

McKinsey Quarterly

PUBLIC SECTOR PRACTICE

Innovation in government: Indonesia and Colombia

To become more responsive and effective, governments are experimenting with the way they monitor services (Indonesia) and work with the private sector to expand the economy (Colombia).



McKinsey's public-sector practice, under the editorial leadership of Eric Braverman and Nick Lovegrove, presents a collection of “snapshots” that capture people, places, and strategies now bringing about bold, rapid, broadly applicable management innovations in governments around the world. The series—based on field reporting and on interviews with officials, senior executives, academics, and nongovernmental organizations—examines sustained, significant initiatives to help governments become more effective and responsive rather than endorsing political choices that are not ours to make. We continue the series here with two entries: a report on Indonesia's experiment with new ways to monitor government services, as well as an update on Colombia's work with the private sector to expand the economy. Stay tuned for more insights later this year.

For more information on innovation in government today, we invite you to visit the Innovation Navigator (www.mckinnovate.com).

How Indonesia hears the voice of the people

The government is helping citizens on the street to monitor and verify the delivery of state services.

J. R. Maxwell and Adam Schwarz

Challenge:

The Indonesian government must work to alleviate poverty, improve education, implement economic and financial reforms, stem corruption, address climate change, and control infectious disease—all while responding to natural disasters. Delivering these services effectively is essential to maintain confidence in democratic government at a time when the country is just 12 years removed from almost four decades of authoritarian rule. To address the challenges, the world's fourth-most-populous country (and third-largest democracy) has to communicate in an open, reciprocal way with a heterogeneous citizenry of 245 million people, who speak dozens of local dialects and live in 30 provinces across more than 17,000 islands and three time zones.

Emerging solution:

In December 2009, the government set up the Presidential Unit for Development Supervision and Control (UKP4) to monitor and verify the delivery of state services with the help of engaged citizens and to break bottlenecks among ministries. UKP4—led by Kuntoro Mangkusubroto, a former energy and mines minister who led Indonesia's recovery after the 2004 tsunami, and reporting directly to the office of the vice president—provides real-time information on the state of Indonesia's key economic, infrastructure, health, and poverty indicators. In November 2011, it launched a Web and SMS-accessible platform called the Public Participation Information System (LAPOR, its acronym in Indonesian, means "report"). The new unit lets citizens monitor and verify the delivery of government services in real time. Indonesia's government also uses this information to improve the way it allocates public resources in areas ranging from education and health to energy and defense. In November 2011, for example, the Ministry of Public Works reallocated resources for its 2012 infrastructure action plan in the Aceh region after a citizen sent UKP4 an SMS text message about a bridge that hadn't been rebuilt after it collapsed in June 2011.

LAPOR enables Indonesians to communicate with the national government through brief text messages, e-mails, online comments, or uploaded photos. To use mobile phones¹ for these postings, users simply download an app that lets them send SMS text messages directly to UKP4.

When UKP4 receives a message, it conducts a preliminary verification through government databases and open-source research. After determining that further investigation is warranted, the unit posts a summary of the problem on LAPOR's Web site (so that the public can view and provide additional commentary on it) and notifies the relevant government ministry. Ministry

¹ To date, this service works only on Android or BlackBerry phones.

officials then follow up on the problem and may release a public statement explaining what they will do to fix it. Citizens have up to a month to monitor and verify this response. UKP4 refers to the ministry any additional comments received and closes the ticket if it doesn't get any.

Two days after LAPOR launched, the 22-year-old computer programmer Arkka Dhiratara, one of the 24 members of the UKP4 team, logged on to its Web site at 6 AM. He saw more than 1,500 SMS messages for the unit to review before its next meeting with Indonesia's vice president. The comments came from citizens all over the country, on topics ranging from traffic congestion in the capital, Jakarta, to the delayed reconstruction of a rural bridge. Dhiratara feels a sense of satisfaction about the decision to leave his successful Internet start-up last year to take a program-management position at UKP4. "Increased information to improve decision making remains key in a country so large and diverse," he asserts, adding that "all software people like a challenge, and this is the challenge of my life."

Dhiratara has been working on the SMS part of LAPOR's Web site for months, and it is getting the response the team had hoped for, although the program wasn't heavily advertised. He says that the reaction "was really inspirational." LAPOR got so much attention in the early days "that a police commissioner in Jakarta approached me to find out how it could help him fight crime." Dhiratara told the commissioner that he would provide a demonstration. "The next day, I sent an SMS to the LAPOR site with a photo of a car, with its license plate clearly visible, driving illegally in the bus lane."

Indonesia had roughly 220 million mobile-phone subscribers in 2010. The many hundreds of messages the team received during the first few days of live action represented only the beginning of a robust two-way dialogue with citizens. The government acknowledges that given the country's geographic diversity and large population, it must not only get citizen input on the delivery of services but also actively solicit that information instead of waiting for complaints to arrive. On occasion, UKP4 will even ask people in specific places to report on the way local governments deliver services: after determining which registered mobile-phone users are close enough to investigate, it can send them inquiries via SMS. As of November 2011, the government had agreements with two mobile-phone operators, Indosat and Vodacom, to disseminate these messages.

Last year, for instance, UKP4 asked the people of Fatukanutu, a rural village on the island of Timor, how a water supply system built by the Ministry of Public Works was functioning. It learned that the pipes had been installed, but the water wasn't flowing. An investigation by UKP4 and the ministry found that a neighboring settlement had shut off the flow of water, believing that there wasn't enough of it. The government brokered a deal between the two villages ensuring that both received water in a timely manner. This process embodies the important notion of a feedback loop: citizens ask for help, the government acts in response, and the citizens are kept informed, so they can verify the progress made. UKP4, says Dhiratara, "appears to be giving the public in rural areas—in particular, the islands—a voice in what's happening."

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Colombia's innovative public–private partnerships

The cosmetics and personal-care sector provides an example of how the country's Productive Transformation Program works.

Elana Berkowitz and Andres Cadena

In July 2010, *McKinsey Quarterly* published an article and video interview² on Colombia's Productive Transformation Program (PTP), an innovative public–private partnership that aims to expand the country's economy beyond traditional commodities, such as coal, coffee, fresh-cut flowers, and petroleum. In this effort, the government steers a middle course between actively investing in sectors or standing aside and letting the market work: it provides support for some traditional management functions (such as strategic planning and training) and streamlines access, without taking ownership or actually running the show. In response, the private sector organizes by industry.

After the PTP's creation, in 2007, a contest determined which sectors would participate in it first. The government announced that the winners wouldn't receive subsidies or protection but promised to work with them to train workers, improve the regulatory environment, develop foreign markets, and build infrastructure. Since then, the PTP has expanded to 12 sectors, from the original 8, with plans to include 20. To see how the program works to meet its challenging goals, it's useful to look at what happened in one of the original sectors targeted: cosmetics and personal-care products.

Although the Latin American market for them resembles North America's in size, it is expanding much faster—at a compound annual rate of nearly 4.5 percent through 2013 (as compared with a 0.5 percent annual decline in North America). Colombia is the world's second most biologically diverse country, so rising worldwide interest in natural products hints at a vast future potential. Even before the PTP, companies in the sector were pursuing expansion plans, says Jaime Mauricio Concha, one of three sector leaders posted to the partnership.

The program made a difference almost immediately. Cosmetics and personal-care executives had complained, for example, that the government wasn't carrying out a 1996 law that would cut transaction costs and the time needed to obtain commercialization permits for products. Before the PTP's creation, Concha repeatedly failed to persuade federal bureaucrats to implement the changes. A few months after it, Concha finally succeeded.

Juan Carlos Castro, the government's point man for cosmetics in the Ministry of Trade, Industry, and Tourism, has worked in the private sector, speaks English fluently, and holds advanced

²See Luis Andrade and Andres Cadena, "Colombia's lesson in economic development," *mckinseyquarterly.com*, July 2010.

degrees in management and international marketing. As a senior member of the PTP team, Castro acts as a one-stop shop to broker the ongoing conversation between the cosmetics and personal-care industries and the government. “The people from the private sector tell us what they need. We see if it is possible and then start a dialogue with the other government agencies,” he says. Much of Castro’s work involves troubleshooting for the sector: visiting government agencies to bridge differences, tap resources, or expedite relief. But he’s no rubber stamp for cosmetics manufacturers—when they urged him to press for the elimination of the duty on all raw materials, he declined.

Castro and Concha meet quarterly with chief executives from 25 leading cosmetics and hygiene companies (representing 88 percent of the market) to monitor progress, assess ongoing needs, and refine the partnership’s agenda. They often travel together, lobbying agencies or pitching Colombia’s products at international trade fairs. “When government and the private sector are saying the same things, it has a great impact,” notes Concha.

Other government entities play a role in the partnership, as well. The national education and training agency, for instance, hosts monthly sessions called sectoral tables. People who work in the sector—from CEOs to production workers—participate in these meetings to identify its needs and develop plans to address them. The agency also provides free English classes and certification for workers in the target sectors, along with courses in subjects from molecular biology to hairdressing. In addition, it helps to form knowledge-transfer partnerships, such as the one now in development between the country’s cosmetics companies and the French industry association Cosmetic Valley, which will provide laboratory instruction on extracting oils rich in vitamins A and E from Colombia’s plants and nuts. Another government agency has allocated money for research to validate the health benefits of the country’s cacay nut,³ which seems to be high in fiber and omega-3 fatty acids.

Nearly five years after the formation of this public–private partnership in the cosmetics and personal-care industries, the results are encouraging. From 2004 to 2009, the sector’s revenues rose by 58 percent. Cosmetics exports have soared to \$800 million in 2010, from \$100 million in 2002. The target of adding 27,000 employees was met a year early. The PTP, Concha estimates, has increased the sector’s growth by at least two to three percentage points. Personal-products giant Kimberly-Clark, announcing plans to open what it calls the Colombia Global Innovation Center in the capital, Bogotá, said it was impressed by “strong support from the country’s government, which is focused on development in the hygiene sector.”

Nonetheless, traditional commodities remain Colombia’s economic powerhouses. And some say it isn’t clear how the government’s many and varied economic-development plans and programs come together in a coherent, comprehensive strategy. Still, the advances driving growth in emerging sectors have laid a foundation for the future. The Ministry of Trade, Industry, and

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Tourism and the PTP-backed sectors have set a goal of tripling their exports and creating at least 300,000 new, formal jobs in them by 2014. In addition, the government is tripling the PTP's budget, to \$12 million, in 2012 and institutionalizing the program by moving it within Colombia's economic-development bank.

Perhaps most important, the PTP is instituting more rigorous performance metrics. It has also announced that some sectors will exit the program after five years, because they haven't met their export and employment goals or aren't sufficiently committed to the program. ○