its reform concept gets “replicated” in other state institutions. So far, the Supreme Audit Institution (BPK) and the Supreme Court have received extra budget allocations together with specific reform requirements set up by Ministry of Finance. The “replication” of the bureaucracy reform is done under the aegis of the National Committee for Bureaucracy Reform, chaired by the Minister for Empowerment of the State Apparatus (MenPAN) and including the four institutions mentioned and the Commission for Eradication of Corruption (KPK), assigned to monitor reform progress in the other institutions. The replication of the Ministry of Finance Bureaucracy Reform Initiative is a trigger in the most recent Development Policy Loan.

Counterparts to the Mission

The Mission will limit its scope of work to the central government level. The Mission will work with institutions currently implementing civil service reform, whether within the framework of Bureaucracy Reform Initiative or independently, to assess progress and in order to find communalities and differences in approach and impact and in order to identify best practices. The Mission will further focus on selected “typical” agencies to be able to draw conclusions beyond the individual agency. The Mission will also meet with agencies with crosscutting authorities or specialized mandates to review potential for reform in areas not yet subject to reform or reform considerations. Main counterparts to the Mission are included in Annex 1 [not included in this report].

Coordination with donors and international organizations

The Mission will need to meet and coordinate with donors active or with an interest in civil service (bureaucracy) reform. In 2008, Indonesia and Organization for Economic Cooperation and Development entered into an Enhanced Engagement Agreement under which Indonesia will be able to benefit from much of the work carried out by Organization for Economic Cooperation and Development, including its work related to governance reform. The Mission could therefore coordinate also with the Organization for Economic Cooperation and Development potentially on establishing a peer-to-peer learning framework.

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New job descriptions and a new grading scheme have been introduced. Salaries have been increased by an extra allowance determined by the new job descriptions and by allocating positions to one out of 27 additional grades. Currently, the selection process for recruitment and promotion in Ministry of Finance is planned to be transformed into a process based on announced vacancies, voluntary applications and competitive selection based on merit. An Assessment center is being established. Simultaneously, the rotation policy is subject to reform. Development of a new human resources information system has recently been initiated at the level of Ministry of Finance.
Activities of the Mission

The Mission will undertake the following activities:

- The Mission will hold an initial workshop to introduce the terms of reference of the Mission and the expected outcomes. High level representatives of all counterpart institutions will be invited to the workshop and be given the opportunity to give inputs to the Mission. Senior representatives of donors with an interest in civil service reform will also be invited.

- The Mission will undertake workshops and conduct interviews with management and relevant staff in selected central government institutions (Annex 1) [not included here].

- The Mission will hold meetings and possibly workshops with management and concerned staff in relevant agencies and specialized institutions to assess potential for reform in areas where reforms have been recently initiated or not are not yet subject to reform considerations (Annex 1) [not included here].

- The Mission will hold meetings with relevant donors to explore possibilities of enhanced cooperation, both substantively and financially, related to an upgraded support for civil service reform in Indonesia (Annex 2) [not included here].

The Scope of the Mission’s Assessment and Considerations

The Mission will assess progress related to three main areas: i) core Human Resources Management policies and practices; ii) organization and staffing policies and practices; and iii) specific crosscutting issues related to Human Resources Management such as the civil service pension scheme and the use of Information and Communications Technology support for management of Human Resources information.

The Mission’s deliverables

The Mission is expected to deliver a Mission Report or an Aide Memoire reflecting the objectives of this terms of reference.

Timing

The Mission will be in Indonesia during the period 2-13 February 2009.

Preparatory and logistical support

A number of analytical and/or descriptive studies will be commissioned by WBOJ and delivered prior to the arrival of the Mission to facilitate its work. These studies are specified in Annex 2 Inputs to the Mission [not included here].

WBOJ will give the Mission preparatory support as well as full logistical support while the Mission is in Jakarta. Preparatory support would include preparing the Mission’s
meeting schedule with request letters and follow up. Preparatory support would also include preparations for the initial workshop of the Mission including booking venues, making down payments and sending out invitations.

Logistical support would include a full-time temporary assistant managing the Mission’s schedule while here, interpreters as required, rental cars and other practical arrangements as required.
Annex 3: The Mission’s Meetings

**Ministry of Foreign Affairs**
1. H. E. Hassan Wirayuda, Ministry of Foreign Affairs
2. Mr. Ibnu Said, Special Advisor to the Minister of Foreign Affairs
3. Mr. Priyo Iswanto, Head of Bureau of Human Resources

**Ministry of Public Works**
4. H.E. Djoko Kirmanto, Ministry of Public Works
5. Mr. Agoes Widjanarko, Secretary General
6. Mr. Bambang Guritno Soekamto, Assistant to the Minister on Investment and Economic Affairs
7. Mr. Djoko Murdjanto, Head of Bureau of Planning and International Cooperation
8. Mr. Purnarachman H., Minister Advisor for Expertise and Professional Development
9. Mr. Setia Budhy Algamar.

**Ministry of Finance**
9. Mr. Marwanto Harjowiryono, Special Advisor to the Minister of Finance
10. Mr. Samsuar Said, Head of Bureau of Organization and Business Process
11. Mr. Abdul Ghofar, Head of Bureau of Personnel
12. Mr. Harry Z. Soeratin, Head of Bureau of Public Relations

**State Ministry of Administrative Reforms**
13. H.E. Taufiq Effendy, State Minister of Administrative Reforms
14. Mr. Tasdik Kinanto, Secretary to the State Ministry of Administrative Reforms
15. Mr. Ismail Muhamad, Deputy for Business Process
16. Mr. Ramli E. I Naibaho, Deputy for Human Resources of Apparatus
17. Mr. Herry Yana Sutisna, Deputy for Accountability of Apparatus
18. Mr. Rusdianto, Deputy Assistant for Human Resources of Apparatus

**Ministry of Home Affairs**
19. Ms. Diah Anggraeni, Secretary General
20. Mr. Yuswandi Temenggung, Head of Bureau of Planning and Budget
21. Mr. Kiswanto, Head of Bureau of Personnel
22. Mr. Ahmad Zubaidi, Head of Bureau for Organization

**Supreme Audit Board (BPK)**
23. H.E. Anwar Nasution, Chairman of the Supreme Audit Board
24. Mr. Dharma Bakti, the Secretary General of the Supreme Audit Board
25. Mr. Daeng M. Nazir, Head of Principle Directorate Planning, Evaluation Development, Education and Training
26. Mr. Syafri Adnan Baharuddin, Principal Auditor
27. Mr. Nizam Burhanuddin, Prime Inspector
28. Mr. Hendar, Head of Legal Directorate  
29. Mr. Novy G. A Pelenkahu, Head of Auditorate II A  
30. Mr. Dwita Pradana, Acting Head of Public and International Relations Bureau

**National Institute of Public Administration**

27. Mr. Asmawi Rewansyah, Chairman of National Institute of Public Administration  
28. Mrs. Sri Hadiati WK, Deputy for Performance Evaluation on Government Institution and Apparatus  
29. Mr. Iqbal Fadillah, Head of International Cooperation Division  
30. Mr. P.M. Marpaung, Director of Center for International Administration Studies  
31. Mr. Sukari, Director for Fostering Functional Trainers

**Corruption Eradication Commission (KPK)**

32. Mr. Haryono Umar, Vice Chairman/Commissioner of KPK  
33. Mrs. Niken Ariati, Researcher  
34. Mr. Adil W. Surowidjojo, Researcher

**Attorney General’s Office**

35. Mr. Muchtar Arifin, Vice Attorney General,  
36. Mr. Darmono, Deputy Attorney General for Supervision,  
37. Mr. Sulatra, Acting Deputy Attorney General for Development,  
38. Mr. Harius Husein, Head of Training and Education Centre  
39. Mr. Ajat Sudrajat, Deputy AG for Supervision  
40. Mr. Fahmi, Head of Information and Criminal Statistics,

**University of Indonesia – The Institute of Management**

41. Mrs. Sari Wahyuni, Director of Operational and Quality Assurance

**Donor Partners**

42. Mr. Jeffrey Ong, Canadian International Development Agency  
43. Mr. Ad Koekkoek, Netherlands Embassy  
44. Mr. Wiebe Anema, Netherland Embassy  
45. Mr. Kofmann, Netherlands Embassy  
46. Mr. Pierre Phillipe, First Counsel European Union  
47. Mr. Lars Gronvald, Second Secretary, European Union  
48. Mrs. Smita Notosusanto, Governance Adviser, DFID  
49. Mr. Blair Exell, Head of AusAid

**International Resident Advisors**

50. Mr. Peter Rimmle, Senior Advisor for Governance Reform, GTZ  
51. Mr. Mike Jones, Senior Advisor, Australian Public Service Commission  
52. Mr. Mark Kilner, Senior Advisor for Governance & Human Resource Management, Australian Public Service Commission  
53. Mr. David Hawes, Infrastructure Policy Advisor for the Ministry of Finance
Business and Civil Society Representatives

54. Mr. Antonius Hananto Aji, General Manager, Welltech Oilfield Services
55. Mr. Sylvano Damanik, General Manager, HayGroup
56. Mrs. Erna Witoelar, Co-chair, Partnership for Governance Reform
57. Mr. Indra Prakoso, Project Manager, Bank Syariah Mandiri
58. Mr. Sandiaga S. Uno, Vice Chairman, Indonesian Chamber of Commerce and Industry
59. Mr. Irham Dilmy, Managing Partner, AmropHever
60. Mr. Erry Riyana Hardjapamekas, Commissioner, PT BNI,
61. Mr. Agung Djojosoearto, Partnership for Governance Reform
62. Mrs. Wiwiek Awati, Reform Team, the Supreme Court
63. Mrs. Sukma Violetta, Reform Team, the Attorney General’s Office
64. Mr. Nixon Simamora, Senior Consultant, PA Consulting
65. Mrs. Sita Supomo, Public Relations, PT Microsoft Indonesia
66. Mr. Emil Bachtiar, Senior Partner, BEDA & Company
Annex 4. Other Donor Activities

Australian Agency for International development (AusAID)

As the biggest bilateral donor to Indonesia, AusAID has a very comprehensive program. While the focus is on sectors and aiming to establish twinning arrangements with Australian peer institutions, AusAID’s focus is also to address crosscutting functions of the state. For example, the Technical Assistance Management Facility (TAMF) provides advisors and activities related to crosscutting as well as line functions mainly in Ministry of Finance but also in some other institutions. AusAID is providing two Civil Service Reform Advisors to MenPAN, BKN and LAN, hosted by BKN. The two advisors are seconded from the Australian Civil Service Commission but financed by AusAID through the Government Partnership Fund. This fund is also supporting seconded Australian government officials as advisors in other institutions such as MOF, the Supreme Court and KPK.

Canadian International Development Agency (CIDA)

CIDA’s Country Strategy: CIDA has a strong interest in civil service reform and has been involved in the past, although there has not been much traction with the government, largely because there has not been a high enough level commitment to such reforms. Based on the work CIDA has funded, there is a strong position that civil service reform is key to strengthening institutions. CIDA, in cooperation with GTZ, is looking at whether there might be an opportunity to strengthen the bureaucracy reform component in the Medium-term Development Plan. Some of the key challenges include: regulatory frameworks, organizational structures, conflicting regulations, lack of guidance and coordination for regional governments, rigidity in assignments and politicization of regional government recruitment. CIDA is also supporting KPK in its efforts to “build islands of integrity,” with a focus at the regional level.

UK Department for International Development (DFID)

Decentralization Support Facility (DSF): DSF is a £24 million program focused on improving service delivery at the local government level, and may be extended through 2011. At the central level, Bappenas, MoHA and MoF are involved and have submitted proposed work plans to DSF. These largely include workshops, training programs and seminars. There may be an opportunity for the Bank to discuss with these ministries the possibility of including more strategic activities related to civil service reform.

2007 Governance Analysis Report: The report examined the Government of Indonesia’s progress on capability to implement policy, accountability and responsiveness, primarily related to human rights, corruption, legal and justice reform. Findings suggested that the government has moved forward on the first two, but less so on the third – however, based on a DFID mapping of other donors’ activities legal and
justice reform was not an area where DfID should increase its involvement. Instead, civil service reform appears to be a key priority. The analysis will be updated in 2009.

**Peer Learning Opportunities:** DfID is willing and able to provide experts from the UK government to conduct peer learning activities in Indonesia, upon request from the Government of Indonesia or the Bank.

**DfID Scale-Down:** The DfID program in Indonesia is expected to dramatically scale down after 2011, as the agency priority is to focus on low income countries. The scale-down will begin in 2010, with funds and spending expected to halve.

**European Commission (EC)**

Outside the trust fund arrangements, the EC is mainly focusing on sectors such as education and really not at all on the areas that the proposed WB program would cover.

**Royal Netherlands Embassy**

**Fellowship Program:** The embassy manages a large fellowship program, which sends about 180-300 people per year to the Netherlands to study a range of subjects. About 90-95 percent of participants return to Indonesia. There is some flexibility in the program to allow for response to particular areas of need.

**Capacity Building in Line Ministries:** The Netherlands supports capacity building in the ministry of Trade, and is training diplomats in the Ministry of Foreign Affairs. Most of this work is tied to the Netherlands key sectors and themes: governance, education, environment and water.
Annex 5. Minutes from a Roundtable Discussion: Stakeholder Input

Held at Crowne Plaza Hotel, February 12, 2009 (12.00 – 14.00)

Moderator and Introduction by Mr. Malcolm Green, consultant to the World Bank

Summary

Representatives of the business community and civil society were invited to this event and they conveyed some important messages. Business representatives frequently pointed to the poor performance of the administration in its relationships with businesses using the licensing procedures as an example. Civil society representatives focused on the relationship between donors and reforming institutions and pointed to the need for donors not to bring ready-made solutions but use good Indonesian practices as a reference.

At the same time, there were also several common messages conveyed to the Bank when planning for a new program, such as

- Build continued reforms on what has already been achieved. Don’t start from square 1.
- Focus on changing current personnel administration to HRM and on building of Human Capital.
- Anything is possible, although solutions may have to be anchored in granted exceptions rather than in the general regulatory framework
- Identify and work through reform champions
- Don’t leave out regional governments from any program. Regional governments are also in need of support at the same time as several of them have made progress that can serve as good practice.

Inputs and comments:

1. Mr. Antonius Hananto Aji (Welltech Oilfield Services)
   - There is excessive paper work when dealing with formalities and permits in Indonesia related to import and export;
   - Malaysia is more efficient and has much better processes than Indonesia; for example, handling permits only take 2 weeks to complete while in Indonesia it takes months; and
   - Up front tax payment is imposed in Indonesia when taking in equipment for production processes even though the company has not yet gained revenue from it

2. Mr. Sylvano Damanik (HayGroup)
   - There is still a lot of opportunities to improve HRM practices within the civil service and to build Human Capital;
• There is a need to build capability and accountability for the reform process through an independent body for evaluating and monitoring reform progress;
• Ministry of Finance reforms build on “by-passing” practices. Instead, reforms should be done in a more systematic way so that they in the future could be applied across the civil service.

3. Mr. Indra Prakoso (Bank Syariah Mandiri)

• Regional governments should be able to practice good governance by minimizing current illegal under table money practices which are not appropriate

4. Mrs. Erna Witoelar (Co-chair of the Partnership for Governance Reform)

• Bureaucracy reform should not only be focusing on the central level but also on the regional levels of government
• Mapping of regional governments with respect to reform achievements, needs to be done
• The Bank should conduct harmonization of all efforts that have been done by other donors/parties, acknowledge and work together with other donors and know what the other donors are doing.
• It is hard to fire government officials that have committed a crime, e.g. related to corruption
• Bypassing the current rules and regulations as practically shown by the Minister of Finance proves to work out. The Minister even dares to fire officials that are proved to be corrupt.
• Changes as we can see now might not be sustainable as they need commitment and leadership at the whole of government level

5. Mr. Sandiaga S. Uno (Indonesian Chamber of Commerce and Industry)

• Getting a permit or a license to start doing a business in Indonesia needs around 6 months to complete. Even though there has been initiatives to improve the said process so that it would only take 90 days to get a permit; yet, in practice, it takes months to complete
• Sector and institutional fragmentation is one major handicap for the Government of Indonesia in undertaking reforms to improve the investment climate. Another one is the mindset of the government officials as they lack the required mindset to move forward
• Although dialogues with government have been frequent in order to improve the situation, implementation is always disappointing and very slow
• Finally, there is a general, strong and urgent need to improve the capacity and capability of government officials at the regional level
6. Mr. Irham Dilmy (AmropHever)

- Echelon I & II of the government officials already have understood the problems and issues but when it comes to operations and implementation, the Echelon III & IV blamed their superiors on not having sufficient knowledge on what they are doing
- World Bank need to help the government with regard to implementation of reforms
- Government officials need further education and training based on a systematic Training Need Analysis to improve their capacity and capability in delivering services to the public. The current training programs are considered obsolete and cannot catch up with the reform’s speed
- It is very important to synchronize with other donors in conducting initiatives to help government officials

7. Mr. Agung Djojosoekarto (The Partnership for Governance Reform)

- By design, government officials are never taught to become professionals
- Up until now, there is no sufficient ‘push’ from the central government to really make reform works
- Pension for civil servants is another problem, leaving the retired ones far below required levels to be able to meet living costs
- Current reforms are not properly organized, leaving so many questions unanswered
- Civil servants should be evaluated based on key performance indicators for the service they deliver to the public. Now, we do not have any clear, objective, concrete measures of how civil servants’ performance is evaluated. In addition, there is no clear punishment for those who have violated rules and regulations
- There has been a prolonged problem in rotation policy in government institutions as many “champions” are rotated to other places
- Donors could provide models from other countries or places in order to properly and appropriately help Indonesian reformers
- Any new program should continue the work that have been conducted by other parties and not start all over again

8. Mr. Erry Riyana Hardjapamekas (Commissioner of PT BNI)

- Leadership is key in any reform initiative
- Implementation and capabilities are the two factors that need to be drastically improved

9. Mr. Nixon Simamora (PA Consulting)

- The reform process at the operational levels of government is slow
- Donors should pay attention to some successful local governments’ achievements
10. Mrs. Wiwick Awiat (Supreme Court Reform Team)

- There have been some concerns with the approaches that donors or international consultants are coming with their own agendas and leaving the institutions they provide assistance to without much help to secure sustainability once the project is completed.
- External pressures are needed to push the reform agenda, otherwise it will run very slow.
- Communications also need to be improved between donors and the reforming institutions and between the institutions and other stakeholders.
- In the Supreme Court, for example, there are not enough people to take manage the reforms as all staff are bogged down with heavy routine jobs; therefore, assistances and support are still needed.

11. Mrs. Sukma Violetta (Attorney’s General Office Reform Team)

- Reforms should be started from the leaders then flowing down from the top to the bottom.
- Government officials are still working with old values at the same time as they have been assigned to undertake reform initiatives.
Annex 6. The Bureaucracy Reform Initiative in Ministry of Finance

The Bureaucracy Reform Initiative, which has been rapidly implemented in Ministry of Finance since its start in late 2006, aims at addressing both corruption and efficiency shortcomings by reforming organizational structures and standard operating procedures (SOP) and by reforming HRM policies and practices through application of performance requirements and a salary increase. Ministry of Finance is aiming to become a professional organization where selection will be based on merit and performance and where remuneration is linked to responsibilities, complexity of the job and private sector comparators. The Bureaucracy Reform Initiative is a comprehensive civil service reform concept. The formally established objectives are to i) create a clean, professional and accountable state apparatus and ii) to create an efficient and effective bureaucracy so as to provide high quality public services.

There are five main elements of the Initiative:

- Application of Good Governance Principles meaning reformed business processes to reduce corruption, improved civil service ethics and enforced work discipline.
- Enhanced Supervision and Accountability of the State Apparatus meaning strengthened internal controls, increased compliance and enforced accountability under the disciplinary scheme as required.
- Restructuring of Institutions and Management meaning modernization and streamlining of the organizational structure of the Ministry of Finance.
- Enhancement of Human Resource Management meaning reformed human resource management policies and practices to improve performance, enhance accountability and provide increased remuneration in return.
- Enhancement of Public Service Quality meaning improved business processes to increase efficiency and improved outputs in dialogue with the clients.

The Bureaucracy Reform Initiative has been rapidly implemented in the Ministry of Finance thanks in large parts to a very strong drive, personal commitment and active involvement of the Minister of Finance personally and appointment of a full time high level implementation and change management team. The initiative is designed to achieve its two objectives by reforming organizational structures, standard operating procedures, human resource management policies and practices and by applying performance requirements on staff in the Ministry of Finance. A key additional element of the initiative is to increase staff take-home pay through an additional allowance. A budget allocation for the additional allowance is annually approved by the Indonesian Parliament. While approving the extra allocation for the first time in 2006, the Parliament decided to expand the initiative to the Supreme Audit Institution (BPK) and the Supreme Court on a pilot basis as further discussed below.

The Minister of Finance issued a ministerial decree number 30/KMK.01/2007 that outlines the reforms in details: (i) reorganization within the Secretary General’s office to improve the human resource management function; (ii) a systematic review of business processes in every Directorate General and main office to ensure more effective service...
delivery to the clients; (iii) introduction of a comprehensive process for conducting work load analysis and developing new standard operating procedures and new job descriptions and classifications within each Directorate General and main office; (iv) improvement of overall human resource management in the Ministry through a new Human Resources Information System; (v) establishment of assessment centers, formulation of new guidelines for staff recruitment; and a new approach to career paths within the ministry; and (vi) creation of a job based remuneration system based on job evaluation and new job descriptions to link remuneration more directly to job responsibilities and workloads, providing better incentives and improving transparency and fairness in compensation across the Ministry.

At the time of preparation of this report, almost 8,000 standard operating procedures have been compiled and updated, with the particular objective of minimizing direct interaction between Ministry of Finance officials and members of the public. Almost 20,000 job descriptions have been developed to mirror professional requirements, job responsibilities and complexities. A new grading scheme has been introduced linked to the reformed job descriptions, and take home pay has been increased by an extra allowance determined by the new job descriptions and by allocating positions to one of 27 additional grades.

Work is ongoing in regard to the selection process for recruitment and promotion within the Ministry. The intention is to establish a process based on internally announced vacancies, voluntary applications and competitive selection based on merit. So far, however, only a limited number of positions have been filled in accordance with the reformed procedures. An Assessment Center has been created and a large network of assessors established.

Simultaneously, there are plans to reform the staff rotation policy. A draft Minister of Finance decree will give Directorate Generals and main offices discretion to improve rotation policies at that level. New Codes of Ethics are being developed and disciplinary liability enforced. Development of a new human resources information system has been initiated at the level of Ministry of Finance.

The Bureaucracy Reform Initiative is now being rolled out gradually to all central government institutions. The process of “replicating” the bureaucracy reform is under the aegis of the National Committee for Bureaucracy Reform, which is chaired by the Minister for Administrative Reforms (MenPAN) and currently includes MOF, BPK and the Supreme Court as well as the Commission for Eradication of Corruption (KPK), which is assigned to monitor reform progress in the other institutions.

The Road Map of Bureaucracy Reform, which has been developed by MenPAN and agreed by the National Committee, is intended to guide the roll-out of the reform. It is divided into four phases:

- Phase I: 2005 – 2010;
- Phase II: 2011 – 2015;
- Phase III: 2015 – 2020; and

**Phase I**

Phase I, the “conditioning phase,” is intended to provide the basis for the next phases of bureaucracy reform. Activities in this phase include:

1. A mapping of the current status of the Indonesia bureaucracy, including institutional issues, business processes, human resources and ethics, at both national and regional levels

2. A needs assessment of the restructuring and rearrangement of bureaucracy procedures to suit democracy and decentralization paradigm.

In addition, a set of instructions on bureaucracy reform will guide implementation of restructuring, performance improvement and culture evaluation and redevelopment. The goals, policies and strategies for Phase I are detailed in the following table:

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27 This Annex is mainly sourced from unofficial translations of government planning documents, which may explain the sometimes specific terminology frequently used by GOI in such documents.
Phase II involves implementing bureaucracy reform in selected institutions. Due to the significant salary increases involved, implementation requires extra budget allocations approved by the House of Representatives (DPR). So far, the Supreme Audit Institution (BPK) and the Supreme Court have received extra budget allocations together with specific reform requirements as set up by the Ministry of Finance.

Recently, an additional 15 central government institutions have been approved as candidates to join Phase II of the Bureaucracy Reform Initiative in 2009, thus committing to implement the Bureaucracy Reform concept and also becoming eligible for extra budget allocations to cover the new extra allowances, subject to DPR approval.

The goals, policies, and strategies for Phase II are listed in the following table:

<table>
<thead>
<tr>
<th>Policy Direction</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preparation for implementation of bureaucracy reform</td>
<td>a. Formulation of regulations as basic for bureaucracy reform&lt;br&gt;b. Formulation of General Guidance as the operationalisation of Bureaucracy Reform Grand Design&lt;br&gt;c. Determination of pilot project institutions to implement bureaucracy reform&lt;br&gt;d. Optimisation of ICT to support online system based for public service, establishment of One Stop Service Office&lt;br&gt;e. Establishment of Work Team for Bureaucracy Reform and Technical Team for Bureaucracy Reform in national level and Work Team for Bureaucracy Reform in state ministry/institution/local government, with assistance of Expert Team/Consultant&lt;br&gt;f. Establishment of Independent Team to monitor and evaluate bureaucracy reform&lt;br&gt;g. Implementation of standard accounting system for governmental agencies&lt;br&gt;h. Performance review through performance and budget audit&lt;br&gt;i. Implementation of controlling system toward public officers assets</td>
</tr>
<tr>
<td>2. Implementation of bureaucracy reform road map</td>
<td>a. Socialisation of policy, vision, mission, and new orientation in government bureaucracy institution, both in national and local level&lt;br&gt;b. Socialisation and building shared commitment with stakeholders&lt;br&gt;c. Preparation of bureaucracy human resources based on ages composition, level of education, and structural and functional competence&lt;br&gt;d. Development of integrated and computerized employee’s data based to provide actual and valid bureaucracy human resources data&lt;br&gt;e. Training and development of mind setting and professional organisation culture</td>
</tr>
</tbody>
</table>
Goals

<table>
<thead>
<tr>
<th>Policy Direction</th>
<th>Strategy</th>
</tr>
</thead>
</table>
| Restructuring institution (organisation) | a. Implementation of authority decentralisation scheme to change structure and process in bureaucracy institution  
b. Redefinition of role and scope of government bureaucracy to adjust scope and interventional of government with its capacities in institutional, human resources, and budget  
c. Reorganisation of bureaucracy structure in national, province, and regent/city level |
| Rearrangement of business process | a. Deregulation and simplification of administrative procedures  
b. Development of ICT in government administration and public service  
c. Development of performance indicators measurement through implementation of integrated performance standard with remuneration and position promotion  
d. Implementation of standard operational procedure and service standard |
| Managing bureaucracy human resources | a. Development of neutral bureaucracy to minimize politicisation of bureaucracy  
b. Establishment of assessment centre as authorized institution to determine the need of education and training method for employees, test the competence of employees to perform a position, recommend employees’ suitability to join education, training, and/or carry out a position  
c. Development of reward and punishment mechanism, budgeting system, etc., to introduce new organisation culture in bureaucracy  
d. Development of recruitment system for bureaucracy human resources based on merit system and competence according to a position prerequisite  
e. Institutionalisation of fit and proper test as principal prerequisite for public officers placement, carried out by independent and accountable team and free from corruption, collusion, and nepotism  
f. Development of incentives and disincentives scheme to increase performance motivation for functional employee  
g. Development career system that support creativity and innovation of bureaucracy human resources, i.e., through competence standard, minus growth policy of recruitment, career planning and developing, and development of functional position  
h. Development of remuneration system appropriate with work burden and achievement  
i. Optimisation of institution authority to implement reward and punishment mechanism  
j. Provision of social control to monitor public officers and bureaucracy human resources through opening information access about government administration process |

Phase III

Phase III provides a period of stabilization of the institutional, business process and human resource restructuring. This phase will also empower the public to act as a partner for the government in the provision of high quality public services, through the development of partnerships between government, the private sector or civil society.

The goals, policies and strategies for Phase III are listed in the following table.

Goals

<table>
<thead>
<tr>
<th>Policy Direction</th>
<th>Strategy</th>
</tr>
</thead>
</table>
| Restructuring institution (organisation) | a. Review of principal functions of government institutions and redirect them to focus on their core business  
b. Implementation of outsourcing policy and mechanism to create competition and perform among bureaucracy human resources  
c. Extend opportunity for public-private partnership based on comprehensive regulation |
| Rearrangement of business process | a. Development of service scheme and mechanism based on partnership to increase public service quality  
b. Development of digital government |
| Managing bureaucracy human resources | Institutionalisation of government ethics as the rule of game in regulating behaviour and performance of professional bureaucracy |
**Phase IV**

This phase focuses on efforts to develop the institutional/organizational, business process and human resources restructuring that have been conducted in previous phases and to ensure sustainability of the reform, free of political intervention. Throughout this phase, reform efforts are expected to continue.

Quality assurance institutions will be established in this phase and will identify trends in changes at the regional and national levels as well as around the world.

The goals, policies and strategies for Phase IV are listed in the following table.

<table>
<thead>
<tr>
<th>Goals</th>
<th>Ensuring the sustainability of bureaucracy reform in institutional, business process, and human resources dimensions to increase bureaucracy capacities to cope with global, national, and local challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Direction</td>
<td>Strategy</td>
</tr>
</tbody>
</table>
| 1. Restructuring institution (organisation) | a. Development of quality assurance units in all level of government organisation  
 b. Development of integrity management units in all level of government organisation |
| 2. Rearrangement of business process | a. Implementation of quality assurance cycle based on international standard  
 b. Implementation of benchmarking system as indicator to perform institution and human resources performance measurement, and to decrease gap between public and private sector  
 c. Development of public audit mechanism as part of controlling and monitoring system for bureaucracy performance  
 d. Development of public participation mechanism to monitor bureaucracy performance, i.e. through routine implementation of Service Satisfaction Index as an input to implement reward and punishment for bureaucracy |
| 3. Managing bureaucracy human resources | Improvement of competence and skill for bureaucracy human resources to implement the government role as facilitator, mediator, and regulator in partnership with private sector and society in free trade era |
Annex 8. Internal Management Reforms in the Ministry of Foreign Affairs

The Ministry of Foreign Affairs has, since 2002, restructured its organization, re-aligned human resources, improved recruitment and started on the path toward stronger service delivery in overseas missions. The Ministry of Foreign Affairs reform initiative is intended to restructure the department, including overseas missions, and improve human resource management and service delivery. Overall, the Ministry’s goals are to become capable of implementing its mission, to respond to challenges, to be flexible in maximizing opportunities, to use resources efficiently, and to achieve outcomes effectively.

Organizational restructuring

Through the reform initiative, Ministry of Foreign Affairs adjusted the type of positions in the ministry from largely structural to a combination of structural and functional. In addition, the ministry reorganized its former structure based on sectors (political, economic, cultural) into a regional approach with related support functions.

In human resource management, the key goals of the reforms have been to upgrade recruitment and candidate selection, strengthen education and training, establish career paths, and improve performance evaluation, discipline and compensation. The Ministry of Foreign Affairs has made significant progress toward achieving these goals. The revised HRM arrangements are not based on law, but have been proposed in the new Foreign Service Regulations.

As in the case of Ministry of Finance, Ministry of Foreign Affairs has developed a grading scheme in parallel to the general scheme with four echelons and 17 ranks. However, while Ministry of Finance’s additional grading scheme includes 27 grades, Ministry of Foreign Affairs’s additional grading scheme, which is in line with most foreign services, includes only five grades:

• Director General/Ambassador/Head of Mission
• Director/Minister/Minister Counsellor
• Deputy Director/Counsellor/First Secretary
• Head of Section/Second Secretary/Third Secretary
• Officer/Attache

Recruitment and Selection

Ministry of Foreign Affairs continues to follow the regulations and procedures of the national civil service, but has added additional qualification requirements on top of the basic civil service qualifications. The new selection process includes: (a) administrative test; (b) substantive written test; (c) foreign language test (English plus one other language); (d) psychological tests; (e) interview panel including an ambassador, a university professor and one person from the Ministry of Foreign Affairs Personnel Bureau as members; and (f) information technology test. Ministry of Foreign Affairs
recruits about 100 staff per year, depending on operational needs. Each year, Ministry of Foreign Affairs must submit its recruitment plan to MenPAN which, in consultation with BKN and the Ministry of Finance, will approve the plan and necessary funding. In 2008, there were 32,000 applicants for the 100 likely positions; 12,600 cleared the administrative screening. However, there are clear requirements for entry and if qualified candidates are not identified positions may be left vacant. All positions are now grouped into one of two categories: diplomatic and consular officers and non-diplomatic officers. The Ministry may also hire based on specialized needs, and works together with five universities to identify potential candidates outside Java and Sumatra with the right skills. These specialized recruits must still meet the basic requirements, including an age limit of 28 for those with a bachelor’s degree, 32 for those with a masters degree, and 35 for those with a PhD.

**Education and Training**

All new recruits participate in one year of orientation and training, including three months overseas. Training is coordinated by the Ministry of Foreign Affairs training center. Staff are encouraged to pursue additional formal degrees.

**Career Paths**

Ministry of Foreign Affairs has developed a fast track for promotion based on performance, which accelerates promotion to two years between positions from the usual three or four years. Promotion is also based on completion of specified training programs. Strong performance may also be rewarded through overseas postings in the more popular missions, such as London, Washington D.C. or Paris, and in expensive countries with higher allowances. Ministry of Foreign Affairs has also developed a strategic system for rotation, which requires two years of service at home followed by four years abroad.

**Performance Evaluation**

Performance is measured against nine professional competencies: (1) capability; (2) skills; (3) expertise; (4) knowledge; (5) behavior; (6) decision making; (7) creativity and innovation; (8) pro-activity; and (9) initiative. Performance assessment occurs annually and includes five steps: individual performance assessment, in line with central government regulation; individual performance targets; capacity assessment; attendance record; and assessment by the head of mission or Directorate General.

**Discipline and Compensation**

Ministry of Foreign Affairs has its own Code of Conduct on top of the central government code. The values include: sense of duty, togetherness, cooperation, responsibility, dedication, discipline, creativity, pride, sense of belonging. Ministry of Foreign Affairs also has its own set of disciplinary sanctions, which may include shorter
periods of overseas placement, postponement of placement at overseas missions, and demotion. Violations of the Code of Conduct may affect career progression.

In addition to the standard civil service pay, Ministry of Foreign Affairs provides extra allowances for those living overseas, which may include allowances for high living costs, hardship pay, and performance bonuses. The overseas allowances are at the full discretion of the Minister of Foreign Affairs, subject to budget limitations but not official approval from MenPAN or MoF. This discretionary authority is unique to Ministry of Foreign Affairs, and gives the Minister substantial power to determine actual remuneration levels. While only overseas staff can officially receive these allowances, there is also a mechanism that allows for redistribution of funds to staff posted in Indonesia.

The salary scheme continues to consist of a long list of allowances on top of base pay for staff posted overseas. These include allowances for overseas posting, family, accommodation/rent, health, representation, and high living cost.
Annex 9. Bureaucracy Reform in the Supreme Audit Institution (BPK)

The third amendment to the 1945 Constitution, Law No. 17 Year 2003 concerning State Finance and Law No. 15 Year 2006 concerning the Supreme Audit Board (BPK), have made BPK the Supreme Audit Institution in line with the Lima Declaration and with and independent authority to conduct external audit of all state finances. In particular, Law No. 15 Year 2006 along with opinion polls, increased public awareness, performance surveys and peer reviews from other countries have acted as a catalyst for the institution to undertake bureaucracy reform. BPK staff has almost doubled in recent years, with the expansion of the institution’s responsibilities to all government agencies, including state owned enterprises and provincial government units. This expansion prompted the realization of the need for capacity building and reorganization.

The reforms within BPK have focused on three major initiatives: Capability Building, Performance Management and Stakeholder Relationships. The ultimate objectives of the reform are:

- To fulfill stakeholders’ expectations; and
- To improve governance

BPK’s bureaucracy reform has been implemented around Capacity Building initiatives focused on the followings themes:

- Organizational restructuring;
- Business process improvement;
- HRM improvement; and
- Establishment of infrastructure and facilities to support reform.

In organizational restructuring, BPK has abolished all Echelon IV structural positions (impacting around 2,000 people) and transformed them into new functional, auditor positions. The objectives of increasing the number and proportion of functional positions are to enhance the capability of auditors in conducting audits and strengthen the role of BPK as the only institution that has external audit authority. Secondly, BPK has conducted workload analyses across the nation in order to develop more efficient and modern offices which will be staffed by more competent and qualified auditors. Finally, BPK is implementing the balanced scorecard system as the center of a strategic management system to monitor the execution of the strategy and to measure the performance of the organization as a whole, including all working units at national and regional levels as well as individuals.

In the area of business process improvement, BPK has built standard operating procedures for the whole lifecycle of audits, from planning, to conducting audits, to reporting. The reform initiative has also established a Code of Conduct for auditors, to maintain integrity.
Related to HRM, BPK is working to improve current recruitment practices, career paths and career development and remuneration scheme. Some major activities within HRM reform include:

1. Conducting job analysis, developing job descriptions, conducting job evaluations and revising job grading in order to improve the remuneration scheme;
2. Developing career paths and a career development system that will be based on a merit system for both structural and functional positions;
3. Developing a competency model for the recruitment process in order to get a closer match between job competency requirements and those recruited into positions;
4. Creating an assessment center to evaluate competency gaps and develop training and career development programs;
5. Developing curricula and training methodology based on competency; and
6. Establishing a performance evaluation and performance management system to measure and improve the performance of the organization and individuals.

As of 2008, BPK began using a new remuneration scheme as defined by the Ministry of Finance-initiated Bureaucracy Reform Initiative. Total remuneration is divided into several pieces:

1. Basic salary, based on the old 17 grades;
2. Structural allowances for those who occupy structural position and functional allowances for those in functional positions;
3. Remuneration allowances which are based on the new 27-grade Ministry of Finance system;
4. Other allowances (family, housing, transportation, etc.)

To improve rotation policies and career development, BPK has developed 14 job families that divide jobs into four major groups:

1. Divisional Leader;
2. Direct Support (Finance, Quality Assurance, Research & Development, Internal Audit and Strategic Planning);
3. Main/Core (Auditor); and
4. Support (Human Resources, PR, Administration, IT, Legal, General Services and Procurement)

Based on its Human Resources Plan for 2008 – 2012, BPK will implement five strategies in order to improve its HRM:

1. Integrated HRM system: BPK has been working to align all HR functions with its organizational strategy.
2. Competency-based HRM: BPK has requested support from external consultants to run its assessment center to evaluate employees’ competencies and identify
gaps. The assessments are now ongoing and efforts are underway to establish a BPK-specific assessment center.

3. Use of Information and Communications Technology for Human Resources Activities and Decision Making: BPK is working to improve the quality and accuracy of its employee database. By having more comprehensive and accurate employee profiles, the institution will be able to obtain faster and more accurate results, thereby improving decision making.

4. Linking Performance to Rewards and Punishments: Use of the balanced scorecard has elevated the capacity of the institution in measuring employee performance. The next challenge will be to link performance evaluation with incentive schemes.

5. Auditor Specialization: Efforts have been made to enhance the competencies of auditors as the core of the organization through training and career development.

Despite some impressive movement toward reform, there are several main challenges that BPK continues to face:

- Continuing organizational restructuring to allow BPK to fulfill its auditing mandate. The law allows BPK to reorganize, but it must do so in consultation with the central government and this may cause delays.
- Improving recruitment processes -- BPK cannot hire experienced auditors from outside of the civil service, which limits its ability to quickly upgrade skills. The organization is continuing to look for other ways to ensure auditors who have the necessary skills.
- Change management and project management: BPK’s proposed and ongoing reforms are extensive, and managing these changes is challenging.
Annex 10. Reforms in the Ministry of Public Works

As in the case of the Ministry of Foreign Affairs, civil service reform in the Ministry of Public Works started before the Bureaucracy Reform Initiative was designed and later endorsed by MenPAN. Reforms have mainly been focusing on five themes:

1. Institutional reform, with the goal of achieving an effective and efficient organization
2. Regulatory reform, with the goal of establishing streamlined, simple regulations
3. Human resource development reform, with the goal of obtaining honest, competent, professional, and capable personnel
4. Organizational culture reform, with the goal of improving the integrity and performance of the staff
5. Management/Business Process reform, with the goal of obtaining transparent, effective, efficient and measurable systems, processes and working procedures in accordance with Good Governance Principles

The main highlight of the institutional reform is the establishment of two independent regulating agencies, one of which deals with toll roads (Government Regulation No. 15/2005) and the other with water supply (Government Regulation No. 16/2005).

The main achievement of the regulatory reform is the issuance of a wide array of ministerial regulations in support of current laws and in addressing environmental challenges. For example, Ministry of Public Works Regulation No. 43/PRT/M/2007 concerning the Utilization of Special Fund for Infrastructure and Ministry of Public Works Regulation No. 03/PRT/M/2008 concerning Guidelines for the Implementation of the Ministry of Public Works Activity Domain to the Government and Implemented through Decentralization and Assistance Tasks regulate funding and project implementation.

The main highlight of the Human Resources development reform is the implementation of individual competencies assessments in three major sectors within the Public Works, namely Water Resources Sector, Highways Sector and Human Settlement Sector.

The main goal of the management reforms is the implementation of Good Governance Principles according to the Minister of Public Works Regulation No. 44/PRT/M/2007, which focuses on 12 principles and the establishment of an e-procurement system in 1999 to allow the public to monitor the procurement processes in a transparent and more accessible way.

Activities and programs for bureaucracy reform in the Ministry of Public Works are now carried out according to the Minister of Administrative Reforms Regulation No. 15/M.PAN/7/2008 and summarized in the following table:
### Program and Activity

<table>
<thead>
<tr>
<th>No</th>
<th>Program</th>
<th>Activity</th>
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<tbody>
<tr>
<td>1</td>
<td>Strategic Directive</td>
<td>- Acceleration Program (Quick Wins)</td>
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<td></td>
<td></td>
<td>- Performance Evaluation of Existing Organization</td>
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<td></td>
<td></td>
<td>- Bureaucracy Posture for 2025</td>
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<tr>
<td>2</td>
<td>Reform Management</td>
<td>Socialization and Internalization Process</td>
</tr>
<tr>
<td>3</td>
<td>System Reform</td>
<td>- Job Analysis</td>
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<tr>
<td></td>
<td></td>
<td>- Job Evaluation</td>
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<tr>
<td></td>
<td></td>
<td>- Remuneration System</td>
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<tr>
<td>4</td>
<td>Organization Reform</td>
<td>- Redefining the Vision, Mission and Strategic Plan</td>
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<tr>
<td></td>
<td></td>
<td>- Restructuring</td>
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<td></td>
<td></td>
<td>- Work Load Analysis</td>
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<td>5</td>
<td>Management / Business Process</td>
<td>- Preparation of Business Process</td>
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<tr>
<td></td>
<td></td>
<td>- Electronic-based Documentation/Archive</td>
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<tr>
<td>6</td>
<td>HR Management System Reform</td>
<td>- Individual Competency Assessment for Staff / Specialist</td>
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<tr>
<td></td>
<td></td>
<td>- Development of Performance Evaluation System</td>
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<td></td>
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<td>- Development of Selection and Remuneration System</td>
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<td></td>
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<td>- Development of Training and Capacity Improvement Pattern</td>
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<td></td>
<td></td>
<td>- Strengthening the Promotion and Rotation Patterns</td>
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<td>- Strengthening the Career Paths</td>
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<td></td>
<td></td>
<td>- Developing/ Strengthening Personnel Database</td>
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<tr>
<td>7</td>
<td>Strengthening the Organization</td>
<td>- Strengthening Working Unit/ Personnel</td>
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<tr>
<td></td>
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<td>- Strengthening the Training Unit</td>
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<td></td>
<td></td>
<td>- Improvement of Infrastructure and Means</td>
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<tr>
<td>8</td>
<td>Legal Aspect Preparation</td>
<td>Mapping of regulations, including deregulation and preparations of new regulations</td>
</tr>
</tbody>
</table>

Increased remuneration is one of the goals that the Ministry of Public Works is pursuing. The Ministry has used the following reasons to justify this goal:

1. All project managers and disbursement units (Satker) within the Public Works have significant responsibility for managing project funds for infrastructures that may reach more than one billion US dollars;
2. Salaries and allowances are never increased significantly and are not in line with responsibilities (even though extra allowance for managing projects have been introduced);
3. Current salary and allowance levels may give personnel incentives to engage in rent-seeking activities; and
4. Work ethos of personnel is low.

Until now, the MenPAN has not included the Ministry of Public Works among the 15 institutions that have been approved to undertake the official Bureaucracy Reform in 2009. Without such approval, it may be difficult for the Ministry of Public Works to increase salaries.
As part of its reform program (see the table), the Ministry of Public Works has carried out job evaluation activities, but has not utilized a rigorous methodology. As a result, the reformed salary that they have proposed to MenPAN is not adequate with respect to methodology as it failed to balance between external and internal equity and potentially creates internal conflicts among the jobs.

28 The presentation made by the Ministry of Public Works in front of the World Bank Mission on February 12, 2009 showed that the institution had conducted a kind of Price Survey to determine a comparative living costs which include, among other things foods, housing, clothes, and other costs, as a sole basis for determining salary structures for structural and functional positions within the Ministry. It is clearly seen that several important steps like conducting job analysis and job evaluation had not been undertaken and the methodology used is thus not appropriate.
Annex 11. KPK’s Human Resources Management Scheme

Introduction

With the endorsement of the five commissioners of the Commission for Eradication of Corruption (KPK) in December 2003, a new organization had to be built from scratch, ideally with an HRM scheme in place that would help uphold its staff’s integrity. During a transitional period between 29 December 2003 and 31 December 2004, staff were recruited and were paid cash advancements. KPK pushed for its own remuneration system based on the performance oriented aspects of corporate sector systems. Eventually the KPK scheme was approved and is now supported by a Government regulation 63/2005.

Government Regulation 63/2005

This regulation has been the basis for KPK’s human resources management. Under this regulation, KPK has the right to select and employ staff (pegawai KPK) along with seconded civil servants (pegawai negeri) from other state agencies, such as the National Police and Attorney General’s Office. Recruitment has to be conducted openly and this has been done successfully in several batches since 2004. Vacancies are advertised online and selection of candidates is conducted in a multi-tiered process. The seconded civil servants have to undergo the same selection procedure before they are admitted by KPK.

Job classification

KPK distinguishes between senior level, middle level and junior level positions. Based on the Hay point system that assesses know-how, problem solving, accountability and working conditions, 125 positions were established in 7 clusters: structural, functional –preventive, functional-education and public services, functional –general, technical and administrative. Each cluster has its own technical competency requirements, divided in knowledge, skills and aptitude. These criteria are assessed in performance evaluations and used for tailor-made training programs. KPK has also established a Behavioral Competence Manual defining:

- minimum soft competencies (integrity, needs achievement, organizational commitment, self control, persistence);
- primary competencies (professional skills, communication, proactive information seeking; teamwork, planning and organizing; self-confidence);

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29 This Annex draws heavily on work conducted by Ms. Sofie Schuette, former Advisor to KPK. Her main sources have been:
- KPK, Annual Report 2007;
- Hardjapamekas (2006), The Establishment of the Corruption Eradication Commission;
- Government Regulation 63 of 2005 on KPK’s Human Resources Management.
• secondary competencies (analytical thinking, partnership building, conceptual thinking, concern for order and quality, service orientation, decision-making and delegation, developing others, directive, impact and influence, interpersonal understanding, team leadership, and strategic orientation).

**Performance management**

IKPK’s performance management system is based on self-assessment, assessment by immediate superiors, and assessment by the superior of the immediate superior. Components to be assessed are: behavioral competency and achievement of performance targets that have been adopted based upon key result area, objective and key performance indicators. Results are used for determining incentives and personal development programs.

**Remuneration**

KPK employees receive a single salary payment at the end of the month. Employees are further entitled to transport allowances that are paid per incident, but not to any other allowances. Life and health insurance and pension payments are made directly by the commission to external, private service providers. KPK employees are not allowed to receive additional income, such as honoraria or project management fees. In 2008, KPK fine-tuned its remuneration system, taking into account the position, skills required and individual performance.

**Retirement**

Retirement of KPK employees is at the age of 56. Non-seconded staff (pegawai KPK) are part of a private sector defined contribution scheme as well as subscribed to a private sector medical scheme.

**Training**

In 2007 KPK conducted a training needs analysis with the support of IALDF. It was presented at a donor working group meeting in October 2007. Training for new personnel distinguishes between university graduates and staff with previous work experience. Induction training for graduates takes 13 weeks and is followed by “job shadowing” (brief internships in various KPK departments).

**External Evaluation**

Government regulation 63/2005 provides for an inter-ministerial bi-annual evaluation of the Human Resources Management system to be undertaken within four years of the agency’s establishment.
Annex 12. Summary of Actionable Governance Indicators

Annex 12 is supplied separately due to different format and size.

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Rank I</th>
<th>Rank II</th>
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Source: Attachment to the Government Regulation No. 10 Year 2008 dated February 4, 2008
ALLOWANCE FOR STRUCTURAL POSITION FOR CIVIL SERVANTS (2007)

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<th>Echelon/Rank</th>
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<td>I B (4d-4e)</td>
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<td>II B (4b-4c)</td>
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<tr>
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<tr>
<td>III B (3d-4a)</td>
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<tr>
<td>IV A (3c-3d)</td>
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<tr>
<td>IV B (3b-3c)</td>
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<tr>
<td>V A (3a-3b)</td>
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Source: Government Regulation No. 26 Year 2007 dated June 19, 2007

Monthly Special Allowances provided under the additional grading scheme in Directorate General Tax/Ministry of Finance (2007)30

<table>
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<tr>
<th>No</th>
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<th>Grade</th>
<th>Special Allowance (in Rupiah)</th>
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<td>Secretary, Directorate General</td>
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<td>Head of Division</td>
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<tr>
<td>4</td>
<td>Head of Sub Division</td>
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<td>6,030,000</td>
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30 Source: Ministry of Finance decree number 289/KMK.01/2007 and Bisnis Indonesia Newspaper’s article on July 6, 2007 entitled “Tunjangan Depkeu naik Rp. 4.3 triliun”.
Annex 14. Analysis of Human Resources Information System in selected civil service institutions and state owned enterprises

Summary

There are issues of the lack of clarity between ministries and BKN over the ownership of data items, the responsibility for the maintenance of transactional data and the mechanisms necessary to achieve effective HRM. The present arrangements are characterized by confusion over what data should be recorded, conflicting perspectives on which is the “master” data set for each type of HRM transaction and widespread failure to maintain any form of effective dialogue between organizations which are mandated to operate on HR data.

Fundamental alignment of the roles of BKN and line ministries in managing specific data sets is required. Establishment of a chief information officer (CIO) role within ministries would be a major improvement, should the role be empowered to act effectively to provide the organization with value from its information resources.

Governance in terms of Information and Communications Technology (ICT) methodologies generally is a concept that is not well understood or recognized within the civil service. Where commercial off the shelf solutions have been implemented in the state-owned companies (e.g. PT Taspen and BNI), implementation has followed well-documented and formulated proprietary methodologies. None of the civil service entities examined had any form of structured ICT governance (or indeed technical documentation) for existing operational systems. These factors are major structural weaknesses, and give rise to significant levels of operational risk.

Inter-Ministerial Coordination

There is no mandate (or mechanism) for sharing data from one ministry to another. Given the negligible numbers of civil servants that transfer between ministries this is not presently an issue. It may become so however, in the future for at least two potential reasons:

1. creation of career structures across ministerial boundaries, civil service cadres aligned with professional qualification, accreditation, competence or skill; and

2. right-sizing initiatives become politically acceptable, introducing the concept of attempting to find displaced civil servants new posts in other ministries prior to considering other options for redundancy resolution.

Transferring employee records and historical data would at present require manual and paper-based processes.

31 This Annex is based on the findings, conclusions and recommendations provided in the pre-Mission mapping report: Preliminary Analysis: Human Resources Management and Human Resources Information Systems by Bill Monks, Red Centre Consulting Pte. Ltd.
Ministerial Coordination with Central Agencies

The remit of central agencies with respect to Human Resources transactions extends to BKN, LAN and MenPAN. In practice it is only BKN that imposes central data reporting requirements.

There seem to be some tensions between BKN and ministries/agencies. Historical difficulties in collecting accurate data have led BKN to have a low level of trust in the record-keeping prowess of ministries/agencies. In turn these operational organizational units have significant disregard for what is perceived as a somewhat overbearing attitude on the part of BKN to the validity, relevance, methods and accuracy of data they are required to contribute as part of standard operational processes. Some examples illustrate this particularly well:

1. Evident in the design of several ministerial information systems encountered during the analysis work is the recording of data in support of a police check undertaken for each candidate as part of the recruitment process. Ministries record height, weight, eye color, blood type and a plethora of other data used once only to perform the requisite police check; apparently this is done at the behest and insistence of BKN. Clearly the data is of very questionable value, as it is not used at all once the applicant check has been performed. It is never maintained beyond the initial input, nor is not reported upon or used for any other purpose. BKN acknowledges the futility of the data capture, yet the instructions remain in place to perpetuate collection of this data and there is no dialogue or framework for open debate between the parties to remove or even question this diktat.

2. Up to fifty instances per day of incorrect civil service ID numbers (NIP) are reported to BKN by employees and ministries/agencies. BKN “polices” this data and provides corrections where appropriate, however it is somewhat ironic that the corrections are provided in the form of letters.

3. The present arrangement for recording performance data (the DP3) has fallen into widespread disrepute and is regarded solely as an administrative overhead (evaluation criteria have more in common with “obedience” than effective performance management). Many civil service institutions are implementing, or have implemented, much more sophisticated performance monitoring/management models yet must continue to complete the mandatory DP3 forms in parallel.

4. Coordination is being further eroded as ministries/agencies resort to the use of decrees and exemptions as means of achieving what they perceive to be necessary changes driven by operational requirements.

This last point (above) should be one of particular concern to BKN in that it faces a considerable increase in the forces of erosion of its mandate. For valid operational reasons, MoF has petitioned for an increase in retirement age (from 56 to 62) for certain groups of key staff. Rather than using demographic data to provide an early warning of such actions becoming necessary, and leading a service-wide debate on the issue, BKN has become simply an ex-post recording mechanism of changes promulgated by Ministers and approved by the President.
The “gravitational force” provided by BKN mandate and legislation that binds ministries to compliance is under severe threat from a combination of the following:

- operational requirements of ministries;
- regional autonomy (the difficulty of collecting data from regional governments);
- anachronistic implementation of mandate based upon compliance and the maintenance of outdated and irrelevant employee data; and,
- demographic realities of an aging civil service and the pressing need this creates for high quality data to inform effective workforce planning and talent management processes.

**Data Standards**

In contrast with widely accepted good practice, data standards for Human Resources Information System (HRIS) data, and indeed most other organizational data items, appear not to have been implemented across government. The ex-post recording of HRM transactional data (the method by which most ministries populate their HRIS applications) relies almost wholly upon free-text field inputs on the part of junior application operators. At the most basic level, this practice runs contrary to the principle of data validation at source and creates effective barriers to the exchange of data between applications and between organizational units. For the most part, data standards are unknown across the civil service: this is despite BKN having expended considerable time and effort in documenting code values for some data fields related primarily to education establishments and qualifications.

That such codes exist at all is worthy of note, however there are two critical shortcomings that prevent their being of any value to the civil service:

1. The code definitions are outmoded, do not contain any concept relating to effective dates, are not “normalized” in the sense of good practice in database design and are widely held to be obsolete.
2. There are presently no means of propagating the code values created by BKN to the range of databases in ministries, directorates or regional governments. The most recent code tables, issued in the form of large books, were dated 2006 and are therefore approaching three years of date.

For these reasons, the codes and structures are universally regarded as superficial in nature and unusable in practice. Recent experience with the implementation of a new unique identifier for all civil servants (below) is a good example.

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32 Rules defined in Boyce-Codd Normal Form (BCNF) q.v.
That there is apparently little engagement between the owners and the users of such coding structures is amply illustrated by the example of new employee numbers which have been defined by BKN. New numbers will be applied civil service wide over the course of the next few years; the number will be unique and will be generated based on a defined algorithm. It will be rolled-out to each civil servant in the form of a new ID card, with biometric and data storage capabilities (a true “smart card” in concept) which may in time be used to identify individuals for pension, medical and other purposes. Most present HRIS applications share the use of a 9 character unique identifier (known as NIP); rollout of the BKN 18 character identifier will take time and ought to be the subject of some considerable planning and impact analysis to minimize confusion and duplication whilst the transition is ongoing. At a minimum, restructuring all the underlying database tables to accommodate the additional length of the primary key can be challenging and may give rise to additional implementation risks, there will also be the need to hold both number formats during the transition period and to ensure that adequate plans are in place to avoid double counting, data duplication and aggregation.33

International Practice

International standards for basic personal data exist in a number of formats, none of which appear to be employed in the civil service. Where Commercial off the shelf (software) solutions have been deployed, in the two State Owned Enterprise organizations that formed part of this study such standards have been applied. International good practice would recognize the sensitivity of personal data in line with article 12 of the Universal Declaration on Human Rights, and relevant national legislation. The concept of Data Protection does, however, not yet materially exist within the Indonesian legislative framework.

Distribution of competencies among institutions and levels

An interesting observation noted during the analysis is that there seems to be no shortage of technical ICT skills in the civil service. This is very positive in contrast with many other countries where skilled IT resources within the civil service are a rare commodity. What is equally apparent, however, is that the skill sets are almost exclusively technical, and vested in relatively less senior civil servants. Broadly, the service has sufficient DBAs network administrators, developers and the like; the critical shortcoming however is the dearth of middle and upper level skill sets (analyst programmers, business analysts and ICT strategists).

This uneven distribution of skills appears to have led to a pre-emptive and perhaps ill-judged rush to build software applications in the absence of a robust vision of how to create value by leveraging ICT investment to solve real-world organizational issues. It is wholly understandable in such an environment that the Human Resources Information System applications that have been developed and implemented show a

Bill Monks, Red Centre Consulting Pte. Ltd.
strong bias toward lower-level functionality (related to databases and ex-post record keeping) than process orientated transactions.

**Specifications, Implementations and Project Management**

The standard of structured project management encountered in civil service institutions during the study has been universally low. Specifications, where they exist at all, are almost exclusively confined to the procurement stage of a project, with little or no development, testing, support or end-user training documentation having generally been provided. Project “success” seems to be defined in term of least time, least cost, irrespective of the quality, sustainability, or relevance of the delivered application.

In contrast, the State Owned Enterprise implementations encountered were substantially better. The use of Commercial off the shelf (software) products appears to have imposed some methodological rigor in the development (and release testing) lifecycles and the high levels of executive sponsorship have ensured that support is facilitated by good and comprehensive application documentation. Further, the management of change has been addressed to a greater or lesser extent in the provision of training and end-user operational documentation.

Most civil service projects seem to have followed obsolete application development lifecycles, whereby a fixed specification is offered for tender, and application developed by the successful tender in a “black box” environment remote from user engagement. This outmoded approach relies upon a substantial “leap of faith” occurring post-development to marry user and developer expectations as an outcome.

**Transforming the Paradigm**

Until Information and Communications Technology projects generally, and HRIS implementation in particular, are approached as business change agendas rather than software development/implementation problems it is unlikely that the issues identified above will be resolved. The solution lies not in developing yet more application software, but rather in proving the links between HRIS and business value, using these linkages to identify opportunities to resolve business issues, and the subsequent application of appropriate technology.

**Applications presently in use**

There is a very wide range of HRIS applications in use across the ministries analyzed, characterized only by the use (to a greater or lesser extent) of relational data models. Every other major component has been selected on the basis of expediency (database servers, databases, application servers, development tools etc.) with scant regard for sustainability or longevity.

**Investment**

The true picture of the levels of investment made in HRIS across GOI institutions is exceptionally difficult to determine. What is possible, however, is to view the results of
the investment with considerably more clarity and the comparison is a stark one. Setting aside the potential for extrapolation across the rest of the civil service, the return on whatever investment GOI has made on HRIS investment in the organizations studied is negligible:

1. The fact that neither the ministries nor BKN or MOF seem to know the extent of HRIS investment is one matter; that there is no determination of the value they sought to derive from the investment, or the benefits actually achieved is of much greater concern. Put another way, there are no metrics, measures, or means of determining what is a sound investment and what benefits ought to accrue;

2. There is a disparity between the focus upon technology investment purely as a cost against consideration of concepts such as Total Cost of Ownership (TCO) or “whole of life costs” which incorporate operational, maintenance, support and renewal costs from operational or revenue budgets. Presently, ministries appear to focus solely upon reducing capital expenditure, through buying/developing cheap software. This is at the expense of potentially considerable future operation and maintenance liabilities this approach generates as well as substantial replacement costs and the rapid depreciation of the value of the ICT assets developed.

The Future of HRIS in Government

The debate over a future GOI HRIS strategy must include the key areas of policy and ownership of data and process. It is clear from the analysis that BKN, for example, does not presently have a mandate to manage HRIS provisions across government outside of the small (though important) items of data it presently polices. GOI ought not to continue approaching investment in piecemeal, poorly designed, and isolated data recording mechanisms. What is urgently needed is an agenda that provides a balance of business and investment case guidelines, focused upon the delivery of outputs, where the mass of data GOI presently owns is transformed into an information resource of strategic value to the government.