

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

**MARIANNE HAUG with AMAR BHATTACHARYA and RICHARD
CALKINS**

**November 5, 1991
Washington, D.C.**

Interview by: John Lewis, Richard Webb

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*[Begin Tape 1, Side A]*¹

[Side A of tape did not record for some reason. This is Side B. The quality of the recording is poor.]

CALKINS: . . . structures that govern political and economic relations, so usually the party's wife or, you know, the village head's wife would head the women's community group, and there would be a cooperative that would go right down to pretty much every household level. This was both a way of raising incomes and, you know, education attainment levels, et cetera, and also disseminating family planning, population control information.

BHATTACHARYA: Why this program has been so successful cannot be explained without mentioning the personal deep commitment of President Suharto to the population and family planning program in Indonesia. He has given his personal support to the program and placed the whole program and leadership of the program in his office. There was a Bank study comparing eight family programs development in different countries. That report emphasized this high-level commitment to the program to explain its success in Indonesia. It's very important to make this distinction. Because of that interest, appropriate funds have been allocated to this program. An administrative structure has been established down to the village level. Everyone understands that there is strong support from the president and, thus, actions are imperative. The people are seeing also the results, the success of the program on the village level: a growth rate of, you know, two percent where it was six, seven percent before.

HAUG: There is no doubt that Suharto's, the president's, commitment to community development and inclusion, equity, growth and stability pervades the behavior of all the major decision-makers. In order to achieve these objectives, the bureaucrats and implementers in the Ministries and on regional levels are willing to listen, to get advice, to look at different kinds of options and to take pragmatic decisions to get results.

So in many ways, for me, looking at what the World Bank has done in Indonesia, we only had a support role. We should NOT believe that we have been so terribly instrumental. We have been effective and often our advice has been implemented because there were people on the other end, in government and industry, who listened. Despite the often difficult decisions, they were willing to adopt recommended solutions to pursue their fundamental objectives. Over a 25-year period the Indonesian government implemented pragmatic solutions always with these objectives in mind: equity, stability and growth.

LEWIS: This has been a fascinating conversation. While you've been talking some crazy things have been flitting, crossing my mind. Two nights ago--I think it was--on Channel 13 in New York I saw part (for one more time) of the film "Lost Horizon," and it sort of almost sounds as if you've been talking about Shangri-La, a giant one.

¹Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

But here it is a system that is very hierarchical but very benign and there's a tremendous amount of consensus, there's this belief in a secular kind of religion.

I'm wondering about two things here. We didn't pick you up--early on in the conversation, before Amar came in, you said maybe we should be seeing some dissidents. I haven't heard anything about dissidents lately, but maybe, there must be a few people out there who are.

And the other question is who the--where does this put you, I mean the Bank program in Indonesia, about issues like governance? I mean, by the sort of stereotypes of a lot of your parameters, this system, benign or not, doesn't quite measure up in terms of some governance standards, right? But it sounds to me as though there's been so much good done with the help of the Bank in Indonesia that there'd be a lot of reluctance from where you sit to sort of rock the boat talking about stuff like human rights and other . . .

HAUG: I don't think that there is ANY hesitancy on our part to talk about governance. As Richard said before, the last IGGI [*Inter-Governmental Group for Indonesia*] meeting highlighted governance issues and these were discussed. The Indonesian Government representatives came away knowing very well that "governance" is a real concern not only of the World Bank but also of most donors. They know that the donor community will have a very close look at environmental and decentralization issues and at some other criteria which are important for governance such as the rule of law.

On the other hand, governance is not only human rights and democratization. Governance has something to do with the social consensus and a social system which is workable, a functioning rule of law, you know, in addition to human rights and democracy.

So when you look at what the Indonesians have done to meld 27 provinces into one functioning country over the past 25 years, you can either conclude the glass is half full or half empty. Our assessment is that it is half full, BUT CHANGES ARE NEEDED. While recognizing past achievements, no one at the Bank or our Indonesian counterparts overlook that changes are needed for future development.

Since Sukarno was overthrown in 1965, Indonesian living standards, housing conditions, access to social services, education for all and the overall system of governance have improved immeasurably. The existing, highly centralized governance system has been seen by many as central to the progress achieved in such a geographically spread out country as Indonesia. Nevertheless, there is now recognition on many levels that the centralized governance system will not be the appropriate system to get the expected development results in the future.

The Bank's dialogue with Indonesia recently has stressed such topics as decentralization. Priorities for effective development are decentralization of provision of services in infrastructure, health, education as well as providing local governments with both authority as well as the financial means to implement investments more effectively.

We have been trying to address the issue through the channel of the “technocrats;” i.e., the group of most influential ministers and Suharto’s top advisors. As a first and really necessary step, this has led to acceptance and real commitment to decentralization by the “technocrats.” I think that the commitment goes not only skin deep. But now the “technocrats” need to rally the bureaucracy, the regions, and civil society behind a decentralized system which is workable. Social consensus for decentralizing has to be built not just in one region but all over the country. As we have found in some of our projects, without having this social consensus (that means that the villages “want to take over” responsibility and are equipped to do so), decentralization will not succeed. The decentralization issue across the board is a major objective of both our Indonesians counterparts and ourselves. Implementation is the difficulty and will need time. The result will be an entirely different governance system than the centralized, top down system that we have now.

Another area of discussion with our Indonesian counterparts is the role of NGOs [*non-governmental organizations*] in modern societies, a recognition of the value of NGOs, NGOs that are not just communities organized by the Party or local administration. Progress is being made. I was just at a Jakarta seminar on collaboration of NGOs of different countries on maternal health. This would not have been possible five years ago.

So while Indonesia is not yet there or even close to what the Dutch would call a process of participatory management, the various government agencies and the country as a whole is making progress. In their deliberate fashion, they are hearing the messages that they have to change. In their pragmatic way they are trying to pick up different areas where they can take action, where immediate implementation is promising in order to build the case for change.

We all, the Bank and the donor community, would like that they would go faster. Some would have liked to discuss the political system more explicitly. But the Bank has not been in the political advice business, and we are unlikely to advise on party structures in the future. But working on decentralization and participation of civil society from an economic and efficiency angle has been central to the Bank’s work in Indonesia recently, if not for three, four years.

BHATTACHARYA: And very actively. Marianne has come back to work on Indonesia after many years, and I do agree very much with that analysis. I mean, they have had a strong emphasis on social consensus, and they have established elaborate mechanisms for achieving that social consensus but which, as you correctly point out, don't conform to what one would call necessarily, you know, a western democratic concept. And therefore by one benchmark they do very well, which is, you know, in terms of achieving this kind of consensus; by another they don't.

They have also--because of exactly the reason Marianne pointed out--the experience of ‘65-‘66 when, you know, more than half a million people died. They have drawn a lesson that they will never again allow that kind of a situation to develop. So in some sense while the system is benign, it is also very much a regulated system as far as certain types of what one would call liberty are concerned, with the very dramatic changes that are now taking place in the economic setup and in education. You know they have, for instance, gone from a situation where the secondary education

participation was 10 percent and now it is close to 50 percent--very, very dramatic changes also at tertiary levels. They will face increasing pressures to open up on participation in ways that don't conform to the old order.

One of these is NGOs. It's not the only one. And on NGOs we are—I mean, we have certainly seen some very, very, you know I would say dramatic changes. And it's taking place in the areas like environment because that is world over one area where, you know, governments are coming under pressure, and it is coming under pressure on areas of participation.

LEWIS: Do you find that there's tension between the Bank and the government on environment issues?

BHATTACHARYA: Tension is perhaps not the right word. The change in the government's approach over the last five years is more striking than what I would call tension. You know, I don't think we have been the creator of the world's changed attitude to environmental issues.

HAUG: Also, there's a very active environment minister in the Cabinet. He has participated in international environmental fora for many years, knows about the new environmental standards the global community expects countries to adopt. Compared with his frustrations with his colleagues, any frustration with the Bank is minor.

What is happening now in Indonesia is a give and take, really between different interest groups, local concerns, politicians and experts. There are modernists, the ones who want to spend all the money on new technology; there are the economic technocrats who look at the world from the monetary and fiscal policy point of view; there is the military establishment; there are the industrialists; Pertamina; and then there are other emerging public and private voices. All of our input in a way is minor compared to the continuous kind of pulling and shoving of different power and interest groups that have been emerging despite the centralized political and administrative structure. You find this in China or in all the big countries. Tension develops when there are multiple objectives in a country and multiple groups that want to exercise influence. Indonesia is no exception.

What we are seeing in Indonesia, however, is that exogenous factors--the world at large and the new emerging issues such as environment--influence Indonesian decision making. These outside influences are creating both an opportunity and pressure to change. Indonesia, Suharto and the country's major decision makers see themselves not only as a growing, successful country but as an important country, a leader in Southeast Asia and on the global stage. They want to be part of the world at large and be seen as a leading country. Thus, the Indonesian government does not want to overlook new trends. There is not, in a way, an unwillingness to look at environment and the necessary new environmental policies to meet international standards. They are only struggling how absorb these new trends and requirements and translate them into workable policy changes at home.

Maybe I should mention one more thing that did strike me after going back to Indonesia. Indonesia is a quintessential Southeast Asian country. It's not like India. It's much, much closer to Japan and China and, of course, to Thailand, in the basic

functioning of its society. Two thousand years of Southeast Asian culture appeared to be embedded with Islamic traditions on the surface. Regimentation appears not as a force imposed by the outside. When on Friday morning all government employees are out in jogging suits in order to do their prescribed morning gymnastics, you can either look at this as yet another undue government imposition on the life's of individuals—or the most normal thing to do. So regimentation and group activities are much more a cultural given than you would see in Western societies.

CALKINS: To connect these things, Marianne, I believe that--this is my own opinion—without the substantial amount of money being available to Indonesia, most of these things could not have been possible. With the oil money, the government was able to implement large infrastructure programs, build schools, finance a lot of health programs, and start the population and resettlement programs. They did this in the '70s and the early '80s.

Then I think major differences in Indonesia compared to other countries are, first, they nurtured a new generation of leadership personnel over the years and, second, as Marianne mentioned, they accepted advice from the best experts around. They benefitted, I think, from all these forces, used their money wisely; by this I mean implemented changes after deliberate review and when they felt comfortable to make those changes. They built infrastructure programs and distributed the spoils along the entire system.

There was a tolerance level within the country. The people were seeing that things were happening. The people at large had some hopes that by waiting a little bit more they could improve their standard of living. Therefore there was this stability, growth and stability. And it can be explained, I think, by mentioning all these different dimensions of the Indonesian experience.

LEWIS: I like what you tell me very much. I've been having a hard job with my colleagues and students the last few years. I've been telling them it does help to throw money at problems. It really does.

CALKINS: If you do it wisely, though. *[Laughter]*

HAUG: And let's not forget they are an oil producing country.

LEWIS: That's right. That's a big factor. In fact there is such a sort of folklore now that oil is the worst thing that can happen to you, you know. It's not as bad as you seem to hear--in the Indonesian case.

CALKINS: It's the only counter case on the horizon.

HAUG: And it is because of the pragmatic style on having all levels partake--a relatively equitable distribution of the spoils of the oil money was crucial.

BHATTACHARYA: And many of the things in Indonesia is that they—you know, because of this continuity aspect in the sense that the team has been there for, pretty much since 1966, for almost every policy there is an event from which they drew a lesson. So the political event was really the events of '65-'66 which really established

their political order. On debt they had the event of the Pertamina crisis, and therefore they were the only oil country which, rather than borrow, they repaid their debt.

Their food security, same thing. You know, in the early '70s when they had their—I mean the underpinning for this huge expansion in food production was the droughts of the early '70s when some of their top policymakers had to go begging from country to country, and they said, “Never again will we do this.” And on population the same thing, the fact that they could not—you know, they had a lot of famine and starvation-laid the underpinning. There had been many—I mean, you know, the continuity and the ability to draw lessons was something that I think was very unique here.

LEWIS: It sort of brings back--before you came in, I think--we were talking a little bit about the whole succession question. I should think that in the sense of having such an investment in Indonesia you people would be doing a lot of thinking about what's going to happen when the president goes, or how it's going to happen, what sort of continuity--how is continuity going to be sustained? Is there anything that this institution can do to help?

HAUG: I look at the system which they built up under Suharto and the way how they have dealt with some of the political forces of development over the last six years. As I said before, we should not overstate our influence on the economic front. What we have seen is a continuous bringing in of new groups and new talents to manage the economy and achieve progress. The president as yet is only seventy. When we look at the new programs he has initiated in the last couple of years, I am sure they think if [*Ronald W.*] Reagan can stay until he is 78, he will also.

I think that we should give Suharto and his advisors the benefit of the doubt, that they will be able to manage the succession. All indications are that Suharto is planning to stay another five years after the election two years from now. They have another seven years in order to mastermind the succession. Of course, we are watching it very carefully. The moves Suharto and his top advisors have made in the recent past, in particular broadening participation and encouraging decentralization, lead me to believe that it's not something where outsiders are likely to be successful. During the last couple of years Suharto achieved a diminution of the role of the military which was a major achievement on the political level. How could outsiders have been instrumental? He and the Indonesian decision makers know that they need stability and economic growth to stay in power and achieve a peaceful and effective succession. It is this crucial need which drives the demand for Bank advice.

CALKINS: Also now accommodating increasing calls for political opening up. I mean, there are many groups that have now come up--and they would only come up if it was tolerated by the regime--that are calling for a much more open political climate.

HAUG: And they are watching very closely the developments in Thailand and the continuous demand for participation. They are going back and forth.

They see succession primarily as a manageable management problem. There are advocacy groups in the country that Suharto hopefully will listen to in the same pragmatic way as he has listened to others in the past.

Overall, we feel we shouldn't overdo the succession issue because it's not an issue of the next two years. This is unlike China. He has time, five to seven years' time, to orchestrate his exit and put things in order--as long as stability and economic growth can be maintained.

Thus, the biggest concern Suharto and his government seem to have, from what we have seen, is to maintain an orderly economic policy because they are convinced that the political transition will not be possible unless there is a stable economic environment.

Nevertheless, it would be useful for you to see non-World Bank and non-government sources. I will send a note to Nick [*Nicholas C.*] Hope, our resident representative in Jakarta to arrange meetings not only with government representatives, but also with people from the universities, NGOs and other observers and advisors. Of course, the Harvard group [*Harvard Institute for International Development*], probably, might be useful to you.

LEWIS: They have a resident group there, do they?

HAUG: Yes, Joe [*Joseph J.*] Stern.

LEWIS: Is Joe there? Oh, we ought to see him.

HAUG: I'm sure you this can be arranged [all speaking at once]

BHATTACHARYA: There are many groups as the Indonesian top advisors seek advice from many qualified sources. There's the Harvard group of international development; there's a Boston University group and many other international consultants. Our advice is always checked and checked again with other sources.

LEWIS: Yes, I probably know some of them, but Joe I'd particularly like to see.

HAUG: Now the press. I had a luncheon with representatives of the press very recently when I was in Jakarta. I asked what else they thought the World Bank should do. The response by the press was that the Bank should NOT only deal with macroeconomic issues. They expect us to "throw our weight around" on such problems such as forestry and whatever latest internal crisis arises and use our perceived influence aggressively. I came away with the impression that they were not fully aware about Bank involvement in sectoral issues and the danger for the Bank to be used by the one or other interest group.

BHATTACHARYA: They also tell us at the *World Development Report* seminar, that our saying--it's a question of half full and half empty--is not really helpful. They complain that the people using in the *World Development Report* only see all the good things that have been done by Indonesia. They would like the Bank to be more critical.

HAUG: But we clearly are--we are negative and critical in our dialogue with our counterparts in the Government, but in private. We are not negative in public and in our publication unless there is a clear reason comparing country performances and

relative outcomes. Having this very close relationship for a very long time is an advantage when delivering negative assessments and critique when it is given in private; it is an advantage that you can't beat.

LEWIS: One other question, a sort of lower level one occurred to me, how do you get along with the Dutch? I mean, they after all run the consortium, and they feel a certain kind of paternity, don't they?

BHATTACHARYA: Yeah, but it's—they're pragmatic people. They see themselves as more taking the lead on certain issues like on the popular participation front, women in development or environmental issues. As far as the aid coordination role is concerned, Japan, the World Bank, and ADB [*Asian Development Bank*] account for 80 percent of official assistance.

LEWIS: But the Dutch still chair the group?

BHATTACHARYA: Yes, but it's a typical Indonesian puppet show in the sense that all of the real things have been determined long before that.

HAUG: In the end what counts is that the Bank provides the substance with all our work, from macroeconomic to sector specific policies and project conditionality. Who steps up to chair the meeting is not important to either to the Bank nor to the Indonesians. As the other European countries have provided less and less in funds and policy advice and are not providing so much anymore, we are glad that the Dutch at least keep substantial support alive.

CALKINS: On the secession question, not to be monopolizing, what is happening in the Soviet Union and Yugoslavia must be terribly interesting for Indonesians. They have their own regions that wish to leave and would be doubly sensitive to the threat of territorial disintegration. It will be uniting, of course, for the Indonesians to come together and be successful as one country.

LEWIS: How many provinces?

BHATTACHARYA: Twenty-seven.

LEWIS: Twenty-seven.

CALKINS: But major islands, Sumatra, Aceh, East Timor North Sumatra, have been trying to be independent for centuries,

BHATTACHARYA: But not Northern Sumatra.

CALKINS: The islands are big geographically. I mean, the eastern parts are, you know, ethnically also completely separate. I mean Irian Jaya, which is the easternmost province, is actually half on New Guinea island and ethnically and otherwise probably more similar to Papua New Guinea. The same thing is true for Timor and the Moluccas. They have had longstanding secessionist movements.

HAUG: Now, you will ask yourselves are we too sanguine? I don't think we are sanguine, but we are realistic: Will a head-on clash between the central government and the one or other island come about? Will the really quite superior management skills of the past to deal with emerging problems fail? If there's one country where we need to watch carefully whether stability and economic growth can be maintained, it's Indonesia. The country is one of the Bank's important watching briefs.

I will let Nick Hope know that you are coming. You must put him on your schedule and also the other people we mentioned. They will take very good care of you.

LEWIS: You must know that the value added in this conversation is enormous because--we're very grateful.

HAUG: Whatever we can do later on let us know, but you will see all the major players there.

LEWIS: Thank you so much.

[End Tape 1, Side B]

[End of interview]