

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

ALI WARDHANA

**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.

Ali Wardhana
November 25, 1991 – Verbatim

*[Begin Tape 1, Side A]*¹

LEWIS: . . . at arm's length by people who were not in the Bank but who would have access to their files and personnel, and they decided to seat it administratively at the Brookings Institution, as had been done with *[Edward S.] Mason-[Robert]Asher [The World Bank since Bretton Woods]*. And this time the team is Richard Webb and myself. Devesh is our principal resource here to try to make this thing go. He's full time on Brookings' staff at this point, spending all his time at the Bank. We signed on nearly two years ago for this, but we had other things to do. I've been teaching school up until June, and Richard is doing a variety of things. He's the former governor of the central bank in Peru. He's a Peruvian, although you don't, maybe didn't realize that from seeing his name. And so now we're getting down to this sort of intensely. It's a massive amount of material that we have to pick and choose from, but we thought it would be useful to take a trip.

WARDHANA: Why Indonesia?

LEWIS: Why Indonesia?

WARDHANA: Yeah, I mean, you know, if you want to write about the World Bank, why do you pick us? It's not as if Indonesia [both speaking at once] so many countries.

LEWIS: Well, it [both speaking at once] our impression is probably if you could pick the one country that has the most interesting and rich relationship with the Bank, perhaps it's Indonesia. And so we picked a few countries to visit. We were particularly anxious to come and spend at least a few days here--about a week.

WEBB: We've just been to India and Bangladesh.

WARDHANA: Oh, I see.

WEBB: And we're going to the Philippines.

WARDHANA: I see.

LEWIS: So that's our Asian trip. We've touched down for—we're going to do the same thing in Latin America.

WARDHANA: I see. Okay.

LEWIS: And we've heard so much. We hadn't been here before. We've interviewed Bernie *[Bernard R.] Bell*. I've known Bernie ever since he was the Bell Mission to India back in the middle '60s. And we've talked to others who know something about the Bank's Indonesian story, but we wanted to come to talk to some of you.

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

I think it's a question, really, of getting you to tell us about how you saw the Bank fitting into the process. You became finance minister in '68, I guess.

WARDHANA: '68, yes. That was right after, you know, our stabilization program which started in '66 until '68, took two years because, as you know, a transition from the old order to the New Order, from a chaotic economy to a more organized economy or from a, you know, somewhat centrally-planned economy to a more market-oriented economy takes time. But before we could do all the major economic reforms, we had to stabilize the economy first. That's one of the reasons why stabilization was so important for Indonesia during the early years. We started, I think, practically in '66 already, but it was just the beginning. And then we continued the stabilization policies in '67, and it was not until '68 that, you know, the economy was relatively stable.

LEWIS: Yes, I see.

WARDHANA: Then, I think, you know, once you get the economy under control, then you can start thinking about how to develop the economy. And that's where, you know, the Bank's role started to play. Of course, at that time we had Bernie Bell here.

LEWIS: Yes, we know.

WARDHANA: He was here, and then we had visits of [*Robert S.*] McNamara as well during those early periods of what we call the "First Indonesian Five-Year Plan." So that was the beginning, actually, of our relationship with the World Bank.

WEBB: Do you remember your first meeting with McNamara?

WARDHANA: Let me see. I think that must be, you know, just when I was appointed as minister for only about a month, I think he was here already.

LEWIS: He came in June of '68 right after the Bobby [*Robert F.*] Kennedy assassination, I think. And you became—you were minister by then, weren't you?

WARDHANA: Yes. I was appointed in—let me see—in May or June, something like that, just before he came here.

LEWIS: Yeah. I think that's what your--Mr. [*Frans*] Seda suggested he was involved, he said, in inviting McNamara, but then he was out of the office a few days before he got here.

WARDHANA: Yeah, that's right. And I wasn't sure, you know, what was actually the role of the World Bank for Indonesia, you know. I was—I had so many things, you know, to do here that I wasn't . . .

LEWIS: The Fund [*International Monetary Fund*] was more important at that time,

wasn't it?

WARDHANA: That's right. The Fund was. I was, you know, participating in all meetings with the Fund. Even before I became minister I was participating already in this Fund meeting, but not with Bank. That was my first acquaintance with actually, you know, with the World Bank.

WEBB: Mr. McNamara has told us that he was very impressed with you.

WARDHANA: With the stabilization program that we did?

WEBB: With the group, with the group . .

WARDHANA: Oh, with the group. I see.

WEBB: . . when he first met you.

LEWIS: Well, you were—you know, he even had an old school tie connection with you because he was an undergraduate alumnus of Berkeley, and you people had the same professors, he said.

WARDHANA: I think that's right, yeah. *[Laughter]*

But there is one thing that they never, you know, teach you at universities, that economics is not only, you know, pure economics, but it's also political, you know.

LEWIS: Yeah, right, right. Well, he knew that.

KAPUR: Do you think the Bank has been good at that, at recognizing the fact that politics is . .

WARDHANA: Oh, yes. Oh, yes. I think—one of this—what, you know, in my experience here with the World Bank, that they know exactly how to deal with not only the economy--of course, you know, you have to know the economic situation of a particular country where you are assigned. That I think—this is the, you know. But secondly which is not--and this may be as equally important--is that, you know, they know how to “feel,” so to say, you know, how to feel the political environment as well, which makes it for us, you know, the decision-makers, easier, too, because they understand our problems. As I told you, you know, raising, for instance, gasoline prices, getting rid of subsidies is not—you know, economically speaking, it's very easy, you know. It's textbook thinking, actually, you know. But the implications, the political implications of that, it's--you know, you can have demonstrations just because you got rid of just one subsidy of just one commodity. Now, those things, I think, the World Bank people understand, and that makes it, you know . . .

LEWIS: That's been characteristic of the--at least the resident representatives here all

the way through?

WARDHANA: Yeah, well, maybe with one or two exceptions, but in general I think they really understand it.

LEWIS: Bell and, I suppose, Russ [*Russell J.*] Cheetham for sure. D.C. Rao?

WARDHANA: Yeah, D.C. Rao, Cheetham, Bernie Bell. So they give us alternatives, you know: "If you cannot, you know . . ."

LEWIS: Jean Baneth had a sort of mixed review here, didn't he?

WARDHANA: Jean Baneth?

LEWIS: Jean Baneth, a Frenchman?

WARDHANA: Oh, I'm think he's not, not, not--he's all right. But there was one. I can't remember the name.

KAPUR: David Gordon?

WARDHANA: Maybe he is the one.

LEWIS: He followed Bernie, I guess.

WARDHANA: Yeah. He is completely different than Bernie, you know. He wants to, you know, have things done immediately, you know, just right away. You know, it's just [*Laughter*]

I know, you know, we are also impatient. We want to get things done quickly, but, you know, you have to explain to the politicians. You have to go to parliament, you have to--even your colleagues, you know, your ministers. If you want to devalue the currency you don't just announce it, you see, that you are going to devalue by 40, 50 percent, but you have to tell them why. And if you think that you can get a broad support for your policy, then you announce your policies. But he wants everything, you know, [*snap*] just like that! And that makes it difficult.

But I think since then, you know, all the Bank representatives were excellent. They could understand, you know, the social/political situation in the country.

LEWIS: As I've listened the last few days to these accounts, I've more and more thought that one advantage you had, you and the Bank together, is that in terms of sort of dominant policy, economic policy thinking, your group and the Bank have actually been very close together. Nowadays if we talk about development strategy, we're always talking about import substitution versus export promotion, and you've been sort of on the right side of that one, according to Bank, I think. But back in the old days when you

became a minister and I was involved in India, the really big issue was this thing you mentioned about stabilization, the priority between stabilization and growth, that there was this question of whether one is going to be cautious enough, careful enough to manage the demand so that you got things in a pretty well ordered form before you started pushing an expansionist program. And I gather that you and the Bank--certainly the Fund also and Professor Widjojo [*Nitisastro*]-have been really what I think of as the conservative side of things in terms of demand management. I was one of those who was probably on the other side there back in those days. [*Laughter*]

But it helps a lot from your point of view and the Bank's point of view if there is this kind of basic agreement. You have these political constraints, but you're both sort of trying to go in the same direction in terms of policy objectives. Is that right?

WARDHANA: Yes, that's right. That's right.

LEWIS: And you had a president who was gaited that way also.

WARDHANA: That's right. That's right, yeah. He is more interested in economic problems rather than political problems.

KAPUR: What was the first major task when you became finance minister? Was it the debt management?

WARDHANA: Well, the debt management was behind us because, as you remember, we had this . . .

LEWIS: Hermann Abs?

WARDHANA: Yeah, the Abs agreement. We were able to reschedule, actually, our debt, so that was behind us.

So the early period was actually more stabilization. That was two, three, maybe four years. And then we started actually not with development but with what we called "rehabilitation of the economy" because, you know, the infrastructure was in complete, you know, disorder. Roads, ports, you know, electric power, everything was in--and foreign assistance was not immediately available, or, you know, when it was available, it was not enough. So what we did was rehabilitate and maintain the existing, especially infrastructure, not to mention the social infrastructure. We didn't do anything there. It was only the economic infrastructure. So during the first what we called "Five-Year Development Plan," it was actually not development; it was more rehabilitation of the economy. And it was only with the second Five-Year Development Plan that, you know, there was more . . .

LEWIS: The dates of the first were what? '60 . . .

WARDHANA: The first was—let me see--'68-'73, something like that.

LEWIS: '68-'73, huh. And the second was the first sort of . .

WARDHANA: Yeah, '73-'78. So, you know, the second five-year plan we were somewhat fortunate because, you know, there we got not only, you know, more foreign assistance but also oil prices was, you know, rising, had started to rise actually, and it was there that we began this, you know, really developing or expanding the economy, but again, you know, concentrating only on the infrastructure.

LEWIS: We've heard a difference of testimony. Was the oil—in a sense--bonanza on balance a good thing, or was it . . .

WARDHANA: It was a good thing because we could do a lot.

LEWIS: You could do a lot with the . .

WARDHANA: Oh, yes, and, you know, you can compare us with, you know, African countries . .

LEWIS: Nigeria?

WARDHANA: Nigeria or also oil exporters, perhaps also Mexico, you know. I think we have used the oil, you know, bonanza rather wisely, and we built a lot of schools and so on during those years.

LEWIS: The Pertamina business didn't . .

WARDHANA: Oh, that was a disaster. That was a disaster because at that time there was also this idea of--you know, we concentrated heavily (I mean, our development program) concentrated heavily on rural development, which for certain groups in Indonesia seems to be, you know—they think that if you want to develop the economy, if you want to modernize the economy, then you have to go in a big way, go immediately to, you know, big industries, especially, you know, what you call the upstream industries.

Now, we were of a different opinion. We thought that, you know, first of all, you know, Indonesia, with at that time, you know, we had about 120, 130 million population, that employment was, you know, a major priority, and since we are basically an agricultural country, so investment should be concentrated in the rural areas, which means you have to build, you know, dams, irrigation networks. If you want to go into industry, then it should be, you know, it should be fertilizer plants to support your--and that's exactly what we did, you see.

But apparently, you know, those groups, including the chief of Pertamina, think or thought otherwise. So he wanted to go in a big way. He built the, you know, steel project and, of course, you know, completely failed. And we inherited a lot of debts from Pertamina. That was a disaster.

KAPUR: That sort of crisis, did the Bank—was it sort of sending you warning signals, or did it have any role to play?

WARDHANA: The World Bank people knew that, you know, that there was an over-borrowing by Pertamina, but, you know, even we as ministers, we didn't know how much they were really borrowing. It was only, you know, a guess, actually. We didn't know exactly. It was not--only after the fall of Pertamina that we knew the exact amount that they have borrowed.

But that also, you know, learned us a lesson, that, you know, you have to have under control state enterprises as well. If you, you know, if you give them a free hand, I think that is going to be . . .

LEWIS: They were engaged in the credit of the government, weren't they? They were borrowing in the name of the government of Indonesia?

WARDHANA: No, no.

LEWIS: They weren't.

WARDHANA: It was Pertamina who was borrowing, but of course the creditors knew, you see, that if something goes wrong with Pertamina, if they couldn't pay or repay their loans or their, you know, borrowing, their debts, the government would always be behind them because it was a state enterprise. And they were guessing right. *[Laughter]*

KAPUR: But the crisis was resolved entirely within the capabilities of the government of Indonesia?

WARDHANA: Yes. Fortunately. And that was also partly because, you know, we had this additional oil revenue. Otherwise, we would be in a very difficult situation.

WEBB: I don't know, but we heard some figures--I don't know if they're right--that Pertamina was 10 billion in debt that was covered, and it was brought down to 1 billion?

WARDHANA: The figure might be, you know, high, but I don't think it's 10 billion.

WEBB: More like 5 or 6 billion?

WARDHANA: Yes, something like that. But then we negotiated this debt, and we were able to bring it down. And I think from the point of view of, you know, the reserves that we had to use to repay those loans, I think we lost about at least 2 billion immediately.

KAPUR: So was a there sort of—were the debts rescheduled, or were they . . .

WARDHANA: No, we just negotiated, you know. We just discontinued the project. But

then of course, you know, you have to pay the penalties. You have to repay all the loans and . .

LEWIS: Was this mainly the tanker business?

WARDHANA: The tanker business—well, everything, everything, refineries, you know, the steel project that they had built--everything!

LEWIS: I'd like to go back to agriculture--you said was your emphasis, being essentially an agricultural economy--and ask about your relations with the Bank on that score. Emphasizing agriculture as against non-ag is undoubtedly on the side of equity in terms of--it improves income distribution in any economy like this if you push up agriculture relative to the rest. My question is really about the equity issue within agriculture. McNamara was pushing in 1973 smallholder agriculture, that is peasant. But the Bank at that time didn't quite know what to do about the landless, and so in a sense its poverty program had a sort of gap in it. Was that true here? Did you find the Bank focusing simply on the landed peasants and not worrying about the others or what?

WARDHANA: You know, the problem was not in a rather clear-cut manner, you know, in what you have said, actually. At that time the problem was more, you know, how to increase production in agriculture. And if you want to increase production in agriculture, what commodity should you, you know, should be your first priority? And of course, you know, with so many people to feed, your first immediate reaction would be rice.

LEWIS: Sure.

WARDHANA: And that's where, you know, that's actually, you know, where we are strong in, you see. Since the early period we have been producing rice. And that's where we concentrated all our efforts, supported by the World Bank, as I mentioned, you know, building dams, for instance, irrigation networks, and well, you know, all the infrastructure for agriculture. That is where the support came from. It was not so much, you know, how to create more equity because you know it was . . .

LEWIS: You needed food.

WARDHANA: We needed food, you see. That was our major concern.

LEWIS: Right, right. I see. And you didn't get any pressure, contrary pressure, from the Bank, I mean trying to worry about projects that were aimed at the poorest of the poor or the absolute poverty?

WARDHANA: No.

I remember, you know—it's about the fertilizer plant I mentioned. At that time oil price was so low, so cheap, that it was actually, you know, economically speaking, cheaper to import than to have your own fertilizer plant. The World Bank argued that we should

import fertilizer than build your own, but, you know, we said, “No.” *[Laughter]*

LEWIS: This is before '73, huh?

WARDHANA: That was--let me see. I'm not sure, but it must be around that time.

LEWIS: The price, of course—the explosion came in the fall of '73 and '74, the first oil shock. So it would have been--I know at that time that people were saying the same kind of thing. They were flaring natural gas in the Gulf, and it was--the raw material was practically costless, and they could beat any kind of fertilizer plant that you might want to put, say, in Pakistan or in India. You were in the same kind of a story here.

KAPUR: But was the plant here gas-based or natural gas?

WARDHANA: Let me see. Maybe it's gas-based.

LEWIS: Do you have gas?

WARDHANA: Oh, yes.

LEWIS: Then it would be gas-based because it's a better bet than natural. Cheaper. You make urea out of it.

WARDHANA: Yes, especially urea. At that time all production of--you know, we had one small fertilizer plant at that time. It was producing about two hundred tons annually, but since then I think now we have over two million tons, and on top of use we export it.

LEWIS: You're exporting some.

WARDHANA: Yeah.

LEWIS: And you price in your—what am I trying to say?--the feed stock?

WARDHANA: Feed stock.

LEWIS: You price it in at international prices or you . . .

WARDHANA: International prices. But of course the end product, the fertilizer is subsidized.

LEWIS: You subsidize it to the farmer here. But what you export goes at . .

WARDHANA: At international prices.

LEWIS: At international prices, yeah.

KAPUR: But after the oil shock, the industrial and trade policy of Indonesia was more import substitution?

WARDHANA: Yeah. The beginning was import substitution, and there was a lot of pressure to have, you know, more industries of your own.

KAPUR: From within?

WARDHANA: From within the country, especially from, you know, my colleagues from industries and all the others. And, you know, this is--especially during the oil boom period we in fact became somewhat too complacent because, you know, you have so many, so--you know, a lot of resources available. You don't think about exporting. It was there, you see.

LEWIS: You were exporting very nicely. *[Laughter]*

WARDHANA: And that was, I think, you know, if I might say, you know, in retrospect, our big mistake. We should start actually, you know, with economic reform and the, you know, what we called deregulation policies during this period when, you know, oil prices were high, but it was only after the fall in oil prices. It started in '82, I think, '82, '82-'83, and then a big drop even in '86 that we, you know, started to make major economic reforms.

WEBB: Was the Bank pushing in '74, '75, '76?

WARDHANA: You know, you have to be careful if you use the word "pushing."
[Laughter]

Well, of course, you know, we had continuous what we call "dialogue" with the World Bank.

WEBB: Suggesting?

WARDHANA: Yeah, you know, we had meetings with them and so on, you know, rather regularly about, you know, the economic situation of Indonesia. And of course, you know, we would argue back and forth on how to, you know, interpret certain economic situations. And I think it was clear, you know, even if we had not the World Bank here over here, that we should do a major economic reform because, you know, with oil prices even below ten dollars and you are already at a very high speed of economic development, there is no way that you can, you know, continue or sustain the momentum by not, you know, exporting or, you know—what do you call it--by not following a policy to raise your or to increase your non-oil exports. You have to go that way.

LEWIS: Richard's asking whether the Bank was thinking and talking that way in the middle '70s, and I'd add to that. How about your group? Were you thinking ahead, but

you knew that you couldn't gather political agreement, but were you contemplating these economic reform policies at that time, or were you also kind of sitting back?

WARDHANA: No, we were thinking about economic reforms at that time already.

LEWIS: You were?

WARDHANA: Yeah, but, you know, the pressure because of the abundance of resources and the pressure to have your own industries, which is import substitution, you know, it was very difficult to argue that we should concentrate on export industries rather than import substitution industries. It was very hard to do that.

WEBB: Maybe I can ask in a different way: because you say that “we were too complacent,” was the Bank also too complacent?

WARDHANA: No, they were not. I think we were, you know.

KAPUR: [*inaudible*] take up Richard's point. Between, I guess, '74 to around '78, '79, GOI's [*Government of Indonesia*] borrowings from the World Bank dropped because there was other money available. Did it make a difference or do you think, over the long history that you've known, that when the amount of money coming from the World Bank is less, the advice is also taken less seriously?

WARDHANA: Pardon me?

KAPUR: When the amount of money that comes is less, is the advice also taken less seriously?

WARDHANA: No, it's not that way, you see, because, you see, especially, you know, what you call “the group,” you see, the group relations—I'm not talking about, you know, the non-group because, you know, you have--my colleagues from, you know, other departments maybe say differently--but since actually basically the relationship of the Bank is with us, with “the group,” you see, we have continuous, you know—what do you call that?

KAPUR: Dialogue?

WARDHANA: Dialogue with them. And I think, you know—because, you see, as the minister, and I think, you know, you are so involved in the day-to-day routine that you just don't have time to think, you know, not even a year ahead but maybe a week or a month ahead, you know. You just don't have time. So there's always--we always feel that it has always been very useful to talk to, you know, World Bank people, the Fund people, you know: “Are we going in the right direction?” You know, just to—you know, in boxing it's just like your sparring partner, you know. We use the Fund and the Bank as our sparring partner: “Are we doing all right, you know? If not, you know, tell us, you know, what should we do?” And that is, I think, you know, basically the most, the

relationship, the easy communication between us and the Fund and the World Bank people.

LEWIS: How do you—can we just—I don't want to shift the conversation very much, but as you mentioned that, how about the Harvard group [*Harvard Institute for International Development*] in that context?

WARDHANA: Oh, they have been here with us for a long time.

LEWIS: Yes. They're not sparring partners in the same sense?

WARDHANA: Oh, well, no, it's almost the same as, but, you know, they do specific things. You know, Fund people, they'll talk about macroeconomic policies but that's all, you know. They don't go into, you know, certain--what to do with the state bank funds. Now we have the Harvard people, and they go to, you know, to the state banks, talk with them, discuss them what are the problems as they see it, and then, you know, they give us ..

LEWIS: They're your consultants, really, aren't they?

WARDHANA: That's right. But during this time, you know, we had--compared to today, you know, we had very few Harvard people, not . .

LEWIS: Not many of them.

WARDHANA: Not many, not as much as today.

LEWIS: Right. I was surprised at how many you have around.

WARDHANA: Yes. We have a lot today because the economy is also more difficult. [*Laughter*]

WEBB: They cancel out?

WARDHANA: Pardon?

WEBB: They cancel each other out?

WARDHANA: Cancel?

WEBB: Because their opinions are always different from economists'.

WARDHANA: No, you know, it's just to make sure that, you know, to make sure that you are taking the right policies. That's all.

LEWIS: And the Harvard group work on fairly discrete things, as you say, most of

them.

WARDHANA: Yeah. Most of them.

LEWIS: Presumably they're not arguing amongst themselves too much.

WARDHANA: They are, you know, “working in the kitchen,” so to say, you know--not like the World Bank because the World Bank, they deal with, you know, all the ministers. They talk with all the ministers.

LEWIS: Another question that would apply both to the Bank and to the Harvard group and *[inaudible]*: do you discourage them from getting into sort of general policy economics discussions in the country and going to seminars in the universities and . .

WARDHANA: You mean Harvard?

LEWIS: Yeah. Harvard, yeah.

WARDHANA: You mean seminars in the country or . . .

LEWIS: In country. I mean, is it--do you want them sort of to talk to you but not to the outside world?

WARDHANA: Yeah, I think the contract says so. *[Laughter]*

They are advising us. So, you know, there are, for instance, you know, press people, especially the foreign press, they want to talk to them, but I think they have always, you know, refused to say anything. If you have any questions, you know, just talk to me or to any other ministers or even to the World Bank.

LEWIS: The Bank people, do they sort of conduct themselves--I think, of course, you wouldn't have that same kind of, I suppose, same kind of constraint on them, formally speaking—but do they pretty much keep their conversation within the government and not to the press or to academics?

WARDHANA: Yeah. I think, you know, there are things like, for instance, if you talk about devaluation, then of course you cannot, you know, discuss those things with the public. So they discuss it only with us.

LEWIS: Yeah, yeah.

WARDHANA: But there are other things, you know: gender, macroeconomic and foreign policies that, you know, everybody can read their report, and if an Indonesian journalist or even a foreign journalist wants to know more about that, they just go to the World Bank people and it's all right.

So there are, you know, discrete policies, so to say, you know, that it's among us. "Us" means, you know, the World Bank and this group. Not even the other ministers sometimes know that, what we're doing.

LEWIS: We're fascinated at what we learn about your group. I was just talking this morning with Kemal Siber. After these chaps left--they had gone off to another meeting—and I asked him something about whether people are being trained up to succeed you in due course, and he said you really actually have quite a number of, a well-established, he thinks, pattern about this, that you're bringing people in from universities mostly and you take them on as sort of, I guess, consultants or special assignments, and then if they shape up you move them up to directors or junior ministers . . .

WARDHANA: Yeah, that's right.

LEWIS: . . . and then they get on into--it's a circuit in from the side. It's a very great . . .

WARDHANA: Whether they can, you know, ultimately become minister depends on their performance. We are not promising anything, you know.

LEWIS: It's an interesting—do you have--in some governments that would be anathema to the regular civil service who comes in at the entry level and goes up like this. These are people brought in from the side.

WARDHANA: Yes.

LEWIS: And so it denies opportunities, in a sense, to the regular bureaucrats coming up. Is that right?

WARDHANA: No, you know, we don't because ministers are politically appointed.

LEWIS: Okay, yeah. And also junior ministers?

WARDHANA: Are also politically appointed. But director generals, you know, they move up from the bottom. But, of course, you know, there are director generals who became, you know, ministers as well, so it's not actually the ultimate, you know, position that they could reach.

KAPUR: If you were to now look back at the association with the World Bank after twenty-two or twenty-three years, suppose the World Bank had not been there. Do you think the story--it would have made a difference?

WARDHANA: I think different, yeah. Maybe we would have made more errors, you know, because, you see, when we started in '66, '67 establishing the policies, if you make an error in your policy, it doesn't quite—what do you call it--fire-breathe into the economy. Because, you know, the economy, you know, was running inflation of over 600 percent, you know. Even if you make a mistake, you know--but then, you know, at

the later stage, especially in the mid-'70s, you really have to fine-tune the economy, so a small mistake will be felt immediately in the economy, and it's there that actually, you know, people of--World Bank people, Fund people, are very, you know--they are, you know, with their nose, you know, on top of practically the problem that they see, you see. And they tell you, you know, before things, before things is going to happen they tell you, you know, in advance, "Look, you have to watch out." Now, those are the things, you know. So what I'm trying to say, it's not only the amount of money, you know, that we receive from the World Bank, but I think it's the economic advice that is also, you know, as I told earlier, you know, equally, maybe equally important as the loans is.

KAPUR: But is it the advice which comes at the policy level, or is it also or the advice which comes with a specific project?

WARDHANA: Both, both. You know, in a sense--of course, you know, I was minister of finance and then I became the minister coordinator, so it was on the policy level actually, not on specific projects, you know, because they deal that with, you know, the minister of public works or the minister of agriculture, and I don't know the technicalities of those. So we look at the Indonesian economy from its, you know, overall view. And I think, you know, just to give the direction to the economy, I think that is important, especially, you know, if the Bank says that, you know, "You have to watch also your current account deficit because a year from now you are going to be in trouble." Now then we start thinking, you know, "What should I do to prevent those things from happening?" Now those early warnings are extremely useful.

We--as I told you, you know, we just don't have the time to really scrutinize, you know, all the details, you know, of the figures of the balance of payments one by one, you know, because, you know, they—you know, if it says export is 5 billion dollars, I know roughly, you know, the components of that. But they go, you know, into each commodity, and they tell you, "Look, you know, this commodity," and, you know, especially for instance, you know, tea, coffee, and, you know, rubber, "you are facing a weak market say, you know, six months or a year from now. So, you know that means that you have to be very careful with your balance of payments because, you know, now it's still good, but there might be some, you know, weaknesses at the later stage."

LEWIS: It's certainly good to have people "kibitzing," if I can use a slang word like that, but you must be developing capacity within your government also to do that kind of close-in, detailed analysis, aren't you?

WARDHANA: Yes, we are doing it also but not enough, I mean, not as deep as the World Bank people. They really [*inaudible*] to do that.

LEWIS: And these are people of the resident office here or in Washington?

WARDHANA: That I'm not sure, but I think it's . . .

LEWIS: Done much of it here?

WARDHANA: Basically it's, you know, the people here because they are here every day, so they know exactly where we stand.

KAPUR: Do you sort of recall sort of any specific instances or examples to us which might illustrate the point?

WARDHANA: Well, that, you know, the discussion that I had with Russ Cheetham on, you know, the possibility of a devaluation. That was in—let me think—'83, I think, '82. I think already, you know, long before we had to do that, you know, he was telling us over and over again that, "The deficit in your current account is just, you know, unmanageable. You have to do something." And, of course, it was rather hard for me to, you know, ask him, "Should we devalue?" because that was exactly what he wants!
[Laughter]

But then at a later stage, you know, I had to ask him, "If we have to devalue, by how much?" And then we started devaluating. [Laughter]

We had a very close, you know, relationship. I don't know how is it or it is in, you know, other countries, but I think especially here in Indonesia we have a rather close relationship with the World Bank and Fund.

LEWIS: One thing that struck us is that this is an extraordinary close relationship with the group again, of you or the coordinating ministers, that sector of the government is the most--from an economist's point of view--the most important sector, the macro policy sector, but to the other two sectors you have also in the government with coordinating ministers, including the social sector which has a lot of things like education and health, other things the Bank is interested in. Agriculture, I guess, is in that, is it?

WARDHANA: No, agriculture is in [both speaking at once] economy.

LEWIS: Well, education, health, population are in this other, and we wonder whether really the Bank because of its particular closeness to macro policy is relatively kind of at a disadvantage in some of these . . .

WARDHANA: No, I don't think so. No, I don't think so. They are also in very close contact with them . . .

LEWIS: Are they, yeah?

WARDHANA: . . . because I know that from experience that if there are problems over there, they go to see me. [Laughter]

So that means that, you know, they are also working hard on the other side, especially on the social sector [both speaking at once]

WEBB: Have you seen much change in the kinds of things that the Bank would be saying to you?

WARDHANA: Change in what sense?

WEBB: Well, for instance, on priorities or the way of doing projects. Maybe you haven't been watching projects. But in broad priorities, in one period much more concerned with macro stability and another more concerned with exports or industrial development, another period now with the environment, women, social sectors. Do you notice those changes here? In Washington, there one notices very big changes, but I wonder whether you notice them here.

WARDHANA: I think compared with the early years, if you talk about, for instance, environment, especially environment, there's definitely a change for what, you know, projects that should take into consideration also environment . .

[End of Tape 1, Side A]

[Begin Tape 1, Side B]

WARDHANA: . . that, you know, that development is not just, you know, pure building factories or, you know—but that it might affect also environment and *[inaudible]* also, you know, population. There are a lot of things that is which, you know, even during my student days nobody tells me that, you know, you have to take into consideration all those things, you see. So this is actually, you know--we take it very seriously, and this minister of environment is, you know, he is really . .

LEWIS: We met him. He's a champion.

WARDHANA: Oh, you know, he just prosecutes people, you know, who doesn't follow his . . . *[Laughter]*

But I think it's good. But of course the minister of industry is not too happy with that. But, you know, in the long run, I think, you know, it's beneficial for the economy if you take those things into consideration.

WEBB: Your own priorities haven't changed that much, have they? You still, for instance, rural, agriculture's number one . .

WARDHANA: Yes. That's right.

WEBB: . . from the start and still is . . .

WARDHANA: To give you an example, you know--you mentioned that all projects in agriculture. We did one policy--I'm not sure whether you are aware of this--we introduced the "no use of pesticides" as one formal plan. That was in '87, I think.

LEWIS: '87.

WARDHANA: You know, because there were a lot of foreign manufacturers here in the country producing pesticides, you know, all kinds of pesticides, and it was not helping the agriculture sector because, you know, at the same time they kill also the—what do you call that?—the predators that, you know . . .

LEWIS: The good bugs.

WARDHANA: Yes, the good bugs. They kill also the good bugs. And then, you know, with one decree we said, we stopped this using all those pesticides. Now, that is also, I think, you know, an environmental issue.

LEWIS: Oh, absolutely.

WEBB: That was a very brave policy.

WARDHANA: Oh, but, you know, you should see the foreign investors here in Indonesia! They were just, you know [*hand clap*]

LEWIS: Oh, yeah.

WEBB: Did the Bank support you or recommend that?

WARDHANA: Oh, yes. No, I think we did it ourselves.

WEBB: You did? Do you remember what year that was?

LEWIS: '87, he said.

WARDHANA: '87, I think. I think it was '87. I, you know, I might be mistaken as to the year, but it was around that.

LEWIS: On a thing like that, I gather the president backs you on quite explicitly.

WARDHANA: Without the president's backing I don't think that we can get, you know, that decree out.

KAPUR: Has there been an opportunity or have there been cases where the Government of Indonesia has used the World Bank as a forum for sort of international economic dialogue on, you know, whether it's a north-south sort of debate?

WARDHANA: No. Not for north-south debate, no.

KAPUR: Or maybe for trade issues?

WARDHANA: No, that's only, you know, within the framework of what we call the IGGI [*Inter-Governmental Group for Indonesia*]. There I think, you know, they played a very major role.

LEWIS: As I recall, Indonesia was not at all active in the NIEO, the New International Economic Order, the big dialogue in the mid-'70s, you remember. This was pressed in the United Nations General Assembly. There were special sessions of the General Assembly. There was a group in Paris that debated these issues on north-south dialogue. It was the sort of thing that Sukarno would have been in the middle of. It was very much like the nonaligned movement, but it was a group of 77 in the United Nations were the protagonists of all this. A country like India was fairly active, but Algeria was out front, Chile--well, at one point it was--but there were certain countries that were very aggressive in this dialogue. I got involved a little bit as an observer of this because I was at the Development Assistance Committee in Paris, DAC, but I don't think that Indonesia took a very active role. Do you remember about that number?

WARDHANA: Yes, you know, well . .

LEWIS: You must have been coordinating that business?

WARDHANA: No, it was Professor Widjojo at that time.

LEWIS: Was it?

WARDHANA: Yeah. He was the one--he participated in all those meetings.

LEWIS: Okay. Did he?

WARDHANA: Yes. Participated in all meetings because, you know, he was liked by the West as well as the [both speaking at once] group of 77, you see. He was kind of moderate, you know.

LEWIS: That's why I'm thinking you were both sort of keeping your heads down.

WARDHANA: That's right. [*Laughter*]

You remember there was a proposal to, you know, for developed as well as developing countries to contribute, you know, a certain amount of their GDP or, you know . .

KAPUR: For aid.

WARDHANA: For, you know. And that was Widjojo's proposal, I think.

LEWIS: Was it?

WARDHANA: Yes. It was accepted by, you know, the United States and all the major

countries and also by—but, you know, the realization was not--it could not be realized. Many of the developing countries contributed already, but, you know, then other important world things came into being and *[inaudible]*

LEWIS: This was about of the most seriously affected country proposal.

WARDHANA: No, not that.

KAPUR: Was it 7 percent of GDP?

WARDHANA: No, not the 7 percent. *[all speaking at once]* This is different.

LEWIS: I don't know. I don't remember. I'll have to ask him about that. I'm going to have to see him on Wednesday again.

WARDHANA: Ask him about that.

LEWIS: I will. There was a proposal for a while that the oil exporting countries maybe ought to add on a premium in behalf of the oil importing developing countries, sort of take a toll from the oil consumers, raise the price. Abdel Latiff Mohamed was quite keen, you know, from Kuwait. He and I used to talk about this. Richard Cooper said it was very disruptive, this idea. *[Laughter]* It didn't go anywhere.

Well, I gather that you really feel that the Bank has been useful and it's been a pretty positive relationship on the whole.

WARDHANA: The Bank and the Fund.

LEWIS: The Bank and Fund together, and that also is not a--people often talk about differences between Bank and the Fund, but here it's been pretty much of an alliance. It's a great case of togetherness, I think, you know. The people, you and they, that . . .

WARDHANA: You know, even if we don't have a standby agreement with the Fund, they still keep, you know, a representative here in Jakarta--I mean from the Fund. The World Bank is different because, you know, the operation of the Bank is so big. But the Fund--we do not understand the issue, but we have asked the Fund at least to have someone here.

LEWIS: I see.

WARDHANA: They wanted, you know, when we discontinued, you know, with the oil boom, the Fund said, you know, "There is no need for the Fund to be in Indonesia anymore."

We said, "No, no, no, please. Just keep at least one man here." And I think that's what they did.

KAPUR: In the '80s when the Latin American debt crisis, the problem of Africa, the World Bank's attention turned more towards that--as an institution. Was that felt here? Was there felt that . .

WARDHANA: "Felt" in what sense?

KAPUR: In the sense that the World Bank is focusing more attention away from this region and more . .

WARDHANA: Well, if they had, you know, moved away, you know, and give more attention to other parts of the world, we didn't "felt" it at that time, you know. *[Laughter]*

LEWIS: *[inaudible]*

KAPUR: So that wasn't an issue.

LEWIS: We have heard that since you came out of this '86 crisis and people have been reassured further that you have re-achieved, sort of reinforced your stability, there's been this--and also everybody is sort of moving in favor of privatization--there's been a surge of private investment that is threatening, in a sense, stability. Is that right?

WARDHANA: Economic stability?

LEWIS: Yeah.

KAPUR: No, I think John is referring to the recent sort of *[inaudible]* increase in the deficit.

WARDHANA: Oh, I see. I see.

LEWIS: Yeah, yeah, the currency, the foreign exchange.

WARDHANA: Yeah, but that's not, you know--the source is not foreign investment.

WEBB: It's capital movements.

LEWIS: Yeah.

WARDHANA: Those are capital movements, and that's actually, you know, basically the source were the state enterprises, and the biggest of them is Pertamina again. *[Laughter]*

LEWIS: I see.

WEBB: This is short-term borrowing?

WARDHANA: Short-term borrowing. That's why we stopped this, you know.

LEWIS: So you have--you put a constraint on . . .

WARDHANA: Yeah. It was only a few days ago that, you know, we have announced the major, actually, stop on, you know, commercial borrowing.

LEWIS: This is all enterprises, public and private?

WARDHANA: No, mainly public, state enterprises, including state banks. The private sector, you know, there is not much there. I mean, you know, if they want to borrow commercially, I think there is no need for them to--we cannot control them.

LEWIS: Someone was saying to me that they thought that this constraint would still leave room for the big projects but that there would be a relative squeeze on smaller investments.

WARDHANA: No.

LEWIS: No? You don't see that?

WARDHANA: As long as the project is purely private they can borrow any amount they like, but it has to be purely private. If it's a state enterprise, then we scrutinize their request first: "Why do they need to borrow? What project? Is the project of high priority?" You know, on all those nasty questions.

KAPUR: And if it's a private investor which is borrowing through a state bank?

WARDHANA: That's also caught because then we ask the state bank to report to us: "Why do you do that?" So we call that, you know, "state-related private projects."

LEWIS: I see.

WARDHANA: It has to be purely private; then it's okay.

WEBB: When we look at the overall relation of the Bank in Indonesia, we have two rather different parts of it with rather different impressions, because we look at the dialogue that we're talking about: it's excellent; everyone says that it's been very helpful. But if you look at the Bank's investments in Indonesian projects, the general impression is that it's very average performance: there were some good projects, lots of bad projects according to the Bank's own evaluations, for many reasons. But a lot of it has to do with difficulty in implementation of projects. While all countries have difficulties [*inaudible*] all countries [*inaudible*] but here it seems very clear that the record is, as I say, quite mediocre for lots of projects. Is that something that you perceived when you were in planning in particular? Were you seeing that, thinking of reasons? How do you see that

record in general? Is it something that you see as a problem? Do you see problems but improvements?

WARDHANA: You know, you are talking about two different things. One is the dialogue which is, you know, not related to projects at all.

LEWIS: Right.

WARDHANA: This is for policy purposes actually. Now, this is excellent. I mean, you know, this is what keeps the Indonesian economy actually, you know, growing and growing at a stable rate. Now, the second part is actually the implementation of the Bank loans to finance the projects.

Now, the World Bank is not unique because we have same, practically the same problems for this with the Asian Development Bank. There is the problem of, you know, land acquisition. It's getting more and more difficult now to get land, for instance. Now, implementation of those projects takes time, and at one point of time I think—you know, I don't know when it was, but the World Bank was not satisfied with the speed of disbursement of the loan. We had to do something. The Asian Development Bank was also, you know, not satisfied with the disbursement. I think that was in '84, I think. You know, we were criticized by both banks. We did, you know, we improved a lot since then. I think it's now back to normal. So I think that was a good thing, because—no, but those are implementation projects.

And as you know that's not only the World Bank and the Asian Development Bank, but there are also bilateral projects that we have to take care of, you know, also, and there is a long list of those projects coming in the pipeline. Each project is different, you know. If you take a power project, that is different than, say, a road project. Each has its unique, you know, or special or specific problems.

WEBB: Sometimes the problem seems to be, to have a lot to do with the quality of administrative efforts. Sometimes they seem to be more a bad idea, that it was a wrong idea to begin with, so that almost inevitably it has problems. Have you . . .

WARDHANA: Well, I'm sure that there must be one or two projects which, you know, must be a bad project, but I think those are exceptions rather than, you know, the general situation because, as you know, at one point of time . .

[Interruption]

WARDHANA: . . at one point of time, and especially in agriculture, the World Bank didn't go project by project, but it was a sector loan. It was practically—you know, if you wanted to do an agriculture, you know, just do it. But that shows that, you know, we have improved the implementation process of a loan. And that could be, you know--that is an example, actually, where we have improved. And the Bank criticized a lot, you know, especially our implementation, and I think this is one sector that we have improved the

absorbative capability of implementing projects.

WEBB: Transport, too, perhaps; you now have a sector loan, don't you?

WARDHANA: Yeah, right.

LEWIS: Well, your lady out here said that you had something else at 5:30, so reluctantly I guess we have to let you go. *[Laughter]*

WARDHANA: It's a pleasure and an honor, I think, you know, all of you here with me. My recollection is a little bit frosty, but I think, you know . . .

[End Tape 1, Side B]

[End of interview]