

WORLD BANK HISTORY PROJECT

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Transcript of interview with

WIDJOJO NITISASTRO

**November 23, 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.

Widjojo Nitisastro
November 23, 1991 – Verbatim

*[Begin Tape 1, Side A]*¹

LEWIS: Right.

WIDJOJO: . . because we feel that if we limit our relationship only to the official type or sitting at the other side of the table and discussing with, then we will not benefit fully.

LEWIS: This is facilitated by their having a good, strong office here, is that it?

WIDJOJO: Exactly, exactly. And that is one of the big advantages, and advantages we have, a very big advantage. Another advantage is that if there is a real problem, we always can co-opt them. *[Laughter]* If we cannot solve something then . .

LEWIS: You can try Washington, D.C.

WIDJOJO: Washington *[inaudible]* That is, of course, another. But they have been very careful in sending people here, group of people, particularly the economists are very good economists.

LEWIS: Yes. We've got the impression that, you know, the World Bank in general seemed to turn quite a corner about 1979, '80—Ernie *[Ernest]* Stern had quite a lot to do with it--of shifting away from a preoccupation with projects to more of a policy orientation. Our impression, I guess, is already that here is somewhat different, that you've had this policy dialogue--not a preconditioning kind of formal conditioning, but a policy dialogue, as you say, going on from the very beginning. Is that right? Starting with Bernie *[Bernard R.]* Bell?

WIDJOJO: Right, right, right, starting with Bernie Bell. And that was really a big advantage to us because if we had concentrated on project only, the impact would be more limited. But to discuss, for example, what would be the right priorities for the first five-year development plan, that we agreed at that time agriculture. But from the discussions we learned a lot about the problems India faced with the first big plan on industrial development. China also. So we were in luck with that.

LEWIS: You had kind of almost a running seminar, I guess . .

WIDJOJO: That's right. Exactly.

LEWIS: . . talking about development strategy broadly.

WIDJOJO: That's right, that's right. And we encourage the Western staff here not to be inhibited in discussing about policy matters.

WEBB: You mean the World Bank staff?

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 [].

WIDJOJO: Yes, the World Bank staff, yeah. So they should not feel that it is not their—what you call it—their area of . . .

[Brief discussion of physical arrangements]

WIDJOJO: It is not their--they are not, they feel maybe inhibited to discuss policy and only projects because with every, you know, you cannot have, just have an irrigation system or irrigation projects without discussing the sector as a whole, for example, whether there should be payments by the farmers for the projects. You know, the projects can be used as a leverage, but this must be discussed. Now--and we don't like these leverages. We want to have what is the best.

For example, now we are discussing urban development, and we are coming up with a number of very good ideas, but whether there will be a project or not is a different matter. But we really have to cope with the urban problems, and they keep us, telling, "You know what happened in some other developing countries." They said, "If you give too much subsidies for urban facilities, then people will more and more come into the cities, and the cities becoming bigger and bigger, and at one stage then the government budget will be burdened with subsidies to the urban population."

LEWIS: This is what they're telling you now, or this was back in . . .

WIDJOJO: Oh, no, no, no, no, not back so many years ago, a few, few years, the past few years. And, you know, some of us really have—so, in other words, their role is also, you know, to provide us more information about what is going on in the others.

LEWIS: Yes.

WIDJOJO: And because sometimes there is a tendency among us to consider our problems as unique when actually so many developing countries are probably, are facing similar problems. And we can benefit.

The first time we benefited from the experience of other countries was in 1968 when the World Bank sent a mission here for family planning. We started—we wanted to start a program of family planning.

LEWIS: I see.

WIDJOJO: And the World Bank sent a group of people from Pakistan, India, Egypt, and some other countries. It was headed by a medical doctor who did a lot of work in Taiwan and Sumatra--very well-known.

LEWIS: Westerner or . . .

WIDJOJO: Westerner, yes. I forgot his name. But from Pakistan that was the former

head of the family planning program, Enver Adil, and from India, [*Chidambara*] Chandrasekaran, for example, very--and they were very frank to us. They told us about what they did but also about pitfalls like statistics of women using a number of . .

LEWIS: IUDs [*intrauterine device*]?

WIDJOJO: IUDs and other things, pills, and so on, but they are counted twice! So it was a good thing, and I never forget that experience because that was--and then we developed a counterpart team here, and counterpart team worked hard with them.

LEWIS: That's when your program started then?

WIDJOJO: Yes. That's right. Now, sometimes they send people here to learn about our program. Then I told them, you know, "We learned from you!" [*Laughter*] But this means that we can learn from each other so much.

And the first time we had contact with the World Bank, Mr. [*Mohamed*] Shoaib, the vice president, former finance minister of Pakistan, he sent us, he said, "I will send you a man from the planning agency." I remember his name: [*Shah Mahmud*] Sulaiman. And at that time we were working on forms, how to--forms for the different departments when they want to submit the proposal for projects. So he gave us one, and then it was translated into Indonesian. So it felt easy because rest of it is this form from the Pakistan planning agency.

LEWIS: I see. This is a project analysis form?

WIDJOJO: A project proposal, because before that there was no project proposals. [*Laughter*] Everybody made their projects up. And then some one of them asked us, "You know, it's nice. We can fill it in, but what does it mean, 'crores'?" Crores! [all speaking at once] He forgot to eliminate that! [*Laughter*] You know, it's in the form. "What is this crores? Ah, this must be Mr. Sulaiman again. He forgot to." [*Laughter*] So then you are—what do you call it--make use of other people's experiences.

LEWIS: Oh, sure.

WIDJOJO: You can--shortcuts.

Another example is—but this was not with the World Bank. We wanted to—when we try to promote exports, we would like to set up an export insurance company, insurance and guarantee, actually, export credit guarantee, but we do not know and so on. But Malaysia already had one. So they sent their people. They came with their forms, and since we have practically the same language here, this is also easy. So to learn from each other is . . .

LEWIS: Didn't Richard Gilbert come here from . . .

WIDJOJO: Oh, yes, yes, from Pakistan.

LEWIS: Pakistan, yes.

WIDJOJO: He was very . .

LEWIS: A very aggressive fellow--neo-classical aggressive! *[Laughter]*

WIDJOJO: And he fought the *[International Monetary]* Fund, yes, all the time!
[Laughter]

LEWIS: When did he come here? Was it in the middle '60s, I guess?

WIDJOJO: Oh, '67, I think.

LEWIS: '67. After the . .

WIDJOJO: Oh, yes. After the change, yes. '67 or '68.

LEWIS: And *[Robert S.]* McNamara came out in, I guess, '68, met the president, met you people. And you had shared a professor at Berkeley with him.

WIDJOJO: *[Laughter]* He was also a graduate.

LEWIS: I guess actually undergraduate. What was the name of the professor? Davidson, was it?

WIDJOJO: Davidson . . *[both speaking at once]* *[Paul S.]* Taylor. Taylor was chairman in Berkeley at that time.

LEWIS: But there was a Davidson, wasn't there?

WIDJOJO: Oh, yes. Davidson. Malcolm Davidson.

LEWIS: Malcolm Davidson. His daughter is married to one of our colleagues at Princeton, and he has just taken over as dean of the Woodrow Wilson School.

WIDJOJO: I see. His daughter?

LEWIS: The daughter is married to this chap. The daughter is also working in the Woodrow Wilson School, running the, administering the undergraduate program in the school. She's a lawyer.

WIDJOJO: I see.

LEWIS: No, McNamara--we've interviewed him several times, and he talks with great

fondness sort of about that visit he paid out here.

WIDJOJO: Oh, yes, yes, that was a very—it really, the relationship was established at that time.

LEWIS: Yes. And he decided to send Bernie then; he gave him a special mandate to sort of bypass the bureaucracy.

WIDJOJO: That's right, that's right. We like it, of course! *[Laughter]* When later on the World Bank made changes we keep asking why! *[Laughter]* Why do you make changes? You know, why do you—was it because the other offices of the World Bank, but why don't you change the others? *[Laughter]* At least a few?

But I am glad the World Bank and its ideas now also interested in Vietnam. I just came back from a seminar . . .

LEWIS: Oh, did you, huh?

WIDJOJO: . . . with the Vietnamese deputy prime minister and a few others are in Indonesia organized by the HIID *[Harvard Institute for International Development]*.

LEWIS: I see.

WIDJOJO: Yes. And they would like so much to know what was done in Indonesia, particularly the earlier days, and we keep encouraging them. I told them, “You know the first thing we did was to have peace with neighbors,” because at that time we had what we called “confrontation” with Malaysia and Singapore--actually, practically almost war. Then the first thing we did was to come to peace with Malaysia. And the second thing was we went back to become members again of the IMF *[International Monetary Fund]* and the World Bank, and also the UN because we left the United Nations at that time.

LEWIS: Oh, you had?

WIDJOJO: Oh, yes, yes. So I--in other words we keep encouraging them to have peace with their neighbors because at that time Cambodia was not yet . . .

But the World Bank also organize seminars for the Vietnamese officials. That is a good thing. And I think they will move very fast. It seems that they are . . .

LEWIS: They seem to be moving on, yeah.

WIDJOJO: Oh, Ernie--go back to this. *[apparently looking at a schedule of meetings]*

LEWIS: Oh, yes, yes, yes, all right.

WIDJOJO: So Joseph Stern: probably we should have arranged a meeting with *[C.*

Peter] Timmer, David Cole, and *[Richard H.]* Patten. Patten is an interesting man. He was very much interested in rural development as a member of the group. He was in East Pakistan before . .

LEWIS: I see.

WIDJOJO: . . in the old days, whatever the--in East Pakistan And we have got a number of programs, among others to provide the local authorities with funding from the central budget directly, not through the ministries, because if you do it through the ministries it will take a long time and it may be used for all projects which are not felt as a real need for the country. So we set up an arrangement to bypass all the ministries and provide the funding.

LEWIS: And let the locals decide the use of the funds?

WIDJOJO: Yes, what to do, what to do, with a number of guidelines like projects which provide more employment and rehabilitation and so on, existing roads or irrigation works, some of these, but they decide what to do.

WEBB: This is a current project?

WIDJOJO: Yes, it is still going on now, but it started in the early '70s.

LEWIS: Oh, really?

WIDJOJO: Yes. It started in the early '70s, and Adam Khan *[phonetic]* will be able to *[both speaking at once]*

LEWIS: Oh, yes. That's very interesting. The resources for that are internal?

WIDJOJO: Internal, yes. Completely internal, and particularly when we got additional oil money. *[Laughter]* That was a good opportunity to preempt the use of the oil money for this purpose, and that's why we have problems with Pertamina. *[Laughter]*

LEWIS: I see. They were trying to preempt, too?

WIDJOJO: Yes! ! *[Laughter]* They were trying to preempt, too!

Then at one stage, if I'm not mistaken, the World Bank wanted to provide assistance for this.

LEWIS: For this thing, yeah, yeah.

WIDJOJO: But Adam *[phonetic]* will be able to--I don't recall.

LEWIS: I'd like to know about that, yes, yes.

WIDJOJO: If I'm not mistaken, the group who came here then work out a proposal, but they put certain requirements to change the, you know, and we told them, "No, I think the present arrangement is the right one. If you want to support us, please don't make any changes." And this is, indeed, some of the problems. Each of the mission they have some, they feel that they must report back to Washington . . .

LEWIS: That they've made an impact, huh?

WIDJOJO: Yes. There will be certain changes. *[Laughter]* And on that program we were very, "No, no. No changes." So if they would like to add additional resources, that would be fine, but not--no changes. That was one area we had some disagreement.

But they are here, Timmer, Cole, and Patten. I think we should . . .

LEWIS: Well, it'd be nice to meet them.

WIDJOJO: Now, Mohammed Sadli.

LEWIS: Well, we've met him already.

WIDJOJO: You've met him already, yes.

Then Hadi Soesastro. He is a good man . .

LEWIS: Good man.

WIDJOJO: . . but he had no direct—what do you call it--experience in working . . .

LEWIS: Right. He's just an observer of society.

WIDJOJO: That's right, that's right.

Now, Emil Salim, before he was in charge of environment and population, he was minister of communication, and he was vice chairman of the planning agency.

LEWIS: Oh, was he?

WIDJOJO: Yes, so he had a lot to do with the World Bank.

LEWIS: Yes, he talked in a very interesting way that he played a role back then that was, he said, sort of participant in orthodox development. Now he's come to believe sort of in the alternative model of development, this more sustainable development, environmentally oriented and so on. So he said he would give us sort of an exercise in auto-criticism, that is, he was criticizing to some extent the positions that he was associated with in the past. It was a very responsible and lucid exposition.

WEBB: And radical!

LEWIS: And radical.

WEBB: And radical!

WIDJOJO: Radical. I see.

KAPUR: He was a very thoughtful in the sense of looking at the future. He was looking very much in the long term and not in the short term.

LEWIS: He was criticizing the Bank as being somewhat bogged down always in moving current projects and not having a very long-range vision ahead, sort of thinking where things are headed, and wishing that it were concerned more with—well, some would say, had 20 years ago been thinking more about the environmental issues that we now talk about. Of course, one could make that complaint about all of us, practically.

WIDJOJO: Yes, well, this reflects something that is very important. There are changes in what is important. I'm an introvert in the world of ideas, the world of, you know--and we have to cope also with this problem. And sometimes we have to make sure: are these just fashionable ideas or are they really something which is maybe something that is really important because sometimes we also have to weigh--you know, if there are so many children die before reaching the age of one year, a very high infant mortality rate, then the first objective is to give more children an opportunity to live, to go through this, and that should receive the first priority. And this we relate to that their parents can have the necessary income and employment and so on. So that becomes a very important matter. Then the problem of very high death rates of mothers when they get birth, then that is very high, and even higher--in ASEAN [*Association of South-East Asian Nations*] they are still having the highest actual rate, death rate, infant mortality rate and so on.

LEWIS: Really?

WIDJOJO: Oh, yes. Oh, yes. And so the problem of priorities become not easy. And of course every person in government or outside government has their own ideas about what should be the priority, but if one has to look at the totality and then try to balance out this, what is the [*inaudible*] right now we are having big fight. Some people want to develop huge projects, chemical projects, related with oil and so on. And they keep saying, "You know, if we don't do it now, then other countries will be ahead of us, and we will not have the necessary markets" and so on. Oh, all kind of a—of course, maybe that's true, but after all there are other requirements.

Like you are--you know, if you look at the island of Java, the roads are really, should be replaced by highways, and we don't have trans-Java highways. We don't have it. Oh, we have the—what do you call it--the feasibility studies and so on. That was already 20 years ago, but we keep postponing it for the simple reason because the rural roads are more

important, rural roads and also roads from producing areas to the harbors. So the people in public works keep telling us about the importance of a Java highway. But maybe that is true if we have the resources, but if we have limited resources, then we have to make a choice.

The same is true with our harbors. Some people continue to say that we need to expand the harbor of Jakarta and the harbor of Medan in Sumatra for exports, but what about the small harbors in many of the islands because there are so many islands and they depend very much on harbors. So this is become a problem, and to find the right combination or the right balance is not always easy. So we have to continue to review our thinking and try to . . .

LEWIS: You've been resisting these big projects.

WIDJOJO: Oh, yes, yes, with a few exceptions like liquefied natural gas projects, LNG. This has been a very important project for us, and we are now the largest exporter of LNG to Japan and [both speaking at once] Taiwan and so on.

LEWIS: And that's a cost-effective project, then?

WIDJOJO: That's right. That's right. So it is not whether they are big or not, but cost-effectiveness is important. And some are not very attractive.

LEWIS: This is related somewhat to--I think it was the chap this morning, Minister Hadi, was it, who was saying--we asked him, "What do you think is the most important thing the Bank might have done?" He thought quite awhile, and he said maybe—was it the revised industrial strategy?

KAPUR: No, the industrial restructuring.

LEWIS: Industrial restructuring.

KAPUR: He said that at the time, especially in the early '80s--that was his analysis--that there were strong internal lobbies which would have prevented openness in the economy, and he made use of the Bank in an effective way to push the case for industrial restructuring, internal openness. And he thought that the Bank had played a very important role in that.

WIDJOJO: Had played?

LEWIS: Had played.

KAPUR: This was the early '80s, I think. Is this true?

WIDJOJO: No, it's been as follows, actually: in '83 oil prices came down, and '86 I think there was the very sharp decline in oil prices. Now, during that time the idea is to

give more attention to non-oil exports and non-oil production became more attractive. And when you see this fellow, Ali Wardhana, that would be a good opportunity because he was the one who really got things changing.

LEWIS: He pushed toward the export expansion?

WIDJOJO: Oh, yes, non-oil exports and non-oil production. Now, here both the World Bank as well as the HIID were very useful, very, very helpful to us in opening up the economy for imports but also to what we call “deregulate.”

LEWIS: Deregulation.

WIDJOJO: Yes, that's a word we like to use here, “deregulation.” *[Laughter]* And, oh a lot of changes were made like licensing, to get away with licensing, industrial licensing but also trade licensing. So that was a good start.

However, we are far from being finished.

LEWIS: I gather.

WIDJOJO: This is—you know, sometimes why is it not possible to do it in a comprehensive way? The reason is actually we have the choice. The choice is not to do anything or to do something little by little. And we prefer not--we prefer to do little by little even though we would have preferred a comprehensive because you can't do it. First, there are people with a lot of interests in protection and so on, but also it needs education. I mean, you have to educate. This is the *[inaudible]* of the public.

LEWIS: Now, when you made that turn, Ali Wardhana was in charge, I guess, would you say that that was because the ideas had sort of matured partly as they were pushed by the Bank and by HIID, or was it more because the circumstances had changed, as you--this notion of export-led growth had been around for a while, hadn't it? But as you say, your foreign exchange suddenly fell out of sight and you were sort of forced by circumstances.

WIDJOJO: Yes. Now, there are two things. Actually, before that time, I think before '83, the Bank wrote a report on industrialization in Indonesia. I think Helen Hughes was the one that wrote it. *[Laughter]*

LEWIS: Oh, Helen handled . .

WIDJOJO: One of them. And very critical about our industrial development, including the banking, monetary policies and so on.

LEWIS: I see.

WIDJOJO: Very critical. And oh, there was a lot of discussions, a lot of discussions.

So there was no agreement on that draft. Later on the few of us who realized that there are many truths there, *[Laughter]* many correct things in it, we had more ammunition to tell the others who were disagreeing with this draft report. But it was still a draft, never published.

LEWIS: I see.

WIDJOJO: Never published. Then they started to--because you need the strong arguments, and when prices of oil came down, it was much easier to convince others.

LEWIS: Just a detail--you said that was about '83?

WIDJOJO: Before '83.

LEWIS: Oh, Helen Hughes, she must have left the Bank about '82, '81, something like that, '81, '82.

WIDJOJO: So that was before that.

LEWIS: It was not Anne Krueger?

WIDJOJO: No, no, no. It was Helen, Helen Hughes, yes. Anne Krueger was not . . .

LEWIS: She came in in '82, I think.

WIDJOJO: In '82, yes, but it was Helen Hughes. I remember.

LEWIS: You couldn't contain those two ladies in the same organization. *[Laughter]*

WIDJOJO: There are a number of them!

Oh, when you see this man, let me—Rachmat Saleh. Now, November 26, 2:00 p.m.?

LEWIS: Yes.

WIDJOJO: Now, he was at that time governor of the central bank. Oh, and he was one who disagreed strongly with the report.

LEWIS: Oh, really?

WIDJOJO: Oh, yes, because the report--or the draft report--criticized credit policy, and at that time--oh, he is a good friend of mine, but *[Laughter]* he has—he felt that this cannot be done at the time.

WEBB: The report said that credit policy was too loose?

WIDJOJO: No, no. We at the central bank, you know, acted as not a central bank but acted as the only bank. So there are many—there were a number of state banks and few private banks, but the state banks had to carry out guidelines—well, not guidelines, actually decisions. So ceilings of credits . .

WEBB: Credit allocation?

WIDJOJO: . . credit allocations, and the central bank decide on rate of interest and so on. You know, we have a lot of state banks; yes, we inherited from the Dutch. It was nationalized in '57, I think, so they are still there. Now, these were called “implementing banks.” Not real banks--implementing the decisions of the central bank.

So now at this stage, completely changed, we started to make changes in '83, also, but the most, the biggest changes took place in '88, complete deregulation of--they can decide on their setting up their interest rates, and setting up new banks is much easier now, private banks, private Indonesian banks as well as joint ventures with foreign banks.

WEBB: This was [*Machtarudin*] Siregar, Mr. . . .

WIDJOJO: Oh, no, no, no. Saleh. Saleh is now . .

LEWIS: He's now in the department of trade.

WIDJOJO: Yes, but the one who knows a lot about this reform, financial reform, is Ali Wardhana and the present governor of the central bank. If it's not in here, but I'll write his name. His name is [*Adrianus*] M-O-O-Y, Mooy. That is the present governor of the central bank. I think that it would be good to--because this has been happening in '88 when he . .

WEBB: Was he there in '88?

WIDJOJO: Yes, yes. He--you know, we have five years . .

WEBB: Five-year terms?

WIDJOJO: . . terms in the cabinet and the central bank people also. You know, the president has been re-elected after five years, [all speaking at once] and every time there is a new cabinet.

LEWIS: After the last election, I saw in the paper, they were proposing a two-term limit on the president.

WIDJOJO: Oh, yes.

LEWIS: What we have in the U.S.

WIDJOJO: Yes, yes.

LEWIS: Reaction to President [*Franklin D.*] Roosevelt.

WIDJOJO: But he had three, right?

LEWIS: Well, he had three. They actually elected him for a fourth; then he died. And so in retrospective anger the Congress passed this limitation on two terms. The horse was out of the barn already, you know! [*Laughter*] But . . .

WIDJOJO: But Mooy would be the right person to explain about that.

Now, let me go on. Sadli, Emil Salim, yeah, and then Kemal Siber. Now, Kemal Siber is an interesting person. He was the first IMF representative when we joined, we came back to the Fund, but before that he was—he came back and forth here to Indonesia. The director for Asia at that time was Tun Thin, I think. He is retired now, I think, and Kemal Siber was one of the men, and . . .

WEBB: He's Turkish?

WIDJOJO: Turkish, yes. He was secretary general or something in the ministry of finance in Turkey. And he went through those difficult periods, so he will be--oh, Bernie Bell as the Bank representative and Kemal Siber was the Fund person.

LEWIS: And the two institutions were very much in harmony with one another?

WIDJOJO: Oh, yes. That is a--I was always surprised when I read something about their fights and so on because here we did not feel that much. I don't know how, but there seems to be . . .

LEWIS: Well, I suppose Bernie and the Bank were taking a fairly conservative line on macro policy, weren't they? On demand management?

WIDJOJO: Yes, that's right.

LEWIS: Monetary?

WIDJOJO: That's right, that's right. And we ourselves, we don't make that sharp distinction: this is the Fund and this is the Bank. We just discuss with both of them or whoever is really interested. So when we prepare the big devaluations, you know, sometimes we discuss it with the Bank people, sometimes with the Fund people, whoever was at that time very active. Well, some people say you should discuss it with the Fund. All right. But the Bank people are more . . . [*Laughter*]

LEWIS: Did your sort of focus of attention shift over time on average from the Fund toward the Bank? Normally the Bank was a . . .

WIDJOJO: In the beginning, yes. When we had—what do you call--stand-by agreement, stand-by agreement with the Fund, you know, at that time “Dear Mr. [*Pierre-Paul*] Schweitzer.” [*Laughter*]

LEWIS: Oh, yes.

WIDJOJO: You have to write a letter of intent. That was from 1967 to 1970, I think. Then in 1970 we never had any stand-by agreement anymore, and we were telling ourselves, “Whatever happen, no stand-by agreement with the Fund and no rescheduling of debts” [*Laughter*] because this is really . . .

KAPUR: On that--I'm sorry--the last point. More recently with the sort of Latin American debt crisis and when people talk of debt restructuring, one has frequently started to see, when people quote as an example of the way to go about it, how Indonesia managed to restructure its debts in the late '60s, early '70s. We were wondering if you recall that, how that was done.

WIDJOJO: Oh, yes. It was something I would like to discuss with you because this is an example in which something was done for a developing country but never became a precedent for other developing countries, unfortunately. You know, it went as follows. Can I go into it?

LEWIS: Oh, please.

WIDJOJO: When there was the change of government we were stuck with 2.3 billion U.S. dollars of debt, outstanding debt. The larger part was to the Soviet Union and East European countries and the rest to the Western countries.

Now, it was clear that we could not make any interest payments and repayments, so--and we realized that no new aid will be forthcoming unless something could be done. So the first meeting we had was in Japan, and it is very interesting that in 1966 Japan took the initiative to have the meeting in Japan.

LEWIS: That's interesting.

WIDJOJO: Yes. And I think it was United States and others must have encouraged Japan, but they were prepared to have the meeting there, meeting the Indonesian creditors with Indonesia to discuss what can be done. So--but there were no solutions to the debts at that time, but they learned more about our intention and so on.

Then in December '66 we had our first Paris Club meeting, and there they agreed to reschedule Indonesia's debts with three years grace period and eight years repayment, so total eleven years. And we had to pay interest on the rescheduled debt.

LEWIS: Market interest or concessional?

WIDJOJO: That was market—no, no, no. Not quite market, but also not really concessional, something--and that went on for '66. That was '66, was for whatever was due in '67 and the arrears. So--and because of the agreement in Paris in December of '66, in February '67 the first aid meeting on Indonesia could take place in Holland, authorized [*inaudible*] meeting, but that made it possible.

And then we had annually two meetings with the Paris Club because they want to see whether we did our homework or not [*Laughter*] every year. But then they found out that we did at least most of what we were supposed to do. [*Laughter*]

And then the idea came up to ask someone to find solution for Indonesia's debts because with this annual rescheduling you would have to keep rescheduling all the time. So the Paris Club looked for someone, and then they and Indonesia agreed to ask Mr. Abs, Hermann Abs from the Deutsche Bank. There were few who was considered, but the main then finally was Abs.

LEWIS: I just read today that this gentleman is still alive.

WIDJOJO: Mr. Abs? He is still in Germany now, yes. And he made studies, and here the role of the Bank and the Fund were important. They worked out all kinds of projections: you know, I mean if you do that, if you do this, and if you do that and so on. And both the people in the Bank and Fund provide us with a lot of information because we did not know what is to be done. They inform us, these are the problems and so on, and they work out for Mr. Abs all these debt projections for the future.

Then Abs came up with this idea that there must be a final solution with these debts, and it consists of a number of items. One is a 30 year repayment period of all debts in equal amounts and no new interest, no new interest. And it should be . .

[End of Tape 1, Side A]
[Begin Tape 1, Side B]

WIDJOJO: . . and so military or economic uses of the debts would not matter, he said. And also nondiscriminatory principles: this applied for all credits.

So a number of the Paris Club countries were not happy with this proposal. They say, "It cannot be done. It can't be done." And so on.

But then there was a . .

WEBB: Excuse me. Did the Bank say that?

WIDJOJO: Oh, the World Bank? The World Bank did not say yes or no because . .

LEWIS: You didn't have any—you hadn't borrowed from the World Bank, I think.

WIDJOJO: Excuse me?

LEWIS: Had you borrowed from the World Bank?

WIDJOJO: No, no. So they were there kind of assisting the Paris Club. You know, it was interesting with the Bank and the Fund. They were there and they work out many things, but actually the formal arrangement was with the Paris Club.

Then we also suggested to the group there is no grace period, so we have some objections because Abs' proposal lacked a grace period. Then there was some discussion: "Okay, there can be a grace period, but then the repayment will be at the end of the 30 years period, the last eight years. But for that purpose there will be some--interest will be applied to whatever is postponed."

LEWIS: This was all official debt? You didn't have commercial . .

WIDJOJO: Official debt. In the case of commercial debts, we--what we called a "scheme," it's called "DICS," debt investment conversion scheme. So this could be converted into investment and then . .

LEWIS: A debt equity swap?

WIDJOJO: Yes, now it is called a swap, [*Laughter*] but at that time we tried to encourage investment, and we had foreign exchange controls here at that time. So whoever, they can sell those debts but only to be used for investment in Indonesia. But the major part was official debt.

KAPUR: Was there any multilateral debt at that time? Or was it almost entirely the official debt or bilateral [both speaking at once]

WIDJOJO: Official, bilateral. Because, you know, we left the World Bank, also.

KAPUR: Right. And you had not yet borrowed from the ADB [*Asian Development Bank*].

WIDJOJO: Oh, no, no, no, no. ADB was just starting in '66, yes, and we right away joined the ADB. No.

But a number of countries had problems, like Japan. They say, "That's against the law." In Japan they have this OECF [*Overseas Economic Cooperation Fund*] and there is an OECF law, and they cannot agree to that. So we had some discussions with the Japanese, so not only in Paris but we visited some of these countries, and we suggested them to change the law. [*Laughter*]

LEWIS: To change the law.

WIDJOJO: To change the law. That would be most logical is that you can do that. We told them, you see, most of these Paris Club countries, they are agreeable to this proposal, but if Japan disagree, then they will not be in a position to agree; you know, I mean on nondiscrimination and so on. And then Japan will be blamed and it would be difficult . . .

KAPUR: And what deal did you have with the Soviet Union?

WIDJOJO: Ah! Later. The Soviet Union was in the beginning invited by the Paris Club to join, but they refused, they did not want. So we dealt first with the Paris Club.

Finally the Japanese went to parliament and changed the law. The finance minister at that time was [*Takeo*] Fukuda. He was also a man with a vision, and he thought, I think, it's important to have good relations not only with the other Paris Club members but with Southeast Asia and so on. So they changed, and as a result the agreement was established.

Now, after we agreed with the Paris Club members--I mean a bilateral agreement, of course--then we went to Moscow to negotiate with the Russians. And at that time we told them, "You see, we have this agreement with the Paris Club, and there is a nondiscrimination principle there. So our hands are tied. If you agree, then we will start with repayments. If you don't agree, there will be no repayment at all. We cannot." Oh, after two days they agreed! [*Laughter*] And we could do that because we did not expect any assistance from the Soviet Union, no assistance, no nothing. And from there then Romania, Poland, and so on--we had debts all over the place from all of them. Only with one country do we, could not: China, because we were not in talking terms at the time. But now it is already written off--the debts are all paid, repaid with China.

So—oh, and at that meeting in the Paris Club they keep telling us, "This is not to--this is a unique case, and this should not become a precedent for other developing countries."

LEWIS: And it didn't, huh?

WIDJOJO: No! [*Laughter*] And then it did not, it did not, and it's very sad.

LEWIS: That is too bad.

WIDJOJO: Yeah, well, we have no objection if it becomes a precedent. It could be a good thing if it would become precedent.

KAPUR: It has become slightly more tricky maybe because at that time Indonesia had primarily official debt and bilateral debt . . .

WIDJOJO: That's right, that's right.

KAPUR: . . . but almost no multilateral debt. And for the World Bank and the ADB it's very tricky.

WIDJOJO: Yes, yes, yes, and I keep asking the World Bank people, you know, “Are there no rescheduling of World Bank debts?”

“No, that’s not possible.”

“Why?” You know, debts are debts, I mean whether it is due to England or France or the World Bank, I mean . . .

KAPUR: They also have a precedent that the World Bank did reschedule once . .

WIDJOJO: Reschedule once.

KAPUR: . . for India in ’66.

WIDJOJO: I see. Oh, that’s a long time ago also.

KAPUR: It was a small amount, but they did.

WIDJOJO: They did, huh. So we—well, that is . .

LEWIS: That’s a very interesting story.

WIDJOJO: That was the rescheduling. And Siber could also be—he was there, continuously, Kemal Siber, Bernie Bell and Kemal Siber. That’s a good . . .

Then let’s go on. November 25th, Monday, after Kemal Siber you will see Soegito [*Sastromidjojo*]. Soegito, he is now secretary general of the department of finance, but before that he was director general for foreign economic relations at the Ministry of Finance. So he had a lot of dealing with the World Bank. And even now he continue to be active with the World Bank and the Fund.

Then Suyono Sastrodarsono at 11:30. He was minister of public works, and before that he was secretary general and before that he was director general of irrigation.

LEWIS: I see. Okay.

WIDJOJO: So. The first projects the World Bank started here was irrigation projects. So he is the person at that time.

LEWIS: Irrigation is generally thought to have been a successful program here?

WIDJOJO: Oh, yes, yes. Yes, it is successful. And we were very fortunate. On the part of the World Bank they were—they sent quite good people on irrigation, agriculture and irrigation. I think one of them is still around in Washington: [*Heinz*] Vergin. His name is Vergin. [all speaking at once] V-E-R-G-I-N.

LEWIS: Vergin, he's now the desk officer on India.

WIDJOJO: Ah, I see.

KAPUR: Director, the country director for India.

WIDJOJO: Vergin, Heinz Vergin. He was a . . .

The responsible man for agriculture was [*Thomas C.*] Creyke, Tom Creyke, at that time, but he died some years ago, I think. And then Takasita [*Shigeharu Takahashi*] also, from Japan.

LEWIS: By the way, just as an aside, it's interesting to learn that about Vergin because he said that irrigation work in India was now generally perceived to have been pretty bad, a failure.

WEBB: Yeah, that's right, that's right, yeah, yeah.

KAPUR: Well, it's--they were saying in the early '80s the irrigation work in India was very good, but you see that--actually the 1981-'82 reports--whereas now in '91 it's become very bad. But that's because in general a lot of southern India's insecure and you cannot separate irrigation from that environment.

LEWIS: Yeah, okay.

WIDJOJO: Now then, Ali Wardhana. You know, Ali Wardhana is an interesting man because he was finance minister in '68 until '83.

LEWIS: My! That's a long time.

WIDJOJO: That's like Suharto. When Ali Wardhana became finance minister I mentioned to him, "You know, Suharto became finance minister for so many years. I think you can beat Suharto." [*Laughter*]

LEWIS: Fifteen years.

WIDJOJO: Yes, fifteen years, but then he became coordinating minister for economic affairs for five years.

KAPUR: Does the finance minister report to the coordinating minister, or not really?

WIDJOJO: You know, all ministers are supposed to report directly to the president.

KAPUR: Okay.

WIDJOJO: Yes. But the coordinating minister actually has some authority to what we call “coordinate” these ministers and very much depends on personalities. Some are effective; some are not very effective. We have three coordinating ministers: one for economic affairs, social affairs, and political and defense.

LEWIS: We've understood that that's one way that you, your group--and people sometimes just speak of you personally--have sort of retained a great deal of effectiveness in the economic area because you're sort of separated from these other quadrants. Is that right?

WIDJOJO: Yes. Actually it is very important to have coordinating ministers. Actually, if we had a prime minister that would be a deputy prime minister for economic affairs because, you know, finance and trade and industry, they fight each other and somebody has to straighten out these matters and put some—like the finance minister needs a lot of support because he has to take a lot of unpopular matters. And if you left him alone it will be more difficult.

LEWIS: The coordinating minister has more contact with the president?

WIDJOJO: Depending on--in a way, yes. It depends very much on . .

LEWIS: Personality?

WIDJOJO: Personalities. For example, when a minister went to see the president--because that is his right; we report directly to the president--then he come back and discuss with the coordinating minister what will be the further, what further steps should be taken and so on.

So the coordinating minister can be very effective in keeping the machinery more consistent. You know, and if in addition to being coordinating minister you are also chairman of the planning agency, that's even more effective because the planning agency has to do not only with economic affairs, economic matters, but also with education, health and . . .

LEWIS: It is the budget office, isn't it? I mean . .

WIDJOJO: Yes, that is the budget office, the development budget office.

LEWIS: Development budget office, both annual and five year, whatever.

WIDJOJO: That's right. But five years is the more indicative one. The annual one is more . . .

KAPUR: Was there a time when there was someone who was both coordinating minister and BAPPENAS [*Badan Perencanaan Pembangunan Nasional, National Development Planning Board*]?

WIDJOJO: Yes, yes, that's right: that was me.

KAPUR: That was *[inaudible]* my question. *[Laughter]*

WIDJOJO: So that was easy. *[Laughter]* I didn't need to have another office for coordinating minister because the BAPPENAS could be effective, you know, otherwise--like, for example, every year we have to decide on a floor price of rice, you know, and this has to be decided to encourage farmers to produce more . .

LEWIS: Sure, sure, sure.

WIDJOJO: . . and this has to be done so many months before the planting season and so on. Then you decide also on the price of fertilizer because it's linked with others; so the ministry of agriculture and industry, trade, and so on. We have also what we call the rice agency. They are supposed to buy rice from the farmers whenever the price is below the floor price. Now, to do that you have to have some people working on it, and the planning agency was the right . .

LEWIS: I see.

WIDJOJO: Yes. So . . .

WEBB: What years were these?

WIDJOJO: '67 I was in charge of the planning agency. In '73 in addition I became also coordinating minister until '83.

LEWIS: Until '83?

WIDJOJO: Yes. Then Ali Wardhana became coordinating minister, but the president thought there should be no double function anymore. *[Laughter]* So Ali Wardhana became a coordinating minister. He--instead of . . .

LEWIS: He gave up the finance ministry?

WIDJOJO: He gave up the finance ministry.

And then a man who is not here *[on the schedule]*, Radius Prawiro, who is now with the President's group in *[inaudible]* [both speaking at once], he became the finance minister. And then when Ali Wardhana was not coordinating minister anymore, Radius Prawiro became the coordinating minister.

LEWIS: So it became a double function again?

WIDJOJO: No, no.

LEWIS: We're seeing the present finance minister, yes, yes, yes, okay.

WIDJOJO: Oh, yes. But it is not a double function anymore. But it can be effective, very effective, so like I think in Korea they have a deputy prime minister [both speaking at once]

LEWIS: Yes, sure. He's one of your colleagues in this [both speaking at once] he has been on this committee [*World Bank history advisory committee*] you haven't come to yet: Kim Mahn-Je.

WIDJOJO: Kim Mahn-Je, yes.

So, you know, and otherwise, if you have two, then what is he supposed to do and what is this man supposed to do or not to do and so . . . [*Laughter*]

KAPUR: You were referring to the issue of some rice prices as well as the input prices of, say, of agricultural inputs like fertilizers. And this, especially in the '80s, is a very contentious issue with which the Bank has been involved, you know, with subsidies, inputs, and other [*inaudible*] agriculture. Was that the debate here also with the Bank?

WIDJOJO: Oh, yes, not only with the Bank but a group of us feel there is too much subsidies, but other people say no, we need the subsidies for the farmers and so on. But actually this—there are huge subsidies for fertilizer and also this, the rice which is bought from the farmer and then it is used for market operations to keep the ceiling price . .

LEWIS: Sure.

WIDJOJO: Yes, and so effective, so. But also to--part of the salary of government employees is paid in rice, you know.

LEWIS: I see.

WIDJOJO: So we have been trying to get rid of this for a long time, but it's not been successful because at one stage--that was in 1972--we had a very severe food crisis, very severe, and the fact that government employees get, received rice, that was a big help.

LEWIS: Kept things more stabilized [*inaudible*]

WIDJOJO: That's right, but actually a number of us think that that is not needed anymore. I mean, you need bureaucracy for that, to provide them with rice and so on.

LEWIS: Oh, sure. Wages in kind are a nuisance.

WIDJOJO: Yeah. A nuisance, that's right, that's right, but still it's going on.

WEBB: Did the Bank press a lot to remove the rice subsidies?

WIDJOJO: They discussed it with us, but we explained to them that it is not yet feasible.

WEBB: They wanted to—the effect would be to lower the price of rice?

WIDJOJO: The ceiling price will be lower, the ceiling price, and there would be more opportunity for the private sector, although now what is bought by the government is less than ten percent of total production. It's very small.

Ah! Peter Timmer will be able to—yes, he has been right from the beginning (he was very young at the time, '67 or '68, I think) working on this, and he continues to come back every year here. He knows also what happened during those years.

WEBB: Because one of the things that people in the Bank--some reports say--is that Indonesia has had good poverty results because they pay good prices to the farmers. So they praise the rice price policy, but there seems to be a contradiction there in the Bank's . . .

You've never . . .

WIDJOJO: Yes, actually it goes as follows: the price of rice, the floor price, this has been--every year it is increased, every year, and at the same time we increase the fertilizer price. But the cost of producing fertilizer has been increasing also--primary [*inaudible*], you might say, because of oil prices. But also in addition to the subsidies on fertilizers there is the subsidies to the difference between the floor price and the ceiling price. The ceiling price is rather high for the urban population, and this is subsidy, actually, we got, and this is what has been widely criticized.

LEWIS: Let's see if I get this: the ceiling price is the price to urban consumers?

WIDJOJO: That's right, that's right. So actually that is a ceiling--you know, our rice agency put the ceiling price. Whenever the price hit the ceiling, then they start selling the rice.

LEWIS: You enforce the ceiling price by distributing the stocks?

WIDJOJO: That's right: by distributing stocks.

LEWIS: But you have a single price in the urban market? You don't have a price for the poor?

WIDJOJO: No. No, no, no, no. No, no, no, no. Nothing.

LEWIS: Nothing like that.

WIDJOJO: We have nothing like that or, for example, with stamps and so on, nothing like that.

LEWIS: Nothing too *[inaudible]* about that.

WIDJOJO: But they're responsible for price, the accounting price, actually, for government employees. This is also high.

LEWIS: That I understand, but I don't understand why the ceiling price if it is enforced by a buffer stock operation is the subsidized price.

WIDJOJO: No, because they put it at the high level, at quite a high level, and the government agencies running these operations, they need to cover the cost of their policies and so on and bringing rice to different regions, and there is a strong feeling that they are not that efficient.

WEBB: If it was a free market, would the farmers get a higher or lower price?

WIDJOJO: Most of the time what is purchased by the rice agency is rather small, less than ten percent as I mentioned, less, because the price, actual price is actually already higher.

LEWIS: Well, you could use a buffer operation that simply reduces the fluctuation, the seasonal fluctuations of prices. As long as you don't run out of stock or don't build up stocks unnecessarily then you're really not altering the behavior of the market except to take the humps out of it . .

WIDJOJO: That's right.

LEWIS: . . and that I think myself is a very socially benign kind of intervention.

WIDJOJO: That's right, that's right

LEWIS: But I still don't quite--I guess it's because you're--out of the ceiling price you're getting the operating costs of the . .

WIDJOJO: Agency.

LEWIS: . . of the government agency that . . .

KAPUR: But also I think to the extent that, in Java in particular, if rural poverty was with the marginal or landless, then higher rice prices--and they are net purchasers--would adversely affect poverty.

WIDJOJO: Yes, that's right. This is somewhat the problem that some who do not have

any land at all, they have to buy.

KAPUR: Exactly. They're net purchasers.

WIDJOJO: And the high floor price will have an impact on them, but on the other hand, those who have a small piece of land, they benefit from this floor pricing policy.

LEWIS: Yes, if they sell some of their product and they are self-supplying and have a little surplus to sell, then they benefit, as do the larger farmers.

WIDJOJO: Yes.

LEWIS: It's the landless or the nearly landless especially urban consumers who are adversely affected by a high price. But you haven't had a two price system. You know, in India the opinion had been to--I don't know what the Bank thinks; I guess probably they're against it--but many, many people thought you have to have a subsidized price for the poor through some kind of segregated distribution. It's very messy.

WIDJOJO: Messy. That's right, that's right. That's why we keep it simple. *[Laughter]*

LEWIS: It's good if you can. Of course, in Sri Lanka they gave this great big subsidy to everybody and got everybody very healthy and then into very serious trouble fiscally.

KAPUR: What's the extent of the total agricultural subsidies as a fraction of GDP?

WIDJOJO: I don't know for sure because these are sometimes implicit subsidies. So if this rice agency get credits from the central bank at the subsidized interest, so it doesn't go to the budget. And this is the remnants of subsidized credits. It still continues. In the past it was the normal thing, subsidized credits.

Shall I go on through the schedule?

LEWIS: Yes, yes, please.

WIDJOJO: So Ali Wardhana and then *[Johannes]* Sumarlin. He is the present finance minister.

LEWIS: Right.

WIDJOJO: Now, at present he is working to get this legislation on banking, the new banking law, this environment, insurance, and pension funds. These are the three major things, and we feel these are important legislation for future mobilization of savings, particularly, say, of pension funds and insurance.

WEBB: Everywhere in the world.

WIDJOJO: Yes, yes. Here it's our idea to *[inaudible]* do this.

LEWIS: Yes.

WIDJOJO: Yes. Dave Cole help us under banking law. Then a man with the name of Jenkins, Glenn Jenkins, from Canada, working with HIID, has been very helpful on insurance and pension funds.

Now, Frans Seda, he was minister of finance in '67 and '68. You know, when Bob McNamara came here, Frans Seda was still finance minister. And then he was replaced by Ali Wardhana, and he became minister of transportation.

LEWIS: I think maybe we are going to have to bow out of Mr. Seda because that's [Lewis and Webb speaking at once]

WEBB: Yeah, I was thinking the same.

LEWIS: I think so.

WIDJOJO: Yes. Well, instead of Frans Seda to Sumarlin [both speaking at once]

LEWIS: It's more important to meet with Sumarlin.

WIDJOJO: Yes. Sumarlin would be—and maybe we can rearrange this timing so that you have more time with Ali Wardhana.

LEWIS: That would be good, I think.

WIDJOJO: Yes, so let's make 1:30 to 3:30, something, because they share the same offices, the same building, so . .

WEBB: We can walk.

WIDJOJO: Yes, just walk.

LEWIS: I see. Okay. Good. All right.

WIDJOJO: Then Ibnu Sutowo. Well, if you want to hear his side of the story of the Pertamina *[inaudible]*

LEWIS: It might be interesting.

WIDJOJO: Yes. He was very unhappy in 1974, '75, but took away since--Ali Wardhana as finance minister at the time took very important steps to manage foreign debts. You know, the problem was when oil prices went up the revenue which has to go through the government did not go, come all to the government, partly it was kept by

Pertamina, and in the meantime Pertamina borrowed a lot from commercial banks. And it's very interesting, you know, because commercial banks, when they see someone or some agency earning a lot of money, then they come up with loans.

LEWIS: The same thing in Mexico.

WIDJOJO: Yes, exactly, yes, as an umbrella. You only get umbrellas when you don't need them. Then you take away . . . *[Laughter]*

Then, oh, they keep coming up with all kinds of projects. Fantastic! Including, also, tankers, you know, I mean, all *[inaudible]*

So Ali Wardhana will be able to tell you also, and Sumarlin at that time, he was vice chairman of BAPPENAS at the time. He had to find some solutions for this Pertamina. And then at one stage there was a bank--if I'm not mistaken, the Republic Bank from Dallas, you know--they were not prepared to--what do you call it?

KAPUR: Roll over?

WIDJOJO: Roll over, yes, roll over. And then it became a problem. Ali Wardhana was finance minister at that time, and Rachmat Saleh was governor of the central bank.

LEWIS: Yeah, we're seeing him on . . .

WIDJOJO: Yes, you will see him, and he will be able to tell you also about that time.

And then some steps had to be taken to renegotiate these contracts and debts and so on.

KAPUR: Was the whole issue, this whole crisis, was it completely internally resolved within the GOI *[Government of Indonesia]* or did the Bank and/or the Fund get involved?

WIDJOJO: No, no, no. Just . . .

KAPUR: It was completely within the . . .

WIDJOJO: Yes, yes, the only thing is, was at that time was that we decided to limit the borrowing. Short-term borrowing was limited. And actually Ali Wardhana liked to use this word, "blessing in disguise," you know, because—because of that crisis we were able to be very stringent on foreign borrowing, so no state enterprise could borrow externally, only the department of finance and the central bank.

LEWIS: After this crisis?

WIDJOJO: Yes.

KAPUR: And then when you come to the late '80s, like about a few months ago, the

GOI again took that step, sort of clamped down and so on and so forth.

WIDJOJO: That's right, that's right.

KAPUR: Do you see, were the lessons different? Were they sort of forgotten? Or was it a different set of circumstances?

WIDJOJO: Yes. In '74-'75 it was just one company, Pertamina. Now, the latest one, for example, it is the problem of promoting the private sector. *[Laughter]* Because it's good in, you know, I mean in terms of privatization and the private sector, but the private sector or some of these companies established arrangements with state-owned companies, and then they start to borrow abroad. Now, and the commercial banks consider this as a, "Ah. Very good. The state enterprise will also be responsible for repayment of the debts." And that means the government because the government never let go of big state enterprises. And then they became very loose in their borrowing. They just borrow at very high margins. These are commercial loans, and the projects are not that . . .

So the latest one is we took some steps against what we call "state-related projects," not state projects or government projects. This can be related: for example, a state enterprise and a private enterprise form a joint venture, and then they could borrow from abroad. But it is also possible that a private company invests here but have a captive market, and the captive market is actually state enterprises. You have some arrangement that take off these by Pertamina, for example, or other companies. Or they do some arrangement with state banks so the state banks are doing the borrowing, but this is for certain private companies. If something happens the state bank is responsible, and the government will probably not let the state bank become bankrupt. So when the economy moves higher up, so to speak, it becomes more complicated.

LEWIS: Yes.

WIDJOJO: So actually similar but different. *[Laughter]* Similar but different.

KAPUR: But in both cases the resolution and the advice and everything was within the GOI?

WIDJOJO: Oh, yes. Of course, we had a lot of discussions with the World Bank and the Fund, but also we have another group of advisors. We have a number of advisors. *[Laughter]*

LEWIS: You do have a lot!

WIDJOJO: We call it "advisory group." It consists of Lehman Brothers . .

LEWIS: Oh, yes. We've heard.

WIDJOJO: . . Lazard Freres, and Warburg. So we asked them to join forces and give us

advice.

It started with the Pertamina crisis because we had to deal with many commercial banks, and we had to review contracts and so on. They were very helpful in that, and they continue to be helpful now. So, for example, they always provide us with what they feel the international market is, because we have to borrow, for example, the central bank has to borrow every year commercially. But it is not used. We call it a kind of a stand-by loan. It has nothing to do with the IMF, but just to make sure that if there is a run on the foreign exchange reserves, we can draw on this. But we have to know what the market is, and these three groups, three houses, they assist us. And they have been one of the first who warned us about this what can be called “over borrowing” of state-related projects. So we compared their views with the World Bank, and it seems to be consistent.

LEWIS: Let me ask you about this large incidence of advisors. I think this three sounds like a very sensible commercial arrangement like hiring a--well, it's a financial consultant. But you do have this large number of HIID people in different places; there's the Boston University group and so on. It looks to me, from what I've heard, as though it's a sign of your self-confidence, really, that you have this many. You can have all the advisors but they're not--you make up your own mind, and you sort of get inputs from different quarters. But I would think that there might be some criticism within the country that you're taking too much, leaning too much on outsiders. We just came from Bangladesh, and there they're very, very concerned about self-reliance, you know. And you know Rehman Sobhan, for example, in BIDS [*Bangladesh Institute of Development Studies*], the economist?

WIDJOJO: No.

LEWIS: You don't? He was . .

WIDJOJO: I know Nural Islam.

LEWIS: Well, I know Nural, too. He's an old friend. But Rehman is to the left of Nural by quite a distance but a more strident critic of foreign aid and external interventions and all that sort of thing. You don't get any of this kind of thing?

WIDJOJO: Oh, yes. There are some, but we don't worry too much because we have so many things to worry about! [*Laughter*]

You know, for example, when we heard about when a Fund mission comes to a country, you know, people start throwing stones on them, you know. And the Fund mission came here, and the central bank put a sticker on the car “IMF.” [*Laughter*] I told them, “You better stop that,” and they did.

But indeed there are criticism and so on, but we informed them that we need a window to the world, and it is very important. You can't do it yourself, all the time you're--and these are very effective windows, actually, and they can be useful.

For example, when we introduced the tax reform, income tax--we introduced VAT and then a property tax--the HIID was very effective. The man was Malcolm Gillis. He's at Duke University now. Then the draft law came, and then it went into parliament and so on. It was agreed, and then the newspapers, they said, you know, "Malcolm Gillis," you know. I was criticized and so on. Okay. I was criticized, but after a few weeks died down, so no anymore.

Of course, these advisors, their effectiveness is due to the fact that they know when to say something in public. In most cases they don't say anything in public.

LEWIS: Yeah, I gathered.

WIDJOJO: Yes. And that is very helpful. That is very helpful.

Also, with the World Bank and the Fund when we have discussions, you know, the important thing is not that you publish the report on whatever it is on Indonesia, and then the report goes everywhere, and then they will be saying, "The World Bank insists that you should do it." Just provide us with the essence and in unsigned report. I mean, just a "non-paper," you know. But this can become a basis of discussions, and this is much more effective. But of course they have to publish reports, and that is all right. But there are many of these non-papers . .

LEWIS: Non-papers. It's a good term.

KAPUR: They come from the Bank and the Fund.

WIDJOJO: Oh, yes, oh, yes, the Bank's or the Fund's.

KAPUR: They're not official.

WIDJOJO: They're not official, and it is much more effective because you don't have to worry about the wordings. The wording should be, should not . . .

LEWIS: Your own younger economists don't get, don't feel that they're blocked by these foreigners?

WIDJOJO: Ah. Well, there are quite a number who are involved in this process. Those who are involved, they are very happy because they learn a lot, and I feel now we are getting greatly improved papers from them, you know, ideas and so on.

So right now, for example, one of the problems is--some people are arguing, "Why do we keep this rate of inflation below ten percent? Why not increase it and then more can be done for development" and so on and so forth. Then these younger people start fighting, arguing against that idea. This is very important for us.

Another was this idea, “Why do we not borrow domestically: bonds, issue bonds?” We do not borrow at all, I mean for the budget, while other countries are doing that. And then they *[inaudible]* We hope we can convince people who are interesting on domestic point of view.

But those who are not, you know, you cannot involve a *[inaudible]* involved with this. They are not happy because they are not in the mainstream, but those who are in the mainstream, I think, are.

KAPUR: I was wondering on this when we started off the conversation and you were talking about the IMF, and you said that in 1970 stand-by was so strong and you made up your mind that never again you would get involved in a stand-by arrangement with the IMF. So what was the nature of that experience which made you feel that strongly?

WIDJOJO: Well, you see, in that stand-by you have to promise so many things, and then there is—what do you call it—a kind of time scheduling from that and that and when you do that; otherwise, they stop the release of funds and so on. Now, that in itself, you know, you feel not happy, so . .

[End of Tape 1, Side B]
[Begin Tape 2, Side A]

WIDJOJO: . . so therefore we agreed among us that why don't we decide for ourselves what should be done, but in deciding it let's get whatever ideas, informations and so on from all the others so that we can do--this creates problems, for example—what do you call it--structural adjustment loans, you know?

KAPUR: The same sort of thing with the Fund.

WIDJOJO: Yes, yes, from the Bank. Now, we did a number of things, trade deregulation and so on, and then the Bank was prepared to provide us with the loan. And we had problems in the Board *[of Executive Directors]*. The U.S. Executive Director insisted there should be some provisions, but the management of the Bank said, “They have done it already.” *[Laughter]* “It has already been done! Why did you insist on that should be done, this thing should be done and so on?” Finally they agreed, but again they say that should not be a precedent for other countries. You know, every time that is that way.

So, oh, we had discussions with Mr. *[Charles H.]* Dallara. Dallara, I think, is from the Treasury, and now it's Mr. *[David C.]* Mulford.

WEBB: Dallara. *[all talking at once]*

WIDJOJO: Mulford, yeah, because they are the decision-makers, actually, what they actually *[inaudible]* other Directors do.

LEWIS: Like another advisor, huh? *[Laughter]*

WIDJOJO: So this is the problem. You know, we thought that is a good thing to do, but it's not enough. And it's become a precedent, so others will insist on that.

Oh, yes. One day I was invited to--what do you call it--Tidewater?

LEWIS: Tidewater? Oh, the Tidewater meeting. Yes, I used to organize that. *[both speaking at once]*

WIDJOJO: This—the aid givers. Yeah. That's right, that's right. Yeah. The aid givers.

LEWIS: Yes. The chairman of DAC *[Development Assistance Committee]* calls the meeting.

WIDJOJO: Yes, that's right. That's right. So I was invited to join one of their meetings, and Mr. *[Barber B.]* Conable was also there of course and *[William H. III]* Draper and so on and the rest. Then we had some discussion, and then I told them our good experience with the World Bank, that these structural adjustment loans and we did things and then we got the loan. And Mr. Conable said, “By the way,” he wanted to say something, he said, “Indonesia did very well, but it is not a precedent.” *[Laughter]* Because, you know, he had to be careful!

LEWIS: The American *[inaudible]* was there, probably.

WIDJOJO: Oh, yes, and other developing countries, they may insist, also.

KAPUR: They partially—well, India, you know, for the first time has taken a structural adjustment loan three months ago, just now it's beginning, it's never taken an adjustment loan. They did the same thing.

WIDJOJO: They did the same thing?

KAPUR: Well, the government of India insisted that politically it could not do things because of loan conditionalities. So they said, “You do these things first.”

WIDJOJO: That is recently?

KAPUR: Yeah.

WIDJOJO: Recently, yes. Well, Manmohan Singh is a very good man. We have a lot of discussions. You know, we are both members of the South Commission, and when he came here, oh, we had a lot of discussions about what can be done, what can be done in a country if you get the combination of the right people and so on.

LEWIS: Manmohan is a very good man.

WIDJOJO: Manmohan is very good.

LEWIS: He's shifted his position.

WIDJOJO: Oh, yes, yes, yes! We agreed to that! *[Laughter]* What is agreed in the South Commission is a compromise. *[Laughter]* He is a very good man. I was so happy when I heard that he became finance minister.

LEWIS: Oh, yes.

KAPUR: There's a lot of work to be done.

WIDJOJO: Yes, yes.

If I may finalize this, some of the names of these people.

Ibnu Sutowo, no.

Machtarudin Siregar, he was working here at BAPPENAS as deputy for economic affairs, and he negotiated many loans with the World Bank in Washington.

Rachmat Saleh, before--he is now economic advisor to the government--before that he was trade minister four, five years, and then he was also governor of the central bank for about ten years.

WEBB: Ten years?

WIDJOJO: Yes, about ten years. And before that he was deputy governor general. Now, the early days when we had to reschedule our debts and the setting up of the IGGI *[Inter-Governmental Group for Indonesia]*, that's *[inaudible]* meeting, we both, I mean, Rachmat Saleh and I, we were working closely on this. So he would be able to provide you with a lot of information about the early days.

Saleh Afiff, who is now minister of planning, he, before he became minister he was vice chairman of this planning agency and also minister for administrative reform. And before that he was deputy for economic affairs. That was before Machtarudin.

KAPUR: Should we need more than the time . .

WIDJOJO: Oh, yes.

KAPUR: . . for Saleh because we [both speaking at once]

WIDJOJO: Yes, Rachmat Saleh, yes. I think so. [both speaking at once] I think so. Yes.

KAPUR: Should we postpone the next one to half past three [both speaking at once] because we have to also go from there to . . .

WIDJOJO: To the dinner. I see. Rachmat Saleh, yes, I think Rachmat Saleh should be longer, yes. If it could be 1:30, that would be better. Saleh Afiff also has a lot to [all speaking at once] He has been a . . .

LEWIS: We all had a sense that Saleh Afiff was one we wanted to be sure to have enough time for.

WIDJOJO: Actually, if you rearrange this schedule so that we can have our meeting earlier than two, that would be . . .

LEWIS: Earlier than?

WIDJOJO: Earlier than Tuesday. That's Tuesday, right?

LEWIS: I think what--there are a lot of people here. We're not going to be able to see everybody.

WIDJOJO: Yes, but you will be here on Thursday, right?

LEWIS: I'm going to be here on Wednesday and Thursday until—I'll be here Wednesday and Thursday morning. The plane goes at 3 o'clock in the afternoon.

WIDJOJO: Good. Then we will . . .

LEWIS: And I hope I can come back and see you.

WIDJOJO: Oh, yes. And then we can discuss further . . .

LEWIS: And if you can find anything about these Harvard types . . .

WIDJOJO: Yes, Timmer and Dave Cole and--that would be very helpful--and Patten.

LEWIS: It would be very good. We probably better center this--whatever you want to arrange for us is fine, but we should probably get you, if you would, to have your office check with Nick [*Nicholas C.*] Hope so that we don't get double programming going on.

WIDJOJO: That's right. Oh, yes. I will check with Nick Hope, yes. I think it is important that this office continue to make the arrangements. But, for example, Timmer has just arrived today here from this--you know, he organized this seminar with the Vietnamese.

LEWIS: I see; I see.

KAPUR: My sense was that if someone is an American, then we can probably easily see them in the U.S. So we should try to meet as many Indonesians . . .

WIDJOJO: That's right.

LEWIS: I think that's right, Devesh, because we can go up to Cambridge and see Peter Timmer and . .

WIDJOJO: But Dave Cole stays here.

LEWIS: Dave is staying here, is he?

WIDJOJO: For six months.

LEWIS: Oh, well, then it would be nice to talk with him.

WIDJOJO: And then Patten.

LEWIS: Patten is staying here too, is he?

WIDJOJO: But next week he will have to go to Bolivia or something and then in February he will be back in Jakarta. So maybe better to get at least these two.

LEWIS: I think that [both speaking at once] well, Patten's subject also--well, Timmer is also agriculture, but we can catch him in Cambridge. But I think Patten would be one that I'd be, particularly like to talk with.

WIDJOJO: Yes, certainly, Patten and Dave Cole. Together they can . .

LEWIS: If they could do it together, it would be fine.

WIDJOJO: Yes, I think that would be easier. We can also . .

LEWIS: Are there any people--Mr. Hadi [*Soesastro*], I guess his name is, this morning suggested that I guess it's the chairman of the department at the university, Dorojatun [*Kuntjoro-jakli*]. Would he be a good person to talk with?

WIDJOJO: Dorojatun, yes. These are all good people, but they are not directly related with the World Bank, yes.

LEWIS: They haven't worked directly with the World Bank? We're probably interested in seeing a few people who sort of an impression from outside, but of course our time is short.

WIDJOJO: That's right. That's why if we, ideally, if we can get together a few of them and have group meetings that would be even better.

LEWIS: That would be fine. Excellent.

KAPUR: One of the people we spoke to had said that, when we asked him where the Bank underemphasized policies, he mentioned two areas: one was human resources development and the other was spatial policy.

WIDJOJO: You mean regional?

KAPUR: Right. He said that these were two where, the Bank sectors, he perceived the Bank's advice to have been not very good. I was wondering if you had any . . .

WIDJOJO: On human resources they have given a lot of attention on education, on family planning also. Family planning was very effective . .

LEWIS: Yeah, I gather.

WIDJOJO: [*inaudible*] and the Bank's assistance was also very effective.

On regional development, this is still big problem. You know, one of the problems of this country is how to keep the country together [*Laughter*] with all these islands and so on. It can split so easily. And so development has to take place all over the country, and it is not always the optimum. You maybe better concentrate on certain regions, but it is not the case. And then the choices sometimes become difficult.

Now, for example, some of the bilateral arrangements with countries, they prefer sometimes to concentrate on certain regions because then to provide assistance to one project, another project, another--they are related to each other and then they can show this is the result. But it is at the cost of other regions.

And the Bank has been trying not to concentrate in any region. I mean, we disagree if they propose certain regions only because there are many. Now, so their activities is not--you know, you cannot say it is in all regions because the other regions are taken care of by other, by bilateral donors.

So in other words we have to watch out for ourselves that all these regions get their share.

LEWIS: BAPPENAS watches the whole scene, I suppose.

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

LEWIS: The Bank is a kind of a residual donor, almost, sort of filling in where the others don't . . .

WIDJOJO: Yes, yes, and also we realize there are limitations. You cannot expect them to do . . .

KAPUR: Has the recent increase in Japanese loans, which has really increased a lot in Indonesia and now I think the net transfers from Japan are much more than that of the World Bank.

WIDJOJO: That's right. That's right.

KAPUR: Has that made a difference in relative sort of dialogue or policy, if you compare the World Bank?

WIDJOJO: Yes. Now, the Japanese are quite interesting. You know, when we had this crisis because of two things, oil imports came down substantially and at the same time this realignment of exchange rates between the dollar and the yen and we had a lot of debts in yen, and our earnings from oil was in dollars . .

LEWIS: Oh, boy!

WIDJOJO: . . so we had that problem. So the first thing that we did was to have discussions with Japan and explain to them these things, and then what they did was to check with the World Bank: "Is that correct?" And this is one of the important thing, that we have discussions with the World Bank and the Fund and so on, so that whenever one of these countries asks, then they get not the same but similar answers or consistent answers. And then they come up with this huge assistance or substantial increase, and actually the increase is in program, program assistance, but not only from OECF. But at that time the Japan action plan also tried to recycle . .

LEWIS: On harder terms?

WIDJOJO: . . on harder terms, but the terms compared to the World Bank terms is not that much harder, but similar. And they could be used also for--untied loans could be used for imports, whatever imports, and the local currency can be used for providing local financing for World Bank projects. So Japanese aid untied but program aid, actually, the local currency was used for World Bank projects and ADB projects, so because they say they agreed if it is used for World Bank projects because they believe that the World Bank projects has been well prepared.

LEWIS: That's pretty enlightened aid, isn't it?

WIDJOJO: Yes. So it is very important, and you have to keep the Japanese continue this practice: the World Bank projects, Asian Development projects, and so . . .

KAPUR: This is probably also a case where is no other precedents.

WIDJOJO: No, they didn't say that. They didn't say that. *[Laughter]* They didn't say that. And I think we should encourage Japan to continue because they have the means.

LEWIS: Yes, indeed. That sounds very good.

WIDJOJO: They have the means.

LEWIS: When you're talking about holding the country together, it occurred to me--we were just in Bangladesh, and one of the great issues there is whether they're going to have this bridge across the river. There's a tremendous national push for it, and it probably is not a very cost-effective proposition, and it occurred to me that maybe you're lucky that the islands are far enough apart so you can't build bridges!

WIDJOJO: Oh, wait! Some people are working on the idea to put a bridge between Sumatra and Java! *[Laughter]* Oh, yes! With some Japanese.

LEWIS: Japanese?

KAPUR: How far is that?

WIDJOJO: Oh, they are quite far, and in between there is that volcano, Krakatoa. But actually the traffic is now quite heavy, and we use ferries.

LEWIS: I mean, moving people is very important. I should think you could be justified in subsidizing anything almost that would be boat travel between the islands.

WIDJOJO: Boat travel, yes, and projects, for projects also. But you know this is when people in other countries get together with some from the developing countries and they are in the same field, then a project will be developed, in this case so-called "high technology." Then these scientists—you know, I mean the Japanese say, "You know we are linking our islands with bridges or with tunnels and so on. Why don't you do that?"

LEWIS: You can't do it--if you've got a volcano there you can't put a tunnel through it! *[Laughter]*

WIDJOJO: So, you know, in many cases one has to watch out. You cannot rely on others to take care of your . . . *[Laughter]*

But there is the one thing which I really appreciate the World Bank. They have been careful in their sending of people here, you know. Not all, but most of them are very good people.

KAPUR: Do any names stand out?

WIDJOJO: Oh, yes. Apart from Bernie Bell, we had Jean Baneth; do you know? The Frenchman. And D. C. Rau. D.C. Rau was very good.

LEWIS: D.C. Rau, yes, was very good.

WIDJOJO: Yes, and Attila Sonmez, who is now in Beijing; he was also. And now we have Nick Hope.

LEWIS: And Russ [*Russell J.*] Cheetham was . . .

WIDJOJO: Of course, Russ Cheetham. I'm sorry. I forget. [*laughter*] Russ Cheetham of course was—oh, he was very, very good. Russ Cheetham.

LEWIS: And Nick Hope is looking good?

WIDJOJO: Oh, yes, yes.

LEWIS: Yeah, you're right: a good string of people there.

WIDJOJO: Yes, and that's the—we are lucky because you can get a person who is disagreeable on many ways, so . . .

And the economists they send are also good. One of them is back now, before Jim [*James Q.*] Harrison was here, Mark Baird from New Zealand. Mark Baird, B-A-I-R-D, Mark Baird. Good.

LEWIS: There's a young economist--I don't know how young he is—Mark Pitt from the University of Minnesota--who has done some work on Indonesia, but not for the Bank, I think.

You know, you've been very generous with your time.

WIDJOJO: Oh, no, no, no! I am at your [*inaudible*] But let's get together again,

LEWIS: Oh, by all means.

WIDJOJO: Where do you stay?

LEWIS: At the Oriental [*all talking at once*]

WIDJOJO: Okay. Is this for me [*apparently the schedule*]?

LEWIS: Yes, sure. You can have that, by all means.

[*short discussion of hotel and room numbers*]

WIDJOJO: We will get together again.

LEWIS: Okay. Terrific.

WIDJOJO: You know, on Tuesday you have a meeting with Ali [*Wardhana*], or

Monday with Ali?

KAPUR: Should we meet Mr. *[B. J.]* Habibie?

WIDJOJO: Oh, of course. That would be interesting. But he has big ideas. You know, we have a minister for science and technology, and he has, oh, all kinds of things, to build our own airplanes and so on. We have an airplane factory, actually, what do you call it . .

KAPUR: Assembly?

WIDJOJO: Assembling. But maybe if you are short of time . . .

LEWIS: He's not export oriented?

WIDJOJO: He said we are going to export it to the Middle East or--first it was to Iran and then to Iraq but not again. *[Laughter]* But, well, yeah.

KAPUR: It's a common thing that ministers of science and technology for LDCs *[less developed countries]* have a certain mindset.

WIDJOJO: That's right. Yes.

[Laughter]

[discussion of exchange of business cards]

WIDJOJO: Okay. Thank you very much.

[End of Tape 2, Side A]

[End of Interview]