

**WORLD BANK HISTORY PROJECT**

**Brookings Institution**

**Transcript of interview with**

**KEMAL SIBER**

**Date: November 25, 1991  
Jakarta, Indonesia**

**Interview by: John Lewis, Richard Webb, 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.

*Kemal Siber*  
*November 25, 1991 - Verbatim*

*[Begin Tape 1, Side A]*<sup>1</sup>

**SIBER:** In Jakarta I started in 1966 as the Resident Representative of the IMF [*International Monetary Fund*]. My involvement here is an interesting story: you may not be particularly interested about when the IMF came here.

Nobody knew when Suharto came into power in 1965 what was going to happen to Indonesia. In fact, Indonesia is one of the rare countries that resigned from United Nations, World Bank and IMF during Sukarno regime. So everybody was very skeptical about Indonesia as late as '66. Can you imagine a country resigns from the IMF, IBRD [*International Bank for Reconstruction and Development*]?

It is interesting that the way of handling of the government of Suharto, a young general, was different than the past. In the external policies, he wanted to stop confrontation with Malaysia. He wanted peace; however, his major concern was to improve the economy, to solve the external political problems and to concentrate on economy. This was important because he was the one who wanted to open Indonesia to outside world, to improve international relations and to rejoin the World Bank and IMF, but the outside world was not aware of it.

It was a coincidence that the international institutions get involved with Indonesia at an early stage. Tun Thin, the Deputy Director of the Asian Department of the IMF, was the head of the planning in Burma earlier and came to Bandung for a conference during Sukarno's time.

**LEWIS:** The great Bandung conference?

**SIBER:** Not that one. [both speaking at once] Not Non-Aligned, but it was an economic conference. There he met Professor Widjojo [*Nitiasastro*].

**LEWIS:** Oh, I see.

**SIBER:** It was good that Tun Thin knew Widjojo before Suharto came into power. As soon as Suharto came, he made a very important decision; namely, to form a technocrat team headed by Widjojo.

**LEWIS:** That was his own decision? I mean, Tun Thin didn't affect that?

**SIBER:** No, no. The role of Tun Thin was improving relations with the IMF.

**LEWIS:** Okay, I get you.

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

**SIBER:** There are two stories how Suharto chose Widjojo. Both may be correct. One is Adam Malik, the former foreign minister, recommended him to Suharto. The second is Suharto already knew Widjojo because of his lectures in the military academy.

**LEWIS:** I see.

**SIBER:** So he was impressed with him.

I may indicate that the same thing happened for [*Turgut*] Ozal, Turkish President. The Turkish President was the secretary of planning. He was lecturing in the military academy, and when the military came in 1981, choose him as deputy prime minister in charge of economic affairs.

So Widjojo headed the team, and it was not much publicized.

There was an early conference, the first international conference on Indonesia, in mid-'66 in Tokyo. This was about the Indonesian debt. During that conference Widjojo made a presentation which impressed Tun Thin very much, and he inquired about what was happening in Indonesia. He found out that the team was trying to prepare a stabilization program to put the house in order and so on. So Tun Thin took the initiative of recommending IMF to get involved with Indonesia. The World Bank was indifferent at that time, was not in the picture. It was a risk in a way to get involved with Indonesia, but Tun Thin, despite the objections of his colleagues in the IMF, claimed that, "We have to help Indonesia. This is an Asian country, poor country. Maybe this time they will do serious things, and we can be helpful." Knowing Widjojo influenced his decision.

He approached to me--I was a new official in IMF--said, "We want to open an office in Indonesia? Are you prepared to go?" It was very strange because Indonesia was not yet a member of the IMF.

**LEWIS:** I was going to say, they had not yet entered.

**SIBER:** Not yet. They applied, but they were not yet a member officially of the IMF and the World Bank. So I came here as a representative when still legally Indonesia was not a member. The legal department of the IMF was not happy with this development, but we are economists and we may not wait on the completion of the legal requirements.

So Tun Thin wanted an early start and help Widjojo. I started working in Jakarta with Professor [*Mohammed*] Sadli, a senior member of the Widjojo team as from September 1966. So we get involved.

IMF involvement here opened the gates to the World Bank. Without our involvement it was not going to be a World Bank mission for a long time here.

The important event I will tell you is about [*Robert S.*] McNamara's visit--have you interviewed McNamara?

**LEWIS:** Oh, yes, indeed. We have his story of this.

**SIBER:** You have his story. I will tell you a story which you may need to ask reconfirmation from him because it is very vital in the history of the World Bank.

In 1968 there were not many international institutions here. There was no Bank. UNDP [*United Nations Development Program*] was a very small mission. AID [*U.S. Agency for International Development*] was a one-man operation, a man borrowed from the World Bank, Stokes Tolbert; his job was only to follow up what IMF was doing and report to headquarters. And I was running the largest operation here; it was the largest operation of IMF in the field in the history of IMF; there were seven or eight IMF officials in Jakarta.

**LEWIS:** Oh, my.

**SIBER:** This never happened in any other country. This happened only in Indonesia, thanks to Tun Thin's involvement. And we took it very seriously from the very beginning. I was given instructions to judge whether I want to stay or go back. Tun Thin told me, "Take your wife and one suitcase, and you decide whether you want to stay or come back." At that time there were no faxes, nothing to get instructions from headquarters, so I was given full autonomy to operate.

It is important that Widjojo and the team were very cooperative and took decisions in such areas that politically were very difficult in any country. In February 10, 1967, which is my birthday--and I remember the day--Suharto followed my and Widjojo's recommendations to increase oil prices dramatically, 400 percent. We started the stabilization program from cutting the subsidies in order to improve the government budget.

**LEWIS:** Oil prices?

**SIBER:** Domestic oil prices. They were very heavily subsidized. I had known from my experience in the Philippines that this is a big issue. It took me several months to convince [*Ferdinand*] Marcos to increase ten, fifteen percent. Suharto decided to follow Widjojo's advice. And we started from cutting the subsidies, food subsidies, oil subsidies—politically it was very, very difficult decisions. Suharto agreed to cut the domestic petroleum price subsidies dramatically, including kerosene. In Asia it is the most sensitive item; it is more sensitive than rice! It was fantastic!

We came very early conclusion that Suharto is serious, follows the advice of technocrats, and we can stay here and help the technocrats to assist the preparation of the stabilization program.

I'm telling you this because our involvement here was an important factor for the Bank to decide to get involved here. You know, it was the Bob [*Robert F.*] Kennedy's death. What date is it? Is it '67?

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**LEWIS:** June of '68.

**SIBER:** '68. Okay. So it means that the World Bank came in '68. McNamara came to Indonesia after attending the funeral of Bob Kennedy. He brought along Bernie [*Bernard R.] Bell*.

**LEWIS:** He brought Bernie with him? I see.

**SIBER:** They came together. He chose already Bernie Bell to head the mission. The question was when. I mean, McNamara was already prepared to open an office here, but he was not certain whether the time was right for this. So he came immediately after Kennedy's funeral to review personally the economic developments in Indonesia.

In the United Nations protocol we (IMF and IBRD) consider the UNDP Resident Representatives above us. Ali Giritli was the UNDP Representative in Jakarta during McNamara's visit. He was senior, formerly a director, and later the Minister of Finance of Egypt. But here he was head of a small mission, financing some minor technical assistance programs.

The Indonesian authorities programmed two dinner parties for McNamara: one by Radius Prawiro, governor of the Central Bank, and another by Ali Giritli as the head of the UN family. Ali Giritli told me, "Kemal, my activities here are limited; better you give the dinner party."

I gave the party in my residence, invited only the UN family members (no Indonesians), namely Ali Giritli (his wife was out of the country), Gunnar Tomasson (assistant resident representative of the IMF) and his wife, Bernie Bell (he came to Jakarta alone) and of course Mr. and Mrs. McNamara.

The dinner was an opportunity for me to talk privately at length after the dinner. (My wife was entertaining the ladies in a separate room.)

McNamara asked me two sensitive questions to me: the first question was about the progress in the stabilization program. In this context he asked about the role of the IMF in general and my operations in particular. He openly and directly asked whether the Indonesians were accepting and benefiting from my advices. He also asked whether the President was supporting the technocrats, in particular Professor Widjojo.

I told McNamara my advices and recommendations on important policy issues were always welcomed. After discussions at length with Widjojo and the members of the team, they were generally agreed and presented by Widjojo to the President for his approval. All such proposals were approved by the President. I don't recall any incident that Widjojo was overruled.

In short, I told McNamara the stabilization program was progressing well. My work here could be completed in one or two years. Accordingly, I recommended him to open a resident mission in Jakarta as soon as possible. Indonesia was nearing to the development state. We should not worry about the progress in the stabilization program. He was pleased.

In fact, already budgets were under control. Deficits were substantially reduced. Only problem at that time was food shortages, not monetary or fiscal. The real interest rate, real exchange rate and open capital systems were already introduced.

**LEWIS:** The DAS [*Development Assistance Service*], I guess, they had people out here, didn't they?

**SIBER:** Who?

**LEWIS:** The Harvard Group?

**SIBER:** Okay. Harvard Group . . .

David [*Cole*] was the only one who was making a contribution at that time. He was working on real interest rates issue and advising the authorities on interest rate policies. He had a lot of experience from Korea. I was in Korea in 1966.

**LEWIS:** I was in Korea, too, in 1953.

**SIBER:** I joined the Fund in '65. Korea was a good example as far as interest rate policies are concerned. Widjojo always likes to give good examples to the President, showing that the good policies give good results. And David was the instrument.

**LEWIS:** Who did you say likes to use good . .

**SIBER:** Widjojo.

**LEWIS:** Oh, I see.

**SIBER:** I mean, Widjojo presented the cases to the President, giving the background and explaining the policies.

So the interest rate policies became a baby of David. We left him that area. Okay, you can hear from him his own experiences.

Now, what was the other question?

**LEWIS:** Well, you were—McNamara . .

**SIBER:** So, the first question, Fund's involvement and the success in the stabilization policies.

**LEWIS:** What was the second question, though?

**SIBER:** The second question he asked, "Is Widjojo going to stay?"

**LEWIS:** Ah!

**SIBER:** He wanted to make sure the technocrats will survive and the President will continue to listen to their advices.

I don't mind if you leave the recorder open because to me it was a very important question he asked. The stabilization program here, of course, the Fund was successful, but it was heavily dependent on the technocrats, number one, and the second, more important, the support of the President of the technocrats. Many people were challenging them.

There were two groups of people challenging technocrats. One group was colleagues from universities who were not in agreement with Widjojo's recommendations. They called them "IMF recipes." And the others, they were jealous, they were competing, and they wanted to be the group advising the economic policies. So there were rumors around. Even in *Time* magazine there were articles that Widjojo was going to be fired. So McNamara was right to ask the question.

**LEWIS:** These were jealous bureaucrats?

**SIBER:** Jealous academicians.

**LEWIS:** Academicians?

**SIBER:** The bureaucrats were also opposing but quietly not openly.

**LEWIS:** The university . .

**SIBER:** The university . .

**LEWIS:** Sounds like the same group, university people?

**SIBER:** University people; I don't remember their names. They were saying that there is stagnation in the economy, the tight monetary policies were wrong, free exchange rate system was wrong, there should be multiple exchange rates, there should be more credit to productive sectors. [all speaking at once]

**LEWIS:** Expansionist . .



**SIBER:** Expansionist policies, which were Widjojo's completely opposite policies.

And the second group of people: vested interests. In particular the military was not very happy because the more macro policies and decentralization and liberalization were reducing the power of the bureaucrats and military. So they didn't like liberalizations introduced by Widjojo's team. They didn't like removal of the controls. They wanted to keep their power for obvious reasons. So it was very important that the President did not listen to opposing views and listen to the technocrats, Widjojo.

I didn't bother about all this things happening, as an insider--because we were meeting day and night together with the team. I was a part of them. It was a different IMF operation. I was not an IMF watchdog; I was just their advisor and working together. I was confident that the President will continue to support them. I may add the President at that time invited me from time to time to report the developments to him.

So writing the history of World Bank here also is writing the history of Indonesia because this should be a model for the other countries. The President was very pleased with the performance of the Widjojo team. He was asking me how the technocrats were doing. I gave them full support, told him that policies were in the right direction, and he always was very pleased to see that his people were managing the economy properly. So it was obvious that he was supporting them.

**LEWIS:** How do you explain this loyalty to the Widjojo group?

**SIBER:** The President?

**WEBB:** John, I'm sorry, I'm going to have to leave . . .

**LEWIS:** Yeah, I guess you are. I just thought maybe this one question we could get . .

**WEBB:** Okay.

**LEWIS:** I wondered--this is terribly important, the President's firmness, loyalty to the Widjojo group, is because he himself somehow had a set of ideas in his head that were running in the same direction, he'd been sort of schooled in neoclassical monetarist kind of . . .

**SIBER:** There are two reasons. First, the President was briefed properly. He was not given only one recommendation, but other alternatives and let him to decide. For example, for 1970 devaluation, Bernie, head of the World Bank mission, was advising a lower devaluation (based on his experiences in India). The IMF mission that visited Jakarta for a new standby agreement was also in agreement on a lower devaluation. Widjojo presented the President both low and high devaluation rates, explained implications of both exchange rates. The President decided on a devaluation at high level. Also Widjojo--and I was in favor of a high devaluation-- did not mention to the

President the supporters of different alternatives. He briefed him on pros and cons of each alternative. This is how the President was schooled in economic policies.

My answer to McNamara was, “I can assure you that Widjojo and his team will survive another five years, if it is enough for you.” At that time I did not expect them to survive 25 years (1966-1991).

So he said to Bernie, “Bernie, you come better tomorrow and open the office. I cannot delay.” My inside information was that Bernie was advising another year, probably, to wait and see. McNamara said, “Immediately open the office. Don't waste time” because I recommended strongly, as IMF man, I was ready transfer my responsibilities to World Bank. It was my very frank view that they shouldn't waste time. Another year means another waste one year. McNamara immediately decided to open the office.

The second important factor, why the loyalty to the Widjojo team, was they proved themselves by performance that their policies were right. I mean, it is the performance. The economy of Indonesia—it is not the oil, it is not the foreign aid that we sometimes overemphasized--it is the Indonesian policies. You know, oil made Mexico and Nigeria to collapse. So it can hurt. What made Israel strong is because of the hardships. Sometimes plentiful things make the countries lazy. I agree that aid and oil played an important role in the economy and the history of Indonesia, but a more important factor is economic policy, and in this context the role of the IMF, the Bank and Widjojo and other Indonesian technocrats.

**LEWIS:** Terrific.

[pause for instructions for recorder and directions to another office for Richard Webb and Devesh Kapur, who left at this time]

**SIBER:** This is what I think. The World Bank involvement in Indonesia was worthwhile. I am not specialized in the field of the project implementation, but in macro fields, in the economic advice given by the mission, there is nothing that I disagree. I can tell you frankly the World Bank mission is doing an extremely good job. I'm an outsider; I'm not a World Bank official, but have the responsibility of recommending McNamara to open the office as soon as possible, and I'm very happy that it worked very well.

During the 1986 oil crisis, Indonesia was in trouble, in a very serious danger. Widjojo (he was not in the cabinet at the time but was influential similarly) introduced a program to combat the oil crisis. He got a lot of advice from the World Bank mission in Jakarta. The program saved the country from an economic crisis. Otherwise it could have been like Nigeria. As you know, Mexico also did not manage the oil crisis well. [Russell J.] Cheetham played an important role, giving advices and supporting the program.

**LEWIS:** Russ Cheetham.

**SIBER:** He's a good friend of mine and a very able man. He was World Bank representative here. He advised them to review the government projects, and they canceled a lot of projects which helped the country to solve the debt problem. This year the situation is not that serious. In fact, this year I slightly differ from the Bank about the seriousness of the problems. I think they are overstating the problems. Attila [Karaosmanoglu] told me that somebody told President Suharto that, "You will be like Mexico if you continue like this. You have to find a solution." Of course, it's a good idea to review the private sector projects, and now they are reviewing the private sector projects. This is like in '86. In '86 the public sector projects were canceled and postponed. In '91 they're reviewing the private sector projects because private sector borrowed heavily.

**LEWIS:** It's harder to cancel those, isn't it?

**SIBER:** It's very hard. I have mixed feelings. If you close this again I can tell you my feelings.

[off-the-record comments]

**LEWIS:** What you've just said feeds right into it. This is the first debt exercise that I think you were very much involved in.

**SIBER:** Debt exercise of . .

**LEWIS:** . . of Indonesia.

**SIBER:** Okay. Debt exercise on Indonesia came late.

**LEWIS:** Late?

**SIBER:** Late, late.

**LEWIS:** No, no, but we've heard that there was an [Hermann J.] Abs exercise.

**SIBER:** Well, the Abs exercise came out after World Bank mission opened.

**LEWIS:** I see.

**SIBER:** The debt exercise started as a moratorium during the stabilization program. In '67 Indonesia announced a moratorium. The stabilization program was based on no payments. Otherwise, the whole debt services were going to take all budget revenues and foreign exchange earnings.

**LEWIS:** They joined the Fund when they had the moratorium on, huh?

**SIBER:** Oh, yes, they announced a moratorium, and we operated with the understanding that they would not pay their debts, and all the programs were based on that. The rescheduling, debt negotiations, were postponed. They started with the Paris Club meetings, but the solving of the debt problem and rescheduling was done later.

Abs came out in '68-'69. I am not sure whether it was '68 or '69. Abs's operation was a very unique operation. The World Bank and IMF organized a working team in Washington. Ali [Azizali] Mohammed, a director in the Fund and now alternate executive director of the Pakistan group, and a Dutch professor now in Rotterdam, an economist in the World Bank, two of them was working as a team preparing background for the debt negotiations. I didn't get involved with the debt rescheduling work at the headquarters. I was working on the stabilization program here. And the debt papers, including the recommendations, long-term projections, were prepared by this team. Walter Tim—have you heard of him--Waters Tim? Tim Walters? [both speaking at once]

**LEWIS:** Yeah, yeah, Wouter Tims, Dutchman.

**SIBER:** He was the one, Dutchman. He's the professor in Rotterdam or somewhere now.

But very interestingly, Abs disagreed and ignored all the papers prepared by the team. He said the debt rescheduling cannot be done like this. It should be done on more political terms, based on how much relief can be given, like [James A.III] Baker Plan. And he did a wonderful job of convincing, including Russians, that the debt should be renegotiated and rescheduled on a large amount of grant elements . .

**LEWIS:** Yes, larger grant . .

**SIBER:** Larger grant elements . .

**LEWIS:** Bad terms, I think.

**SIBER:** I think it was unprecedented.

**LEWIS:** It was very fortunate that there was no indebtedness to multilaterals like the Bank, at that time, right? Because the Bank could not reschedule, at least it is very, very difficult for them.

**SIBER:** Yes, the Bank knew that the debt was [both speaking at once] to bilateral, Russia and European countries, and the amount was not very big anyway. It was big for Indonesia.

**LEWIS:** It sounds as though that would have been an exercise on the whole would have been pretty satisfying to Indonesia. We've heard some kind of story that made it sound as though it was kind of a traumatic experience for them, particularly the person I think was quoted as saying he didn't want to write any more "Dear Mr. [Pierre-Paul] Schweitzer" letters. Does that mean anything--to the Managing Director of the Fund?

**SIBER:** What was that again?

**LEWIS:** We heard that the President--I think it was the President--remarked that he did not want to ever again have to write these "Dear Mr. Schweitzer" letters.

**SIBER:** Oh, to the Fund.

**LEWIS:** To the Fund, yeah.

**SIBER:** Well, this is in the context of the stabilization program.

**LEWIS:** This is the stabilization program.

**SIBER:** I'm not sure. I had not heard this, but it is definite that the debt problem and debt rescheduling, although it was on very, very soft terms, favorable terms for Indonesia, President Suharto get very annoyed with this debt burden taken over from the Sukarno regime. He never forget inflation. In '66 it was 650 percent.

**LEWIS:** 650 in '66.

**SIBER:** I noticed the annoyance of the President with debt and inflation early in 1967. Indonesians as a culture have long memories. They don't forget the problems. That is the reason that Widjojo is in a comfortable position because the President is very much ready to agree any unpopular anti-inflationary policies.

**LEWIS:** It's like the Germans, isn't it, after the Weimar Republic experience, that they always have been very stabilization-minded?

**SIBER:** Stabilization-minded. Suharto is very happy that inflation was reduced, and he is giving instructions now: "I don't want ten percent inflation; it's too high for this country. I want you to reduce this to five percent." This is his preoccupation.

And his second preoccupation is debt problem. He never wants another moratorium and another debt exercise. That is the reason that he is prepared to take any action to prevent a moratorium and debt rescheduling.

**LEWIS:** I see.

**SIBER:** That makes Widjojo successful, and comfortable because what he is advising is only on these two directions.

**LEWIS:** Sure, sure. Nice situation.

**SIBER:** Nice situation.

**LEWIS:** The currency never has been--this is the same unit of account that was, existed back in 1965, then. It hasn't been replaced. You haven't . .

**SIBER:** Oh, demonetization was done in early stages during Sukarno time several times, several zeros were thrown.

**LEWIS:** But not since Sukarno

**SIBER:** No. No.

**LEWIS:** So that's why it's 2000 to 1, something like that.

**SIBER:** It is not demonetized, and the devaluations take place in this country mainly when there are big oil price drops. This is something which they cannot control.

*[Interruption]*

**SIBER:** The Bank operations here with Indonesia do not always depend on conditionality issue. In many countries the Bank imposes conditionalities; supervise whether these conditionalities are observed or not. It becomes a condition of the loans. Here there was a unique case that conditions were introduced during the negotiations before the loan agreement was signed.

**LEWIS:** Yes.

**SIBER:** The first trade policy loan agreement with Indonesia--this is a story I heard from Karaosmanoglu, Attila himself, who presented the loan to the World Bank Board *[of Executive Directors]*--that all the conditions which were discussed with the Bank were already introduced before the loan agreement was signed. So Attila went to the Board without any conditions, one drawing, outright drawing, under the trade policy loan.

The Executive Directors, especially American Director, get very annoyed, said, "You are establishing a precedent which will be difficult in the future."

Attila's response to him was, "If every country is as cooperative as Indonesia and our conditions are already introduced, we'll do the same thing."

So it shows the close relations between the Bank and Indonesia. Really, everything was done jointly. When the policy was agreed, they did not wait for the loan or the money but they just implement policies. And this makes the operations very effective, and also it makes the World Bank position less cumbersome because there is no need to complain that the World Bank imposes conditions. So it is a good relationship.

**LEWIS:** Right, right. It's a very good relationship in that respect.

This difference of modality is something that I've been preoccupied with for years. I think it's a pity in a way that the Bank fell into--the Fund, your agency, invented sort of pre-conditionalities as normal *modus operandi*. And if one understands it, in a sense what the Fund is looking at is quite specific, and you sort of check off these points of performance, but for a development promotion agency there's a much more diverse kind of agenda, and it can be a more flexible agenda, you know. And if you can get to an agreement, a constructive agreement, about policy change with a government in a dialogue that's a two-way kind of thing and they own the policies themselves from the beginning and you are just then in a sense congratulating them for having adopted sensible policies . .

**SIBER:** Use it as a gift.

**LEWIS:** Give a gift. *[inaudible]*

**SIBER:** It happened once, the World Bank first trade policy loan agreement to Indonesia. But it doesn't happen very frequently, and it doesn't happen for every country.

**LEWIS:** Oh, no, no, no.

**SIBER:** I agree with you fully it's an ideal situation, but you have to find the countries which are prepared to introduce conditions before signing the agreement, and you have to find the World Bank staff to take the risk. If Indonesians were not making enough progress in trade liberalization, the staff would be in trouble telling to the Board that, "We did not sign another unconditional trade policy loan with Indonesia."

*[End Tape 1, Side A]*

*[End of interview]*