WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

NICHOLAS C. HOPE, JAMES Q. HARRISON, ALI SABETI

Date: November 24, 1991
Jakarta, Indonesia

By: John Lewis, Richard Webb, and Devesh Kapur
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.

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*November 24, 1991 – Final Edited*
HOPE: I think in that period—I mean, Dave Gordon's arrival coincided with Pertamina's heyday, and at that point the Bank program was pretty small, and I don't think we had a whole heap of influence there at all, '73-4, until the French came. I guess he came in '72, Dave Gordon, and left in '74. Two years, something like that.

LEWIS: Well, then, Devesh was right the other day. We were told that Bernie [Bernard R. Bell] was here for seven years.

HOPE: No, he was here for four years, Bernie.

HARRISON: He was here in '72, Bernie was.

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HOPE: Yeah, yeah, Bernie left in '72, and Gordon came in '72 and went in '74, I think. Baneth was the one who was here much longer than I realized. They said he was called back, but he was here from '74 to '78.

WEBB: Baneth?

HOPE: Yeah. And then Ping Loh sort of served in this acting capacity for a long time, and the Bank kept trying--Shahid Husain--kept trying to confirm him, and the Indonesians kept not sending a note back. He's a Chinese; they didn't want a Chinese in the office, and they didn't want to say no to the Bank. So finally somebody realized that they were saying no, and then Stanley Please was appointed, and he came for all of six months and had a nervous breakdown and left. And then Russ Cheetham came down here in 1980, and he was here for four years.

LEWIS: And then D.C. Rao.

HOPE: Then D.C. Rao and then Attila Sonmez for three years each.

LEWIS: They spoke highly of Rao.

HOPE: Yes, he did extremely well, which isn't terribly surprising to any of us. He's pretty good!

LEWIS: Well, we didn't get many sour notes about personnel from, certainly, Widjojo. We didn't get any.

WEBB: No, no.

HOPE: Have you seen Saleh Afiff yet?

LEWIS: No, we're seeing him at the end of this sequence.

HOPE: Yeah, I can't imagine Widjojo saying anything bad about anybody. It's a problem. You know, if you want to get somebody to give that sort of thing, you do need somebody like Saleh Afiff, and even he might not [inaudible]

KAPUR: I guess in sort of seeing the story there were two things which sort of--I'm not sure how true they are. One is the fact that people say Indonesia has done very well for the past 20 years, the Bank has been closely associated with Indonesia, and therefore people try to draw a conclusion that the Bank has been helpful in this process. And second is, if one goes through the OED [Operations Evaluation Department] reports on Bank projects in Indonesia, they really don't seem to stand out any better or worse than, say, South Asia.

HOPE: I might agree with that. I think the projects have had beans to do with it.

WEBB: Have had what?

HOPE: Didn't have anything to do with it.

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LEWIS: Right.

HOPE: I mean, a project's a project. It's dialogue that's been the main thing.

SABETI: Do you that's the problem with the OED reports [all speaking at once]

HOPE: The OED reports on the structural adjustment loans.

LEWIS: What do you say it is now? [all speaking at once]

HOPE: It's the dialogue.

LEWIS: Yes, yes.

HOPE: [all speaking at once] I think the line ministries and the projects have—mean, they are very much like projects all over the place, and we've had spectacular lack of success in some areas. In the irrigation projects we've done project after project, and their implementation capacity is still exceedingly weak. In transmigration and tree crops, I think you could argue that we've really not done particularly well. I think it's been a very successful population program and education program. Health program is probably less successful overall because it is...

HARRISON: Yes, but I think the problem, too, is the OED reports really can't effectively track the dialogue because most of that doesn't really show up in the kind of documentation that OED examines. I think that's the problem. And also I think, perhaps also particularly because in Indonesia of this sort of parallel track approach that we've had for so long, that you know the projects don't show a lot in terms of policy content perhaps directly or explicitly sometimes because of this approach that we've had of carrying it on in a kind of parallel way. So I think there's a problem with using the OED reports in a...

HOPE: Jim's suggestion is a good one because Bill [William II.] Branson came down and did the review of the trade policy adjustment loans. He's due to come back again in January or February and review these private sector development operations. This is the policy line. Now, that's only in the past five years, essentially, but Bill did this review, and I think that speaks quite a lot about the policy dialogue and the way in which the government's responding.

KAPUR: Well, it's interesting because, I mean, obviously the OED reports only look at projects per se, but it's interesting because, I mean projects are supposed to be the bread and butter of the Bank, hopefully, right? That's the view. So that—does this imply that as an institution it's done much better in aspects that are not [projects]?

HOPE: Well, my view would be probably yes. I mean, I haven't read all the OED reports. I read the education one recently, which I thought was fairly complimentary. This was the...

SABETI: Which one?
HOPE: The evaluation of education, twenty education [all speaking at once] and I think the most recent project audit report on the power program was pretty complimentary about the way in which the power program has been structured in Indonesia. And that's an example, I think, where there has been strategy and a policy dialogue and all projects have been incremental and built towards the objectives that they want to see emerging for the sector. But I haven't read a lot of the other ones.

HARRISON: But I mean the OED, the recent OED report on the population program of the Bank here says that the Bank didn't make a significant intellectual contribution.

HOPE: Which is ridiculous.

HARRISON: And, you know, we, well, we fundamentally disagree with that, but the problem is that if you look at what the Bank finances, it has nothing to do directly with whether we have an intellectual contribution or not. They said it was all hardware. Well, that's what? That's what was the residual...

HOPE: That's bloody silly. I mean, that's exactly right. We finance what we package, and we finance what needs to be financed. This is what our power people would say. For example, as long as the thing, the dialogue is moving in the right direction, we'll finance anything they want. We can package it any which way we want and put the nuts and bolts together as long as things are moving in the right direction.

SABETI: We started in 1968, okay, and the institutional capability here was much, much weaker than anywhere else in Asia, and especially South Asia. So in that short period of time for the projects, this massive number of projects that we have done here, to do as well as South Asia in itself should be considered as more successful than we were in South Asia. We have tremendous absorptive capacity, institutional infrastructure and so on.

WEBB: You know this is something that I find very hard to get at. I think it's fitting because a big part of the story is how Indonesia got from there to now in terms of institutional capacity because all the time one hears things are pretty weak here still in terms of institutional capacity and [inaudible] but at the same time there's a sense of a considerable improvement. I don't know how correct that is.

SABETI: They can both be true if you start from a low enough base.

WEBB: Okay. And dialogue may have something to do with that, but I suspect that it may be just as important or more important is the kind of daily contact by hundreds, thousands of man-days of technical people that have come, that have talked, have interacted, and all of this has contributed—it's helped little by little to—I mean, they must done an awful lot of it independently of the Bank. The Bank surely made some input at that level, but just how much? How on earth does one get at that?

HARRISON [?]: One thing may be worth looking at and discussing. Russ's point is that when he came here, it was [inaudible]. He was the one who basically convinced the government to start putting a lot more money into education or things related to
the institutional development programs and that, you know, they should use more of the Bank resources in that area. Now, again, I don't know how you document that. But it's quite clear if you look at the figures that the Bank was lending several multiples or more for education as a portion of its portfolio in Indonesia from the beginning of the '80s onward than any other country.

One of the disappointing things about the OED assessment was they didn't really discuss that because it's only recently with the—under [Barber B.] Conable—that this kind of emphasis on human resource development has really, that you can really see that in some of these other countries. That seems to me to be one feature of the Bank's program in Indonesia that is a little bit [inaudible]

**HOPE:** And another feature—I'm not sure whether it's unique, was this bringing down—I mean, a large amount of the projects in the early period were in agriculture. The government moved to attain rice self-sufficiency, and the Bank really supported it very heavily with infrastructure and other investments. By the end of the '70s they've got to a point where they've got so much agricultural investment down here that they brought a unit down and set it up and essentially did supervision out of RSI [Resident Mission Indonesia], and that we've been busily unwinding in the past four years since the reorganization of the Bank. But, I mean, at that point I would have thought that would be an interesting area to look at because if there's any area where you should see success on the project side, you would think it would be in the agricultural area because that's where we've really invested a hell of a lot of effort.

Do you think we're being very successful, though, Ali? In irrigation we...

**SABETI:** In Java, yes. Off Java, no.

**KAPUR:** That's what fraction of the projects? Is Java—projects [inaudible] the total of Indonesia?

**SABETI:** Oh, a majority is Java. We started here and continued here, and then we started going to the offshore islands.

**LEWIS:** I'd like to, I think, talk some more about projects including the social sector, but dialogue: let's talk a little more about that. I have an impression of what has happened here. I was trying to tell Richard yesterday since he was—it came to—our conversation got focused sort of on what the hell did Bernie Bell really do here. And it—I think Richard was sort of looking for particular policy thrusts that were planted by Bell, and it's sort of analogous to the kinds of thrusts that clearly you try to get through a SAL [structural adjustment loan] these days. I mean, you have certain things you—in Senegal they had 32 conditions in their first one.

**HOPE:** And then they had 15 of those conditions in the second one...

**LEWIS:** That's right! But my notion is...

**HOPE:** ...and the other 17 had been dropped.
LEWIS: In the dialogue, as I understand it—and I sort of was involved in one in India in the ‘60s—you have a kind of ongoing conversation with the government and you're talking about the whole damn development strategy, and it's hard to identify which ideas are yours except that you've been sort of a sounding board for the other party. And if you're trusted, you actually have quite an effect on the net outcome without having authorship of very much in any very identifiable way. Is that a fair statement?

HOPE: Yeah, I think that's exactly right. What was his name—Ali Wardhana or somebody when they did this RSI study called the Bank “a sparring partner.”

LEWIS: Yeah, yeah, yeah.

HOPE: And I think that's probably quite a good description of somebody that they like to fly things by, and they'd ask the Bank to write—I mean, they—of course, we do all this economic and sector work, and some of that even gets discussed with the government, but the thing that they really seem to appreciate most are these informal notes.

LEWIS: Yeah, “non-papers.” Everybody—you talked about that.

HOPE: Non-papers: “Send us two or three pages on this.” And, I mean, they used, I think, Bernie in that way a great deal and Russ and D.C. like that a lot. I mean, I think Russ probably—the thing of these thrusts, I mean I wouldn't know any in the ‘70s. I think it's pretty clear that the devaluation in 1983 that Russ had quite a bit to do with and I suspect D.C. in the ‘86 devaluation, but by then they knew what they had to do anyway, and the [International Monetary Fund and D.C. Rao were probably quite involved. But I can't think of any, any really big things. I mean, the...

HARRISON: One thing I thing that both Widjojo and also Bernie Bell have mentioned in the early days was setting up just a process for evaluating projects [all speaking at once]

HOPE: Planning projects. Bernie did a lot of that.

HARRISON: That's not a kind of a policy; it's more of a process, I guess, but it's important.

LEWIS: No, it’s process. As a matter of fact, but this guy who's now a radical, sustainable development fellow...

KAPUR: The environment minister [all speaking at once]

HARRISON: Emil Salim.

LEWIS: He talked, in the early days that's exactly what he did, was work on cost/benefit analysis, and Bernie helped to sort of—almost ran a tutorial on that sort of thing.

HARRISON: I think they talked a lot about individual investments, sort of areas of investment all across the board, whether it—not Bank stuff as such.

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HOPE: The whole works. They talked to him a lot on planning—Arthur Lewis, that sort of stuff—the very simple-minded things like “you-can't-spend-what-you-don't-have” sort of thing! [Laughter] Well, that was quite important because they'd got through this stabilization crisis, and they were very keen not to lose it, and so I think Bernie did help them to establish quite a bit of rigor.

LEWIS: This was the balanced budget rule?

HOPE: Right. So-called balanced budget rule.

LEWIS: Which included foreign aid in it.

HOPE: Yes.

WEBB: It's very hard to judge. I guess there's really no way one can really ever come out with a good judgment on just how important all that was.

SABETI: No. You don't have the counterfactual.

WEBB: No.

HOPE: I think this crowd has done pretty well without us.

WEBB: Would have done?

HOPE: Oh, yeah, particularly when you allow for the fact that they did have Harvard [Harvard Institute for International Development] and they've had the IMF [International Monetary Fund] since before us. Kemal Siber will tell you something about that tomorrow. They've had their other advisers, AID [U.S. Agency for International Development] and people have been here. I think this group would have done just fine without the Bank, but it was still nice to have the Bank around.

WEBB: I would discount a little bit of their commendation of the Bank—they have this marvelous gratitude towards the Bank—because obviously they enjoy getting the money. [all speaking at once]

HARRISON: There are a lot of other countries that get the money and they don’t [inaudible]

SABETI: They also use the Bank in many different ways, you know, sometimes in order not to do certain things that they don't feel is...

WEBB: As technicians.

HOPE: They're very careful about that, though. I mean, they do use us, but they don't let it be seen that the Bank's pulling the strings.

SABETI: No, what I'm saying when they agree to a particular covenant on, lid for the investment for a particular sector, that's really...

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HARRISON: [inaudible] negative pledge [inaudible]

HOPE: It's interesting. I mean, there are a lot of things that they don't know that they get from the Bank. I mean, these are things that they did know, I mean, the guys, the ministers, are obviously things they've learned that they forget about because they're so damned busy, and I think that's where the Bank does help quite a bit. I mean, by having a group of good economists down here that when they get into one of these situations, they get analysis that allows them to then remember their economics, that this is the real—that this is the way it should work, and I think they're doing it quite a bit from that, straighten out their thinking.

LEWIS: Let me ask you: the Bank has been what I would call the residual lender here, or donor, here for a long time. In a bilateral case where a country's in that role, as the U.S. was in India, say, in the '60s, you have this kind of dialogue going on. The residual donor also can have, do quite a lot of stuff ad hoc because it does deploy resources. That is, if something comes up short, you can get a kind of quick fix, and bilaterals in some senses are, may have quicker reflexes than the Bank does in that kind of thing. I don't know how much the Bank can really do that. Have there been cases where Bernie Bell would discover that they were short on some kind of resource input and could get a, I guess it would have to be a loan from the Bank—it would have to be, I suppose; a project loan from the Bank—quickly?

HOPE: I can't remember. I can't remember. I know Bernie was saying once about that when they joined they got this hundred million credit from Ex-Im Bank [U.S. Export-Import Bank]. It was terribly important in the short term to allow them to do some [inaudible]. But I don't think during Bernie's period we gave them notable amounts of money that was fast disbursing.

Did we have any programmatic assistance through IDA [International Development Association] in those days? I don't think we did? [several speaking at once]

HARRISON: I don't think so.

SABETI: I mean, that really is...

HOPE: The only case I can think is Russ, after the '86 operation—well, it was before Russ because the trade policy adjustment loan was when D.C. was still here. First of those—that's when the [several speaking at once] And that was clearly—D.C. Rao's must have initiated the bulk of that. But they—that was important because I think it did mobilize all the special assistance that they needed after the '86 crunch.

HARRISON: I wonder if before then—I mean, how long has our role been that of estimating what the aid requirement is and then following up on that, really trying to discuss with the donors how they could do that. I mean, that's been something...

HOPE: Since the beginning. Since the beginning. [both speaking at once]

HARRISON: Well, then in a way that's been part of the role [inaudible]
LEWIS: Was it Widjojo who emphasized the importance of the...

HOPE: The IGGI [*Inter-Governmental Group on Indonesia*].

LEWIS: Yeah, I think so.

KAPUR: Although at least as far as operations sort of statistics classify instruments of Bank lending for Indonesia in the '70s, they do have what they have now gone and reclassified as adjustment loans as distinct from investment loans. I don't know if they're special loans, but they do have a few of them.

HARRISON: I don't remember. In the '70s?

KAPUR: Yeah.

HARRISON: Unless they were import credits...

HOPE: That'd be all I can think of.

HARRISON: ...that's the only thing I can think of.

HOPE: Because India was getting tons of that stuff.

HARRISON: Maybe old style program loans.

SABETI: Is there a commodity loan? Do you remember?

HARRISON: I'm surprised that Indonesia would have one. Maybe during the Pertamina problem.

HOPE: Well, I joined the Bank in, I guess, '77. I came in on that financial side, and then the loan portfolio analysis unit was giving Indonesia a pretty tough time, saying that they weren't creditworthy. And at that point [Robert S.] McNamara was trying to push more money into the country, and they were trying to graduate them from IDA, which they did in '78, I guess, because of all the oil money. I guess we weren't doing a whole lot.

KAPUR: The one other thing that is striking in the conversations with the Indonesians during these past days is that there was one person whose name which was never mentioned, and that's the president. I mean, was he absolutely shielded by the technocrats and the Bank never encountered him?

HOPE: Bernie Bell rang him up all the time, as I understand. They saw a lot of each other, but I don't think that subsequently that any other director has had that sort of access to the president, not even Russ.

LEWIS: Well, I agree. The inverse of that, stand that point sort of on the head, was what Richard said as we drove away from--we were all sort of oo-ing and ah-ing about Widjojo, that he was up to his billing. Richard said, "We don't even talk about

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the person who is most important in this story," and it is the fact that the man on top lets this happen, obviously, that he's critical.

HOPE: No, he deserves an enormous amount of credit [*inaudible*]. He hasn't put many feet wrong.

HARRISON: He called in—I mean, he had the sort of standard interactions when a sort of vice presidential level guy from the Bank comes out or the president of the Bank comes out, normally they would meet with the president, and usually those meetings have some substantive message. They aren't just ceremonial. They usually are—on both sides there's an interesting exchange, at least the ones I've heard.

HOPE: The last one was in January when Moeen Qureshi came out. The president said, "We want more fast-disbursing assistance."

And Qureshi said, "You should take this windfall oil money and put it in a special fund and not spend it."

And this went past each other like that. I mean, they—neither got what they wanted, but subsequently they did sterilize some of the money. But the president basically told him, "Look, we've got to develop. We can't afford to put our money into a bank account."

And Qureshi said, "You should declare victory and say that you don't need any more special assistance because you've stabilized. You've done a good job. That's the finish."

But it was interesting to see. I said to Russ afterwards, Russ said, "How long did he get there?"

I said, "Forty minutes."

He said, "That's fine. Anything over 30 minutes is an important meeting."

SABETI: They didn't have to be, you know, agreeing with each other 100 percent.

HOPE: No, no, no, they didn't. And Qureshi was very disappointed.

WEBB: The big thing here has been stability, it seems to me, monetary and political stability. And the other thing that's a very clear—what everyone seems to say, at least, that it's very clear, big part of the success is the pro-active cultural component policy, but on the industrial and trade side it's been pretty poor most of the time. I mean, all the sins—and also on project implementation, population, education, are turning out to be rather good parts of the picture. It seems to me that this could easily have been a much poorer—one could easily have ended up with a much less favorable view of what's happened.

HOPE: Oh, yes. They haven't found as much oil as they thought.
Actually, it's interesting because when I first came down here I met Mochtar Riady, when I first came down as the chief, industry and energy. I met Mochtar Riady, who was one of these old Chinese guys and I guess he runs Bank Central Asia. I'm not sure he does run it anymore; he's been sort of moved upstairs now. I had a chat with him. We were talking, and at that point we were beginning to look at what they needed to do to get debt service back under control, and we were talking about a doubling of non-oil exports and a redoubling, and by 1995 we said we needed non-oil exports to be around 25 billion, which is what Russ had been talking about with the economists, and so we were mentioning this.

And Mochtar Riady was quite extraordinary. I saw him at 5 o'clock in the afternoon, and he talked to me until 6:30. I'd never met him. I didn't have to say very much, but he just talked and talked. And he said, "Of course, the worst thing that ever happened to this country was the oil, the fact that we found oil. Before that we'd run very sensible policies. We had an open system, highly competitive. Of course, we didn't have any decent infrastructure, and we were very short in all the key human skills, but in the small areas we were starting to make quite considerable progress. And then we found oil, and then they could afford to do Krakatoa Steel and fertilizers and cement factories, and the government started to push all this money into productive industry. Of course, also built a lot of infrastructure and put a lot into agriculture, and built a few schools and stuff. It wasn't all productive stuff, but," Mochtar Riady said, "that was a big mistake because they put all this money in and then had to protect it because it wasn't efficient, and that caused us all sorts of trouble." And he said, "If you'd give me control of the policy-setting in Indonesia, I would buy Indonesian exports for 25 billion now." He said, "All I'd do is I'd have the greater Jakarta area with a set of policies very much like Hong Kong." And he said, "By 1995 there's absolutely"—this was '87—"there's absolutely no doubt in my mind that I'll make several billion dollars if you allow me to set the policies.

LEWIS: The export value of what, the whole country's exports?

HOPE: No, non-oil exports. Non-oil exports by '95. But I mean he—what I found very interesting was this perception from a Chinese who might well have been thought of as somebody who had benefitted by close association with the group and perhaps worked, you know, the rent-seeking types of behavior that you see in some of the other groups, but in fact he was quite convinced that, you know, if they had followed the policies that they had put in place immediately after the New Order that they lost track of in '73 when the oil boom was [both speaking at once] that they would have been much better off than they were in '86-7 after the crunch had come in oil prices and that if they went back to those policies—and he wanted it set up immediately for Jakarta—then exports could just boom.

LEWIS: And who is this guy again?

HOPE: Mochtar Riady is the—I think he's now chairman of the board of Bank Central Asia, but he's associated with Liem Sioe Liong.

HARRISON: The largest private bank in Indonesia. [both speaking at once]
HOPE: He’s associated with Liem Sioe Liong. And his son is James Riady, who runs Bank Lippo, the bank. That was interesting.

LEWIS: Indeed.

WEBB: Yeah. Right on. Who was it that said when we asked him—oh, it was [Hadi] Soesastro—we asked him what he thought was the best or the most important thing the Bank had done here, he said industrial restructuring.

HARRISON: Really?

LEWIS: Was it him?

WEBB: Yeah, yeah, it was him who said it. [several speaking at once]

HOPE: That’s interesting because the process is embryonic. It’s hardly even begun, the restructuring of enterprises. I mean, the public enterprises are very, very slow moving loans.

KAPUR: I guess he was referring to, I guess, the ‘82-3 report on industrial restructuring. [several speaking at once]

HOPE: Oh, okay. Well, the industrial sector report, yeah, the [Armeane M.] Choksi report. Well, that could be. I mean, that was a good, doctrinaire, neoclassical presentation of what they needed to do.

HARRISON: It summarizes pretty much what they have done since about the mid-‘80s.

HOPE: Exactly. It could almost be a blueprint. They did some of it after ‘83 when they deregulated the credit system. At least, they removed credit ceilings and they allowed the interest rates on deposits to go up, and then they set their own interest rates and then shortly after that—and there was a tax reform. And then after that they began to deregulate in earnest on the trade sector and then the financial sector as well and then investment regulation and everything else. But I mean that was forced on them.

LEWIS: Who spoke about that? Was it Widjojo or…

KAPUR: No, it was Hadi Soesastro.

LEWIS: Oh, Hadi. Yeah, yeah, yeah. [several speaking at once]

SABETI: I heard the story about this, that when they were:

HARRISON: It’s really kind of almost a very difficult thing to do in a time when you’re…

HOPE: They were forced in a sense that after ‘86 when they really were in terrible trouble, a question of what will they do. They could have done a lot of things. I
mean, they didn't have to be rational, but that was the time to dust off the blueprint, I
would have thought.

HARRISON: A whole lot of people I know would go for import controls. [several
agreeing]

HOPE: Oh, yes, quite right.

SABETI: When they were debating this industrial restructuring, Widjojo was
planning this—and I don't know who was trade or industry minister—they were
deating in the cabinet, and they keep saying, “We need the controls because of
these infant industries.” They keep referring to the “infant industries.” And Widjojo
turns around and says, “My dear so and so, stop calling these ‘infant industries’ just
because they're small and haven't grown. They are bonsai industries. They're never
going to grow larger if you continue this. They will always be small. They're not
infant, because...” [laughter; all speaking at once]

HARRISON: Was that Nasruddin [Sumintapura] who said that?

HOPE: Nasruddin, yes.

SABETI: Was it Nasruddin said that or...

HOPE: Nasruddin.

SABETI: Yeah, okay, one of them.

HOPE: It's brilliant. Perfect, perfect explanation! It's wonderful. I mean, he said
these are very carefully nurtured infants that are never going to grow up. [all
speaking at once] That's Nasruddin, the junior minister of finance.

KAPUR: Sort of one of the things is—just sort of looking at other Bank reports, Cote
d'Ivoire, as an example—you see at a certain period of time these huge economic
studies that the Bank report says is a spectacular case of success. Three years later...

HOPE: Tube city.

KAPUR: You know, there are a fair number of countries that, unfortunately with the
benefit of hindsight, one sees this, that there is huge mission or six-volume report on
the economy created and then three or four years—this sort of thing of the seeming
fragility. Now, I don't know how far it, if at all, this is...

HOPE: Richard knows this very much at first hand. And I think one of the things,
the messages, that we're being, we've given, this group, to the Indonesian government
since we got down here is that the macro-management problem that they face is
getting harder. They've deregulated the private sector. They're now managing with
indirect controls, and the private sector is driving the show, so they've got to be much
more responsive on the public side. They can't afford to simply mindlessly run
balanced budgets, and they don't want to get into deficit financing, but they've got to
accommodate the private sector and that's a new game for them.

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What Widjojo has said when we've been sitting there talking to him is, "Every time we solve a problem, another one emerges. It's getting harder all the time." It's absolutely correct. And it is. It is getting harder for them. It's a more sophisticated economy.

I mean, we've been arguing with them this year because Russ's perception, Russ Cheetham's perception—and I think this is one of the few areas where I disagree with Russ on Indonesia—but he, coming from the early '80s, he's seen that the policy initiative stops a year before the elections and they don't do anything that to disturb things as they run up to the elections. And what we've been trying to say to them is, "You can't afford to do that. It might have been okay in a situation in which public expenditure and the public sector generally is driving the economy. It may then be all right to have a situation in which you wait for a year, you allow the subsidies to grow a bit, you allow administered prices, inflation to erode them so that the financial situation of public enterprises gets eroded a bit, and then you have a correction immediately after the election, and it's okay." But our argument has been, "Now that the private sector is running things, you've got to constantly fine-tune the economy. You can't just sit back and do one or two bold things, you know, a year and a half down the track. You've got to take preemptive action." And that's a hard lesson.

WEBB: It's a different management problem, and with the change in the whole political scenario I think it multiplies the nature of the problem.

LEWIS: What change do you mean in political?

KAPUR: Potential change.

WEBB: Well, I'm just assuming that there's no way they can stop this opening-up process, loosening up and opening up.

LEWIS: Right. But the leadership you don't see changing, you aren't assuming changes quickly.

WEBB: Well, with either old guys or new guys, either way I think there's no way they can stop this now.

KAPUR: Well, it's sort of striking because sort of seeing the '89 CSP [Country Strategy Paper] and then we sort of had a look at the OC [phonetic] minutes around operations [inaudible] You know, if it had and for that time, you know, obviously sort of reasonably confident thing on the debt service, suddenly six months back things look somewhat different. With the speed of change now, I go--particularly if this had been an election year it might have been...

HOPE: It is.

KAPUR: ...much more difficult to actually scale back.

HOPE: It is an election year.

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HARRISON: The election's in June.

HOPE: I mean, we're within a year of the election. I mean, basically when we, at IGGI time this year, I mean, Jim was telling them since February, "You got to do something, fellows," and we've been pushing to get fiscal adjustment to complement monetary guidelines, and they've been very reluctant to do anything. I mean, what turned around was—it was extraordinary to see the extent to which the current account moved into substantial deficit, and the only thing that probably saved them from disaster with the windfall oil revenues. I mean, that in itself might have encouraged inappropriate policy for a short term, but that had already started, I guess. We had this inflow of liquidity into the banking system, I guess, when the SBIs [Sertifikat Bank Indonesia] matured in '89—Jim, it that right?—after the '88 sterilization when they changed the reserve ratios and they had the SBIs flow back into the system, and that gave an impetus to money creation and you got a blowout on money through, from around about October of '89 through May of '90 when the Fund and the Bank had said, "Look, this is much too rapid," and they then started to try and take things in hand again.

But I mean that had happened, and then, of course, shortly thereafter you got the Gulf crisis in August. We spent a lot of time analyzing how they were going to sterilize all this inflow of foreign exchange and what way they would spend all their money. There was no perception of a debt crisis or even debt difficulties. What happened, of course, is that once they deregulated, the pent-up demand for investment in this country turned out to be absolutely enormous, not just from foreigners but domestically as well. So once the incentive system changed and it became possible to get, you know, the three or four signatures you needed to get an investment done instead of having to get 33 or 34 signatures, everyone wanted to be in it, and with the balance of payments looking good because the oil was going to be golden, and we were telling them that. To an extent we were talking about: How can you sterilize this? What can you do with this money? How do you take it out of the economy in a way that's not going to blow, you know, all your aggregate set away and have a tremendous non-traded goods inflation and all the other sorts of stuff, waste it through implementation difficulty? There was a very rapid turnaround.

LEWIS: Is this what Moeen was saying when he was...

HOPE: Yes, Moeen did a good job for us. Moeen came down. He was—I mean, his initial reaction was he looked at the budget, last year's budget, and he said, "An 18 percent increase? That's much too great, much too much."

Our reaction was, "This is terrific!" It assumed a 19 dollar oil price. At the time they did it we were projecting 21, and there'd been reason you could have assumed 22 or 23, and they could have pumped a lot more revenue into the system. But they took the most conservative assumption they could get away with politically. They held the budget down to the lowest increase we thought that was reasonable.

But Moeen did reinforce the notion that with oil prices really not looking as if they were going to stay up forever, that they really needed to do something about it, and subsequently they did. They did run a very substantial budget surplus.
WEBB: You're doing all this in view of the Fund, really, all this dialogue on the...

HOPE: Well, with the Fund, with the Fund. I mean, the Fund has had a changeover, but the previous Fund rep was extremely active; the new one undoubtedly will be too when he finds his feet, but he's only been down here for three or four months and he's not as familiar with the economy as his predecessor was. But no, we did talk to the Fund guy a lot.

HARRISON: We worked real closely on the Article IV consultation measures, the fullest kind of Bank involvement on an Article IV that I've seen.

WEBB: But there's no bite in the Fund's dialogue with the government.

HOPE: In previous years [both speaking at once]

HARRISON: Again they were also in IGGI, the RED [recent economic developments] part of the documentation of the IGGI meeting, it's--we have local meetings with the IGGI embassies. The Fund was there.

HOPE: You made the point, Jim, that in the wrap-up in 1990 when this monetary expansion was taking place and Linda Koenig led the Fund mission, there was a pretty bite in that meeting, according to what you said. I mean, that was when the governor got very testy, didn't he?

WEBB: Tell me about Linda.

HOPE: Linda? Well, she just came down and told it like it was..

WEBB: She's one of the—she's very famous in Peru, you know.

HOPE: Yeah, I know.

WEBB: She came down and what?

HOPE: She came down and told them like it was, that the monetary aggregates were growing too rapidly and they had to pull 'em back into line. And the governor was unhappy; he was under pressure from the president to get the interest rates down.

KAPUR: [inaudible] because the Bank and the Fund in several other countries advocating convertibility of currency. Has that been a position here, and, if so...

HOPE: The currency here is freely convertible, has been since 1970, so we haven't had an argument about that.

KAPUR: Oh, I see.

HOPE: The biggest difference that we probably had this year was that we felt that it might have been reasonable for them to continue to depreciate the currency at a reasonable rate and the Fund felt that the real exchange rate was about where it needed to be and there shouldn't be any more sort of predatory devaluations.

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LEWIS: Really? That's fascinating.

HARRISON: I'm not sure that's...

HOPE: Yeah, that's an overstatement.

HARRISON: Yeah, it sort of came out, some of the European board members discussing that.

LEWIS: Let me ask you. When we talked to Joe [Joseph] Stern the other day he was just glowing over the export figures, the rate at which they're going up, and he was saying this country is going to prove once and for all that export orientation is not something that's specific to the little or medium-sized countries, that the big guys can do it too. What do you make of a 40 percent increase in non-oil processed and manufacturing exports?

WEBB: Two or three years in a row.

LEWIS: Two or three years in a row. This has got to be some kind of blip, huh? I mean, or is it--of course, it's from a low base, I understand...

HOPE: Very low base.

HARRISON: A lot of the things are from a low base, but they do have several things that are...

HOPE: They're growing around 30 percent now.

HARRISON: There are a lot of little things making up this other/other category in exports that is...

LEWIS: Well, what are the categories—garments for one thing, I guess.

HOPE: Textiles and garments are the biggest and then.

KAPUR: Seventy percent of the increase, at least for his figures came from, are garments?

HOPE: Plywood and other wooden products.

KAPUR: And I guess leather.

HOPE: Yeah, leather goods, too. Footware is going up like crazy. [all speaking at once]

WEBB: He was excluding wood products.

HOPE: No, that's the point. Wood's done very well, but...
LEWIS: Yeah, yeah, yeah, that's right.

HOPE: But for the moment it's a little too small to carry the economy on its back. When you get a little change in structure and manufacturing exports are a larger share and manufacturing is a larger share of GDP, then if they can grow, you know, even half those rates it will be a miracle story. It will be another Korea or even perhaps Thailand over the last few years.

But Joe is optimistic about this, I know. He's said this a couple times. Are you as optimistic as Joe Stern?

HARRISON: I don't see those kind of growth rates as staying on. In the past--I actually don't see them in—I don't see them going on in the future; I don't actually see them in the past, either. I have to look at the—I don't know what particular aggregation...

HOPE: Joe is taking a very low base.

HARRISON: Last year the performance was very disappointing, and the month-to-month change, they've been stagnant for about eight or nine months until around June, I guess, they've started ticking up again. So now they're beginning to look a little bit better.

But the thing I would worry about—Indonesia, I guess, has one of the greatest variety of exports of any country. It's a fairly significant exporter of a lot of different commodities. That's on the commodity side. On the manufacturing side it's got a fair range of things and...

HOPE: It's got a bit of chemicals, metals.

HARRISON: ...it's got a tiny of market share in a lot of them, except plywood, you know. I think even garments are just plain [inaudible]

HOPE: Footwear they're going up fast. Shrimps are going up fast, processed shrimp. But they're still small. I mean, that's where I think Joe's optimism is, there's a justification for it. Except in textiles and perhaps footwear they can expect to be able to increase a long time before they really significantly threaten anybody's market shares.

HARRISON: Because I mean they will have to get into market shares. It looks—I mean, I don't know what your reading is of the growth prospects for world trade, but what I hear from the U.S. is...

KAPUR: Well, I mean, it's sort of interesting that—pick up any serious piece, you know--and now I've gone through I don't know how many--but the last few years, everyone is, you know, every division sees spectacular growth prospects for garment
exports, and I, you know--and with the MFN *most favored nation* starting to bite
and with the prospects, you know, I can't see everyone...

HOPE: We don't. We don't. I mean, our real export growth in the CSP was coming
down, I mean, it's down to, what, six percent real in the last half of the '90s? Non-oil
was eight, and the total was about six percent real or something. I mean, we haven't
assumed that they're going to do a bomb in garments. In fact, I think what we'd be
more hopeful about is engineering and chemicals—not petrochemicals necessarily,
but...

KAPUR: Electronics?

HOPE: Yeah, consumer electronics. Some export...

HARRISON: I don't know how much of that is net. Footwear and garments are sort
of re-exported, too, because a lot of it is really manufactured elsewhere, Korea and
Taiwan.

HOPE: I mean, it is Korean and Taiwanese investment that's driving that, and it's
huge. I mean, their footwear increase is just astronomical.

HARRISON: It's fantastic.

LEWIS: Let me break in and talk a little bit about education. What do you make of
the education, the Bank's role in education? Is it on track? How does—and I guess
I'm particularly interested in—I know that the emphasis is on primary education, but
what do you think about the role of advanced education, the university, et cetera,
and...

HARRISON: Well, actually it's interesting. I mean, one of the implied criticisms of
OED of the Bank is that we have not directly assisted primary education in Indonesia,
which is a contrast with the sort of the general Bank sort of philosophy on the highest
rate of return and so forth. I think—I mean, the argument was that in the Indonesian
context there were good reasons for us not to do that. We fundamentally agreed with
the emphasis that the Indonesian government gave to expanding as rapidly as possible
toward universal primary education. It wasn't necessarily the Bank's comparative
advantage to put our resources into that, particularly because it's further complicated
here by the fact that primary education is largely run by the ministry of the interior,
and there were all kinds of political problems connected with the Bank directly
getting involved in it. So our focus was on providing the basic sort of support
services, teacher training, textbooks, those kinds of things, but otherwise to focus on
the other levels of education where there is a higher foreign exchange content for one
thing and where there are also fairly urgent needs at the same time, so that our
emphasis tends to be more in the sort of secondary and higher levels of education, but
not because we didn't think primary education was important but simply because in
terms of our comparative advantage. So I think that is one thing.

I think the—you know, what I think everybody has commented favorably on in
Indonesia is the fact that—again talking about low base, they started from an
extremely low base in education. I mean, basically when they became independent

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they had no education system to speak of, so there was this enormous push to basically establish the system and expand access, and they had to do this at all levels of the system at the same time. I think, you know, the issues now are again talking about, going back to what we said earlier, of course they're becoming again much more complicated, and quantitative achievements are there, but that's no longer the main issue.

But I think we, you know, indirectly we play an important role particularly in getting the sort of middle-level and higher-level skills in place, establishing a polytechnic system and a large part of the higher education system, teacher training, training technician-level people in agriculture, this kind of thing. That was very much the early emphasis.

LEWIS: They're getting geared up—maybe they already are—for, do really good advanced post-graduate education?

HARRISON: Post-graduate education here is still very limited, I mean very weak, I would say.

And it's interesting. Of course, one of the consequences of the sort of reaction to the Sukarno period was a rather negative view about sending people abroad for post-graduate education. And I would say with hindsight that that was an area where the Indonesians probably made a mistake in terms of clamping down too vigorously on sending people abroad for the kind of higher-level skills that they couldn't provide for locally until about five years ago when the policy sort of shifted. They are much more open now to sort of technology transfer, to sending people abroad for post-graduate degree programs.

But the university system here, I would say, is still weak. It's very weak on the quality side, especially at the post-graduate level.

LEWIS: Devesh and I were in Thailand for a month in '87; I got a very quick look at things, and I got the impression there that the university was really a college kind of education. There was very little beyond that. And that—there were a few exceptions: Thammasat did some decent economics. But mostly it was fairly sort of recent, the end of the four-year college, of three or four year college, and that was partly because secondary schools tend to be quite thin and fairly weak. There was almost a funnel effect, a constraint on—bottleneck, I'm trying to say. I should think a system like this would need to be developing a good deal of sophistication at the post-graduate level, research, R&D [research and development] kind of stuff.

HARRISON: I think the thing that worries me now is that the role of the private sector in, particularly higher education although also in secondary education, it's a strength in one sense, but it's also a weakness—we were talking about this earlier—because the government doesn't really have any kind of accreditation system in place, and, you know, higher education enrollment now, of the total enrollment, something close to 80 percent is provided by private institutions.

LEWIS: There's no quality control on those?
HARRISON: Virtually none, yeah.

The other thing that worries me is how long can you continue to build an education system on the back of sort of basically a part-time labor force. I mean, one of the issues we haven't talked about—this goes back to the institution development question—is the whole question of this in-service character of the civil service here and the fact that civil service in general, but this includes, of course, teachers at all levels, is essentially paid less than the minimum wage. And so in order to deal with that situation people have to work at their primary occupation on a part-time basis. The reason that you have a very large private sector in education in Indonesia is in fact because this is a vehicle for people to supplement their income. And the reason that you have very large private contributions to education is because this is the way in fact to supplement very low teacher salaries.

LEWIS: This brings us back to the question, I think, of the Bank and the interface with government. You people have been tremendously effective in dealing with economic ministries where you have the coordinating, but what you’re talking about is in a different sector, isn’t it? And what sort of interface do you have with them? Is it more difficult?

HOPE: I’d say absolutely yes.

HARRISON: Yeah.

SABETI: Yeah.

HOPE: Absolutely yes. We don’t see them as frequently. We don’t have anything like the same degree of contact or rapport, we don’t think they have the same confidence in us that the central economics ministries do. I mean, this is really Clifford [Gilpin]. I mean, when I was a division chief in Washington, I tried to see Ginandjar [Kartasasmita] and Hartarto [Sastrosenoart], the energy and industry ministers—now they’re older—because they were my counterparts, but I didn’t feel we had a dialogue with them at all. Now, since I’ve been down here I feel with Ginandjar we’re not doing so badly. With Hartarto, he could care less about the thing. The industry ministry’s reaction is we’re too slow, too bureaucratic, and we’re irrelevant to what he wants to do.

HARRISON: We don’t have the same continuity. I mean, again, going back to your other point, I mean in the sectoral ministries the personnel change frequently.

HOPE: That’s quite right.

HARRISON: I mean, I think one of the reasons—if we feel the Bank has been effective in Indonesia, I think one of the reasons is because on the economic side the key decision makers have been there all along, and they understand basically how to use us.

HOPE: Absolutely.

HARRISON: I think that’s one of the things that’s special about...

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HOPE: We were saying earlier about Saleh Afiff, Ali was saying that when we go into a meeting with Saleh Afiff, it's the Bank on one side and there's the government on the other, and he knows more about the way the Bank works than anybody on either side of the table! He's been working with us since 1968. He was negotiating loans when we were still in short pants! And he's sat there, unchanging, ever since! He knows how to use the Bank, the same way Widjojo knows how to use us to provide key inputs into the decision-making process. If he feels the need to push on an area—we don't always deliver what he wants. Occasionally we give him a piece of paper, and it vanishes. We never hear of it. Occasionally we give him a piece and it triggers something, and then something moves. He'll then say, "Thank you very much for that piece." But if it's a bad piece, they never say, "That wasn't very helpful." It just vanishes.

SABETI: It goes in the drawer.

HARRISON: As far as education goes, though, the other thing about Widjojo and [Johannes B.] Sumarlin and Saleh Afiff is they personally also care very much about education and that has been helpful in terms of—it's not every country where you get that kind of support from the economics side.

LEWIS: Now, he's going to be head of the National Academy of Sciences, is he?

HARRISON: Yeah, I just saw your note, actually.

LEWIS: That suggests a kind of linkage backwards that...

HOPE: Well, we were speculating. Someone of the guys asked me when this was announced, "Is this a way of ensuring that Minister [Bachruddin J.] Habibie...

HARRISON: Yeah, what does this mean for Habibie?

HOPE: ...doesn't get his hands on this Academy of Sciences thing?" And I said as far as I could see they were just putting together a group of eminent Indonesians, and they picked their most eminent man to head it. But when we talked to Widjojo himself, he'd said basically that he tried to avoid the honor and found he couldn't. Now, that may well mean that some of his colleagues had said, "You better get in there and make sure that it's not the technology minister who's heading it up," because Habibie is immensely ambitious but he doesn't have much notion of economic cost. He would like to have Indonesia at the forefront of every technological area he could find, and cost is a sort of secondary consideration.

KAPUR: Has the Bank been sort of involved in institution-building of the sort of, you know, civil service reform, legal institutions? It started to talk about this in a lot of places, but has it had a dialogue? I mean, these are—of course you don't really lend for that—I mean started to even lend for that in other places.

SABETI: Which one? Legal?
KAPUR: I think, you know legal institutions. There was a paper, I guess the first one I've seen in the Bank on legal institutions, that was done in Tunisia.

SABETI: Just recently.

KAPUR: Right. But that was the first one.

HARRISON: The first effort in this area as far as I know was the '85 Nagy Hanna report on public administration, which was initiated during Russ Cheetham's first watch, as I understand it was initially a response to some kind of request from the government, but when the report came out, well, part of the problem was on the Bank's side that several of the actors had changed, Cheetham was gone and so forth, but also, of course, it got into very politically sensitive areas, and...

HOPE: And it came just at the time they are going into crisis when the economy turned. I think they got deflected from it.

LEWIS: From public administration?

ALL: Yeah.

HOPE: I mean, we've done a...

KAPUR: Sort of civil service based games.

HOPE: We've done--there's a lot of this work, I think, that's sort of--I mean, this first environment study here was an interesting piece of work. The first poverty study was an interesting piece of work, but you see these things periodically come along. But we did this corporate legal framework piece, and it was an area where the Bank would have been prepared to do an operation. The government didn't want an operation, but they did use some Bank money and then subsequently a lot of AID money to put together a team in Ekuin [Coordinating Minister for Economic, Financial and Industrial Affairs] but using the ministry of justice and pulling a group together. And we went and discussed this, Jim and I, were there with--were you there, too, Ali, in that meeting?

SABETI: Oh, yeah, yeah. I was in that group.

HOPE: With Radius [Prawiro] and the woman...

SABETI: Yeah, yeah.

HOPE: So we agreed how they were going to handle this. We helped them fund a seminar, and they got everyone together, and they produced some material for the seminar, and they got it together. They decided, based on the report, that they wanted to do—at first they were going to do commercial law, then they were going to do law of contracts, then they were going to do the arbitration system because they want to bypass their legal system. But there's a lot of work now to try and give them the sort of legal underpinning for a modern industrial society. They've got a long way to go.
This year we've done a piece, a land study. I mean, one of the real problems here is, relates to the way in which land is owned, transferred and purchased. There's no real land market. And I mean the report that's being written this year is not a bad report, but again it's in a very sensitive area, but it's a critical area if the country's going to develop rapidly.

LEWIS: Who writes this stuff in the Bank? Economists or...

SABETI: They're all mixed. [all speaking at once]

LEWIS: Lawyers?

HOPE: We had a team including lawyers on the legal study. On the land study it was mainly economists and...

LEWIS: No lawyers?

SABETI: We had [Ernst] Hoffman and [Carlos R.] Escudero.

KAPUR: For the legal study I know the legal counsel of the Bank was outraged. There was a note.

SABETI: Yeah, but the legal study, units review it. As a matter of fact, Andy [Andrew N.J] Vorkink was here himself.

KAPUR: That was from the legal department.

HOPE: Yes, Andy and David Mead worked on it. [all speaking at once]

HARRISON: David is part of our [inaudible] program.
HOPE: But these are the really—PLN [*Perusahaan Umum Listrik Negara, National Electric Power Company*] is having a good notch on your institution. [Laughter]

HARRISON: We did some work on that one!

HOPE: That was an interesting study. I mean, one of the highest-powered missions that ever came down to look at PLN, and it was called--what was it?—"Power Institutional Review." And they came down, and the government at that point was thinking about splitting PLN by geographic regions.

And rather surprisingly this group—we got the fellow who is head of Electricite de France [*Jean Guilhamon*]. We got the guy who used to head the Metropolitan Generating Board in England [*Glyn England*]. We got some old fellow from the Tennessee Valley Authority who was the chief legal counsel for TVA and still on the board [*Joseph Swindler*], and then we couldn't get the guy from Taiwan [*David Chu*]. We got some fellow who's head of one of the Indian utilities [*N. B. Prasad*]. Very, very senior people.

They came and had a look, and their recommendation was quite interesting. They said, "Don't split in the short term. You don't have enough talent to split geographically, and you've got all sorts of other problems. But do the following sorts of things: reorganize the utility around certain functions, so begin to split the generating function away from the transmission distribution function; improve corporate management; and then, of course, in terms of regulation get away from micromanagement," because what they have here, as in many countries, they've got a central group that micromanages PLN. If a budget expense deviates more than ten percent plus or minus from what's been allocated in something like 200 areas, a full report has to be prepared and sent to the board of regulators to explain why this has occurred. And what these guys came up with, say, is one main indicator. Because they can't manipulate the tariff, you can't use profitability, so they said that they should focus entirely on one indicator, which was cost per kilowatt hour sold. That was what they would focus on, and they would minimize cost per kilowatt hour sold, and that was to be the operative function, and that you would tell the board that's what you do.

Now, there are other things they had to bring in because they've got a social obligation, rural electrification, and off Java, et cetera. But there are only three or four other things, and they're saying give them a very much reduced menu of objectives and then let them get on with it, free them up. The regulators take an arm's-length view, and you manage the board. You don't micromanage the objectives. Now, that we haven't got them to do, but we're working on that.

But I mean on that sort of institutional framework, I mean, there has been quite substantial change. We pushed hard. They've made the railways a commercial company. They've made the telecommunications company which was initially a department, then a sort of a...

SABETI: The ports.
HOPE: The ports have become commercialized. Telecom just went commercial this year. There are various levels of corporatization of the enterprises in Indonesia. and we've now got them to the sort of limited liability company stage. PGN [Perusahaan Gas Negara], the gas company, which was just pitiful, we've been working with. There they've improved dramatically in the past three or four years. So there's been a lot of institutional change at the individual company level.

I'd say that in the regulatory area, including supervision of the central bank, that's an area where they are exceedingly weak still, and you know you just have to...

WEBB: You've got to work, catch up fast there now. They're opening up.

HOPE: That's right. Well, they've got real trouble there, Richard. I mean, they just haven't got enough people. They need hundreds of bank examiners of high quality, and they've got bean-counters over there—I mean, they've got guys that can tick the boxes.

HARRISON: But how can they keep those people, anyway? I mean, they can all go to the private sector, isn't that...

HOPE: That's the trouble.

HARRISON: That's the trouble. This comes back to your central bank service problem. [all speaking at once]

HOPE: BOI [Bank of Indonesia] pays a little better than that, yeah.

KAPUR: Well, they're didn't manage it in the U.S., so there's no reason why they should manage it here. [both speaking at once]

HARRISON: [inaudible] able to do better here.

HOPE: But no, I mean it's been a fairly imaginative set of initiatives, I think, on the sector work side. I mean, going back even before the Choksi paper, they've written a lot of interesting stuff in Indonesia. This public administration paper that Clifford reports, the urban study that started off this notion in integrated urban development around a decentralization objective which is probably ahead of its time—we went too far too fast. The work that's being done under some of the projects on transportation I think is very interesting.

SABETI: As a matter of fact, it was under the--a study was done, Bank-financed, famous study called MSDP, Maritime Sector Development Project, and the first...

HOPE: Yeah, they deregulated [both speaking at once]

SABETI: . . . deregulation started in Indonesia really with this port deregulation, and that's when the famous INPRES 4 [Presidential Instruction No. 4] that got rid of customs and brought SGS [Societe Generale de Surveillance] [both speaking at once]
HOPE: Right this was...

SABETI: Yeah.

HOPE: That was extraordinary. In fact we're very worried now about where it goes through the last process.

SABETI: And that was under the Bank's national portfolio...

WEBB: That happened in Peru. They came in and then they were kicked out. [both speaking at once]

SABETI: And that was under the Bank's financed...

LEWIS: The company you had was...

SABETI: SGS.

HOPE: SGS, a Swiss company.

WEBB: That was the same company, same company. They generate terrific—you can imagine—enemies. They really work hard in persuading. Terrific lobbies against them.

HOPE: Well, we've had that here. I mean, we've had a couple of things here. We've also have—on Friday we learned that the guy that was heading up the [inaudible] of the duty draw-back program for exports got the sack. He was about as clean as you can be in the Indonesian context. He's going to be replaced by somebody who, they say, has already decided on how to reapporition the rents that they intend to obtain from exporting companies for these privileges of getting their imports duty free. So I mean we may start running into very severe difficulties.

LEWIS: Has this sort of thing started to increase? Has the corruption been increasing?

HOPE: This was an area that was totally corrupt, and SGS came in and cleaned it out.

LEWIS: Okay.

HOPE: Now they're still in there but with a company, a local company, that is allowed to interfere with the shipments from abroad and is allowed to— they're allowed to examine exports to see that where the exemptions were granted to exporters to bring in imports duty free and then re-export as part of the final product, that that's in fact what's going out. So they're starting to hold things up, and payments are being made to get these things out of the country. And I mean we're back to the bad old days. In fact, this is the sort of thing where the Bank will quite soon call up Sumarlin and Widjojo and say, "Listen, we're starting to get quite concerned about what we hear about these things. What do you hear?"

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KAPUR: Was it--a similar approach is being probably tried out in the forestry sector, in logging, but with sort of mixed...

HOPE: You've been reading a newspaper. [several speaking at once] We have--in another one of our projects we do have a contract which is to provide an external supervisory capacity for the management of concessions, so they'll have a company that will go around and take a look at things. There were two major bidders for this. One was SGS with a local partner and the other one was a Canadian firm with a local partner, both quite good proposals, and the Canadian firm won.

KAPUR: But I thought the Canadian firm has a--isn't the local counterpart a member of a family...

HOPE: Yeah.

KAPUR: ...which itself has a lot of logging concessions?

HOPE: Yeah. There is a--you said you've been reading; you've been doing a good job. There's a possibility of conflict of interest, yes. But of course that does not really exist in the Indonesian context. There really is no concept of conflict of interest in Indonesia. You've got to learn that quite quickly. I mean, it's--a minister here can sit on the board of 20 companies and be paid $10,000 a year or whatever it is, and there's no, there's absolutely no sense of conflict of interest.

SABETI: They say this is the most privatized civil service in the world.

HOPE: Everybody owns the ministers, that's right.

Well, we had a good example when they did the telecommunications. First of all--and this is quite typically Indonesian--they had this problem between AT&T and NEC on the bid, and they couldn't decide which way to go. [George H.W.] Bush called the president to say that he thought AT&T should win the contract. And then Clio [phonetic] came down, and NEC had the Japanese saying, "You know, we're giving a few bucks through the IGGI framework. I think we're up to about 1.2 billion. You know, shouldn't we be getting a few rewards for this?" And so they didn't know what to do! So they tendered for 360,000 switches, and they come up with a Solomonic decision: they both won! [laughter] They doubled the contract, and they gave 360,000 to each.

LEWIS: That's lots of switches!

HOPE: But the interesting thing is that the AT&T contractors were with a group called Elektrindo, which is the family firm, that's Bimantara.

KAPUR: Right.

HOPE: But when NEC came in, they had to put another firm together. Just coincidentally that was put together with the president's daughter has that firm. But the extraordinary thing is that the guy who announced the contracts was the technology minister, Minister Habibie. The president's daughter's company is

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managed by his brother, and yet, I mean that sort of thing can be stated here with no problem whatsoever. I mean, in the early tender when the Bimantara proposal was with AT&T for the switches and they won—or they were going to win, and then they had this question of pressure—but Habibie was quite [inaudible]. One of the newspapers quoted Habibie from a press conference, and it said that they had this press conference and somebody said to him that, you know, Elektrindo was associated with Bimantara, and he said, "Oh, really? I didn't know that." And the newspaper leapt to the bottom and it said, "Does this mean that he wouldn't have given the contract if he had realized?" [Laughter]

But I mean in that sense, you know, conflict of interest is unknown. [all speaking at once] But people really don't see it that way.

KAPUR: None of these were Bank-financed contracts?

HOPE: Not these, no. No, I mean the one we do have with them, the Canadian group is one that the family firm is in—we will be procuring, as it turns out, switches from these assemblers under our projects.

LEWIS: I think what I was really fumbling to ask five minutes ago is whether there's a trend, upward trend, of this kind of thing because, I suppose, the children are ageing.

HOPE: There are more of them, and there are grandchildren.

LEWIS: Well, yes, but, I mean they're—I suppose they're getting hungrier, as they get—more ambitious as they get...

SABETI: No, I have my own view. You see, this has been there all the time. I mean, talking about...

HOPE: [both speaking at once] opportunities that maybe...

SABETI: And you're getting into areas of major infrastructure, and in major infrastructure you cannot deal with your ma and pa store or company. You're going to have to bring in big houses. There are only big houses that can arrange this kind of huge projects. Well, who are the big ones, okay? There are just a handful. A few of them happen to be very closely related to the president. So you cannot go and raise a billion and a half in the U.S. for a telecommunications project or in Japan and expect them to deal with a whole bunch of unknown people in Indonesia as a joint venture. They will not even consider it. But you go and you take Bimantara, Nusantara, Liem Sioe Lionig, yeah, then they can.

HOPE: This is one of the problems with this. I mean, this is one of the things that's been argued about the deregulation, that it creates concentration in the hands of the major groups. What Ali said is clearly the case, I mean you've got to have somebody who's credible to put together these sorts of financing packages.

KAPUR: [inaudible] always much more difficult...
HOPE: Well, it's not just that, but they have got—they are big companies now. I mean they've been built up, but they're large companies. I mean, the Bob [Mohamad] Hasans and the Liem Soe Liongs and the Prajogo Pangestus. I mean, Prajogo Pangestu has never done anything in petrochemicals in his life, but he set up this Chandra Asri project for 2.1 billion. There was never really much question about him being out of port for years. Now, you could go out in the street and find some fellow doing very well in his little local automobile assembly plant and say could he put the money together, and the answer is no, he can't. And it is a problem because, as Ali said, we are hard pushed. We don't like it, but we are very hard pushed to suggest an alternative that you could bring in and say, "Use such and such a company." The only way you can do it is through foreigners.

HARRISON: There's a distinction between concentration and corruption, I think. I mean, Ali's argument is really one of, you know, these are the ones that are best able to do it, and, you know, they will win a lot of—if you have a deregulation policy, there should be ways to bring in enough competition to make that a relatively clean deal, and I think that's the underlying strategy behind the reform effort here. In the meantime there are going to be a lot of ugly things. [all speaking at once] But I think that—they've done away with the plastics monopoly. That was a family concern. They did away with the monopolies on edible oils in this last trade package...

HOPE: They almost got rid of [inaudible]

HARRISON: ...and they are always holding some things back. I mean, the clove thing, that's a bad deal.

HOPE: Yeah, that's right.

HARRISON: No doubt about it. But I mean, that's—the interesting thing: that's a bad deal; everybody knows it's bad. I mean, that's got so many critics of it—I mean, it's not going to survive. It's going to fall on its face. [both speaking at once] So I don't know if there's a trend. You know, I don't know if—I mean, I certainly don't see enough to—I mean, we're not in business...

HOPE: Jim's got it absolutely right. It is true that our strategy basically is to continue to deregulate. We don't care if the family builds olefins plants. We do care if they then get some ability to say, "Okay, we have the olefins plants. In order to ensure adequate return on our capital, we also need the monopoly on distribution of olefin. So then we set our price, and then we import it, we can import below; we distribute everything in the country." And that's the sort of thing that used to happen. If we can continue to put pressure—I mean, not—we can assist the government to establish the policy that says that olefins are freely imported and they can then be used in all downstream producers at international prices, we don't really care what they—ultimately there won't be any excess profits in that deal. And the fact that the family companies structured a deal in which they took all their equity out in the first three weeks—they didn't put up any money. I mean, they basically just said, "Well, we've got 20 percent of this, and you guys raise enough funding so you can give us the notional 400 million dollars"—or whatever that 20 percent is thought to be worth in discounted present-day terms—"and we take that out, and you guys put the money, build the plant, you run it." And I mean some people would argue that they are
effectively taking all of the rents away from the foreign investors and making sure that it comes into certain Indonesian hands. It's an interesting way of doing business, but it's...

HARRISON: That sort of thing's going to guarantee a high cost [all speaking at once] It guarantees a high cost of [inaudible] and that's [all speaking at once].

KAPUR: Because it's going to be reflected somewhere...

HOPE: No, it's there. In fact, it's there in the old CRMI [Cold Rolling Mill Indonesia], the cold rolling mill which they've had to recapitalize. It could be there in some of these large projects that the government's deferred. It's certainly there in some of the ones that are going ahead where they are more costly than they need to be because the family groups have taken the money out.

LEWIS: They do that more easily in a non-trade agreement.

HOPE: Much more easily [inaudible] That's why we like exportables because you just can't fake it so much. I mean, you can still subsidize, and they were doing it for a while with credit, though, having very, very attractive terms on export credit. So you get six months' export financing at 12 percent in a 22 percent market. I don't know what they used the money for, but it's a good deal.

HARRISON: How much do we know about capital flows out of the country?

HOPE: None.

KAPUR: Very low?

SABETI: Very low.

KAPUR: There's no capital flight?

SABETI: No.

HOPE: We have almost no capital flight at all. We had this interesting thing earlier this year when they announced that there was 26 billion being held abroad by Indonesian investors in, essentially in Singapore. What was it called? Asian something...

SABETI: Asian dollars or something.

HOPE: Yeah, something Asian.

LEWIS: Not BCCI [Bank of Credit and Commerce International]?

HOPE: No, no. I mean, they said, "What do you think of this?" I said, "If it's true, it's fantastic. It's nice to think they've got all these assets to set against their liabilities. They would instantly be much more creditworthy." [laughter] But I've got no notion of where that money is and where it came from.
HARRISON: What exactly, what aspect of capital flight do you mean? It's normal capital accounts that people want to bring it out and they've been building net foreign assets for a while.

KAPUR: So in the sense that much of the rents, are they reinvested within the country or...

HARRISON: Yes. My impression is they are. A lot of it is. [all speaking at once]

SABETI: If you're talking about an Iran situation, no, it's nowhere near. [all speaking at once] Capital flight is nowhere--probably one of the lowest in the world.

HARRISON: A lot of the money that isn't [inaudible]

SABETI: But that's okay.

LEWIS: Let me ask a tourist question. Who owns all these high-rise banks and so on, the construction?

HOPE: Who runs the buildings?

LEWIS: Who owns them?

HOPE: The banks.

LEWIS: The banks own them?

HOPE: Usually the pension funds of the banks. I mean, they put their money to work, and they buy pension funds. I mean, as they depreciate that goes back to the--you know, the BRI [Bank Rakyat Indonesia] two towers, they're built by BRI's pension fund.

LEWIS: There are a lot of foreign banks too, aren't there?

HOPE: Oh, yes. They buy property. It's the best investment you can make. I mean, the building's worth nothing, but the land they're sitting on is worth a bloody fortune!

SABETI: But even the ministry building and all the facilities--they even have shopping malls and so on--is owned by pension funds of the ministry.

WEBB: Is that right?

SABETI: Yeah. The Forestry's is magnificent. And then they rent out the auditorium for--what do you call it--for weddings. Every night the goddamned thing is booked for the whole evening. It's for the weddings because they have these huge, you know, 2000-guest weddings. So pension funds of the ministry with the Dharma Wanita here is--it's unbelievably, how shall I say, well organized, the civil service and everything.

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HARRISON: They have these interesting mechanisms here for flying money back through these foundations in the [inaudible] leads. It's sort of another interesting feature of Indonesia.

HOPE: I mean it's that good: recapitalized Bank Duta when they lost 490 million dollars in foreign exchange, the foundation put all that capital back within two days.

LEWIS: [inaudible] money.

HOPE: They've got these foundations, they're semi-charitable, but they're also used as fronts. A lot of ownership of ventures is through these things, and they're essentially tax free. They've got to do certain good works in order to qualify, but the president's sponsored quite a few of them, and Dharma Wanita is sort of the ladies of the government wives. They have several sorts of things, but there is one that--what was the president's one that--anyway, the one that put the money back into Bank Duta, they essentially own 60 percent of the bank, perhaps more. But when they lost all this money...

LEWIS: How did they lose it?

HOPE: Fraud, I mean, foreign exchange transactions. I mean, there's all sorts of funny stories that emerge on this. This is all scurrilous gossip, but I mean one argument, one thing says that this fellow that was taking this foreign exchange position--undoubtedly for himself, but that he also did it for some other well-connected people--and when the money was lost in the sense the dollar continued to depreciate and didn't rebound, they simply refused to pay. So then he was out a large amount of money, and he kept chasing it by trying then to keep taking positions, waiting for the dollar to go the other way so he could get his money back. When it finally came out that he'd lost 400 million, a couple of big local people came in and contributed the money. Now the trouble with that, of course, is that that sort of loyalty has to be rewarded, and discount rates from the Bank of Indonesia can be a reward, and access to the forestry fund can be a reward and large projects get the go-ahead in certain choice areas, that can be a reward.

HARRISON: The guy engaged in the fraud is now in jail.

HOPE: He was a decent joe, wasn't he?

HARRISON: Yes.

HOPE: He's the guy they caught, anyway.

SABETI: Volunteering to take the fall.

LEWIS: Well, this has been great. See you within twelve hours, I guess.

HOPE: See you tomorrow morning. Let us know what we need.

[End Tape 1, Side B]
[End of interview]

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