Indonesia’s civil service is still progressing towards greater efficiency. Efforts to shape professional, accountable government institutions that deliver quality services are being hampered by an outdated grading, pay, and allowance structure that is not oriented towards rewarding improved performance and providing the right incentives.

The civil service pension scheme is grossly underfunded, its policies obsolete, and its entitlements too small to provide retired civil servants’ financial security.

The Indonesian civil service has expanded dramatically in recent years owing to the creation of new regional governments, the establishment of several new central institutions, and a government policy that converts unskilled staff employed under the labor code to civil servants.

The number of civil servants increased from 3.6 million in 2006 to over 4 million in 2008, an increase of 11 percent in just two years. Costs for basic salaries and allowances increased from Rp.30 trillion in 2004 to Rp.58 trillion in 2007, and other remuneration increased approximately four times to roughly Rp.20 trillion in 2007.

The State Ministry for Administrative Reforms (Menteri Negara Pendayagunaan Aparatur Negara); National Institute of Public Administration (Lembaga Administrasi Negara); and the National Civil Service Agency (Badan Kepegawaian Negara) are concerned with central civil service management, including the administration of the detailed rules and regulations which comprise the ‘system of national administration’, although the ‘system’ is primarily managed by the State Ministry for Administrative Reforms.

Because of 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with tasks that should no longer be the responsibility of a central management institution, including upholding outdated detailed regulations and blueprints, instead of playing the role of change agents and enablers of reform.
Key Issues

Indonesia needs to continue to modernize its civil service and build upon the impressive governance, policy, and public finance management reforms of the past decade. A number of structural, organizational and institutional policy reform issues to be addressed over the next five years are as follows:

Reform the existing pay/grading scheme. Replace the current system, which is characterized by low basic pay and numerous allowances, with a single pay structure with greater transparency linking remuneration to performance, and harmonized salary levels across the public sector.

The list of possible 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. Actions to address current weaknesses should include:

1. A new law should be prepared to provide for standardizing/harmonizing of remuneration among civil service institutions. Reform the national grading system as a common platform providing reference levels for various grading schemes in different sectors and larger institutions. Thus, sectors and larger institutions can have different grading systems but ranks and remunerations will be harmonized.

2. Introduce a single remuneration for civil servants based on their job, grade and performance. Introduce salary band widths at each level instead of exact sums. Allowances for special or temporary conditions may exist but these should not be for remunerating work or work-related functions. The CSC should determine salary levels for the national grading scheme, and the structure should be applicable in all sectors and institutions.

Modernize the civil service pension plan. Replace the current defined benefit, pay-as-you-go system with a pre-financed defined contribution scheme.

The roles of the main institutions involved (Ministry of Finance, National Civil Service Agency and state-owned enterprise for insurance and pension funds PT Taspen) could be reviewed to provide for a more effective management of the pension scheme and related funds. In the meantime, civil servants who joined before 2004 should be subject to the current pension plan that is managed by PT Taspen and Ministry of Finance, until there are no more retirees under the plan. The feasibility of shifting from the current pay-as-you-go defined benefit scheme to a pre-financed defined contribution scheme could be assessed, including what requirements are needed to make the transition. The scheme should be pre-financed through contributions from the institution/agency that hires the staff, thus removing pension expenditures/obligations from the national budget.

Strengthen staffing controls in order to rein in the on-going expansion of the civil service and its administrative budget implications. As part of this effort, the following steps could be taken:

1. Assess the scope of the civil service to improve efficiency and effectiveness. Staffing number at various grade levels should be based on operational needs - not on symmetry and conformity

2. Ensure that teachers and health workers are professionals employed and managed under sector-specific schemes – not civil servants. Similarly, honorarium-staff employed under the labor code should benefit from improved employment conditions, even though they are not granted civil servant status.

3. Offer relocation benefits to redundant civil servants and early retirement to those over 50 years of age, making it possible to dismiss redundant personnel in a socially acceptable way.

Base organizational structures and size on real operational needs, rather than standardized ‘policy’ requirements. The size of organizations and their staffing levels should be determined within the budget process, rather than separately.

Make staff establishment control and decisions on size, including staff numbers in institutions, part of the budget process and remove determination of staff expenditures from the administrative domain controlled by MenPAN into the public expenditure management domain controlled by the Ministry of Finance and the Cabinet through the yearly budget process. This would lead to improved establishment controls as any new staff expenditure will have to be justified and approved in the budget process.

Reform civil service human resource policies to create a modernized, more flexible system and a professional, performance-oriented work force. The reforms should include needed measures to modernize a civil service that has remained largely unchanged for over 40 years. Policy-makers should make use of good practices applied outside the civil service (e.g., well-managed state-owned enterprises, regional administrations, etc), and learn from the ongoing pilots in the Ministry of Finance, Supreme Audit Agency (BPK) and the Supreme Court, to build momentum in the reform program.
CURRENT SUPPORT
Since 2006, the World Bank has provided advice and technical assistance to the Ministry of Finance’s Bureaucracy Reform Initiative and other modernization programs. This support is provided through the Public Financial Management Multi Donor Trust Fund, funded by the European Commission and the Dutch Government.

FUTURE SUPPORT
The World Bank’s support for Indonesian civil service reform will add value by helping (a) convene stakeholders, (b) facilitate consensus building, and (c) strengthen capacity for designing and implementing reform. It will include the following components:

1. Conducting analysis in cooperation with Indonesian institutions to help strengthen the knowledge base for reform: there is a need to update and broaden the empirical basis for government policy development related to civil service management in Indonesia.

2. Peer-to-peer sharing and learning among government institutions, state-owned and private enterprises both in Indonesia and abroad is expected to facilitate policy development, as well as improve coordination and consensus building with stakeholders.

3. Providing technical assistance and coaching to civil service management agencies and targeted line institutions.

4. Supporting ‘Leaders of the Future’ by providing more training opportunities, as well as focused post-graduate and non-degree scholarships to competitively selected staff from reform-minded institutions. This loan-funded component will focus on selected key institutions and be guided by institutional HR development plans. It will improve the quality of management training in Indonesia and build sustainable management capacity into reforming institutions.

HOW THE WORLD BANK WORKS IN REAL TERMS