



**REMARKS DR.MARI ELKA PANGESTU
MINISTER OF TRADE OF THE REPUBLIC OF INDONESIA
OPENING DINNER FOR INTERNATIONAL SEMINAR
"CONFLICT OF INTEREST – A FUNDAMENTAL ANTI CORRUPTION CONCEPT"**

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The Mandarin Hotel Jakarta
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Good Evening:
Excellencies, Ladies and Gentlemen,

It is an honor for me to welcome you to the dinner tonight. On behalf of the Government of the Republic of Indonesia, let me start by commending the initiative of the ADB/OECD Anti Corruption Initiative for Asia and the Pacific together with KPK (the Commission for Eradication of Corruption in Indonesia) and the supporting donors for facilitating such an important regional seminar.

I'm not going to hold up your dinner too long this evening with a lengthy speech, but nevertheless allow me to make a few remarks about conflict of interest and why dealing with this issue is such an important component of Indonesia's ongoing and comprehensive reform process.

Ladies and gentlemen,

I would like to commend the organizers of the seminar by taking the most fundamental anti corruption concept --- conflict of interest. As Mr. Taufikqurahman Ruki said this morning, conflict of interest is the root of corruption. As we well know, conflict of interest can arise between the interests of a business-person, the public official and the public interests. What is upper most should be public interest of course.

The textbook definition of a conflict of interest gives us the first hint to why. It says a conflict of interest is any situation in which an individual is in a position to exploit a professional or official capacity for personal benefit.

This encompasses countless facets of our daily lives. It also tells us that conflict of interest is nothing new. In fact, mankind has struggled with conflicts of interest for thousands of years. More than 2000 years ago Julius Caesar's wife Calpurnia drew attention to the issue with her famous dictum "The emperor's wife must be beyond reproach".

The point she was making about good governance and clean government is as relevant today as it was then. People in a position of power and authority must meet the highest ethical standards, because it's virtually impossible to avoid having conflicts of interest from time to time. It is not enough to deny that a conflict of interest exists because our actions are proper. The conflict of interest is there even if no laws are broken. We must be beyond reproach, which often means we must recuse or abstain ourselves from the decision making process.

This may seem unnecessary and impractical at times, but I would argue it is one of the most important building blocks for creating public trust in government institutions.

As an economist I would also like to illustrate the importance of recusing oneself from the decision making process when there is a conflict of interest with the theory of the Economic Man. Introduced by John Start Mill in the late 19th century, it says people act to obtain the highest possible well-being for them selves given the available information about opportunities and constraints.

The constraints Mills refers to are the laws that hold our society together, which make sure the interest of the individual does not trump the interest of society. But exactly because of the self-interest of Mills' Economic Man, we have to remember that our actions can be drawn into question regardless of how honorable our intentions are.

So when it comes to dealing with the issue of conflict of interest it is not enough to have laws and regulation of a country, institution or corporation that either prevent the conflict of interest from arising (e.g. putting one's assets in blind trust upon assuming office) or managing the conflict (e.g. disclosure of information, abstaining from decisions, independent third party evaluations), we also need to take the wisdom of our ancestors into the future and act in a way that is beyond reproach. That is we also need a code of ethics or conduct.

Ladies and Gentlemen

As our President emphasized to all of you this morning, Indonesia is conducting an anti corruption campaign at all levels and which applies to all without exception. We are not only focusing on enforcement but also on preventive measures and massive public campaign and education. We are also fully aware of the challenges of eliminating corruption – it cannot be done over night, but is a process which will take time but it is a process which must be started and maintained, and must include administrative and bureaucratic reforms at all levels.

The government (and thus by definition those representing the government!) needs to lead by example in tackling the issue of good governance and corruption, and the right balance must be struck between setting up minute checks that could weed out all corruption, and more fundamental reforms. It would be difficult to tackle corruption without, for instance, addressing civil service reform. There are no magic bullets, and strengthening governance and combating corruption will take time and thus, there has to be a long-term commitment, and that the key will be institutional reforms with prioritizing and sequencing.

Let me go through the key pillars of such a strategy and reflect on our own experience to date in introducing transformational change.

What are the key pillars of a strategy to achieve good governance? ***The first pillar is transforming institutions.***

This would include strengthening political institutions with reasonable checks and balances, and in turn this will require strengthening both the legislative and executive apparatus and finding the accountability for decision making and its checks and balances. In reality my experience to date on decision making within the executive, it underlines the importance of preparing the ground work for any policy change in order to make informed policy decisions.

This requires ground work to get the right facts and figures, undertake the impact analysis, mapping out the losers and gainers (i.e. different interest groups) from any policy change, and coming up with a "balanced" proposal. One is also understandably faced with pressures from various groups, and navigating between the different competing interests is one of the key challenges for the executive to make the balanced decision without being influenced by particular interest groups and which will bring the most benefit for the people – often the silent majority.

Other important institutional changes are a sustained effort to strengthen the judiciary, building an effective public service and managing decentralization. On an effective public service, one must undertake civil service reform and creating adequate institutional capacity in all government ministries. This again will be a long-term task. Civil service reform will include a more merit-based system and an appropriate reward and punishment system, and this can only happen in stages. Short of reforming the whole public service, one has to begin by creating islands of excellence and creating systems to reduce discretionary power of officials, create greater transparency and monitoring system. At the same time there has to be reward for good performance. Given the length of time it will take for administrative reforms, a leader in public office today must be smart enough to find short-term measures which will provide a signal of the seriousness of wanting to "change" and that the short-term measures are installments for the longer term goal.

Some examples of what the government has done in the recent past, is to create "islands of best practices" within the current imperfect system. For instance a few years ago the Ministry of Finance created the large tax payers office whereby the managing and administering of large tax payers are done out of a separate office which is monitored closely and provides better service, and the officials receive better compensation. In the Ministry of Trade, deregulation and greater transparency is part of the answer. We have reviewed 77 regulations under our Ministry and we have deregulated the ones deemed unnecessary, streamlined the requirements and made them transparent, determined the number of days and cost needed to process the documents and licenses. All this information is posted for the public. We are also beginning to introduce systems of on-line application to make the process more arms length. Of course we are still at the beginning of this process and the implementation must be closely monitored for it to be effective, as at the same time we are building the capacity of the human resources and systems inside the Ministry.

Another idea that the government is currently developing is the special economic zones. These are intended to be certain geographical areas where there will be the creation of "islands of excellence" and "islands of best practice". The criteria is still being worked out, but the idea is to find short-term solutions to create hubs of economic development. We will not start from zero, we will identify areas which already have infrastructure, access to inputs of production such as labor and supporting industries, a cluster of industries, area to expand and, most importantly, there will be an integrated single zone authority which will provide "best practices" in terms of service and systems to service investors (including corruption free). This will involve the provision of necessary licenses and permits to operate at the central and local government levels, provide a service to resolve problems and issues, and provide an efficient supporting administrative service in various areas such as customs, import and export procedures. It will also require the best human resources and professionals to be providing the service, which could include private sector participants.

The second pillar following from the first is providing a conducive business environment. Providing such a business friendly environment has not been the premise of policy in the past and there is always this saying "Kalau bisa dipersulit kenapa harus dipermudah". This attitude clearly has to change and the program of economic and institutional reforms must be continued to ensure this outcome. However, this also means that the way businesses operate must also change and leadership from the private sector to operate under today's different rules of engagement need to also be developed. Businesses that survive from preferential treatment or concessions are not the way to go anymore in this new era, and leadership and entrepreneurship to develop Indonesian businesses that can be efficient, effective and innovative must go side by side with the improvements in public governance. Both private sector and public sector leadership must play a role in creating the correct understanding of the essence of "conflict of interest", and the right interperation of "public-private" partnership or Indonésia incorporated.

The third pillar is leadership at all levels. All the institutional changes and creating best practices will not happen unless there is an accelerated and major program to upgrade human capital. Education, training and developing a young cader of young people who will carry on the process will be crucial. Leadership is needed in all of the pillars mentioned – public sector, political and legislative arena, private sector, non profit organizations, press, academia and so on. Indonésia's demographic structure is still that of a relatively young population and this is both creating opportunities and challenges. If we all invest in the leadership of the next generation, we should not be afraid of the future and there will be a set of new and revitalized leadership to continue the processs and secure Indonésia's transformation, as well as its place in the region which is also undergoing massive transformation.

It is incumbent for the leadership in all institutions to take responsibility for investing in human resource development and capacity building to create the next generation of leadership – because the process will take time and we need to have continuation and consistency, otherwise the longer term goals will not be achieved. That is why in my Ministry we have spent a lot of time thinking through the appropriate program of training, capacity building and identifying the next generation of leaders in the Ministry. There

are constraints of civil service regulations but the government is also developing a program of administrative reforms which tries to find breakthroughs in the system – a number of Ministries including the Ministry of Trade is participating in this program.

In closing, I look forward to hearing the results of this seminar as we hope that we can learn about international best practices and how prevention will always be the key to enforcement and we need to learn from each other. I look forward to hearing the parameters for what decision makers can and cannot do when faced with such issues, and serve as a useful point of reference for all of us.

I want to end my remarks by saying that preventing conflicts of interest is a tireless effort that is a vital part of the anti-corruption drive. Finally, I wish you all have a successful seminar, and I look forward for your valuable inputs. Thank you for inviting me and enjoy your meal.

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